

**MANTLE RESOURCES INC.**

**INTERIM FINANCIAL STATEMENTS**

**SIX MONTHS ENDED DECEMBER 31, 2006 and 2005**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**

# **MANTLE RESOURCES INC.**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

February 27, 2007

# MANTLE RESOURCES INC.

## BALANCE SHEETS

AS AT DECEMBER 31, 2006 AND JUNE 30, 2006  
(UNAUDITED – PREPARED BY MANAGEMENT)

|   | December 31,<br>2006 | June 30,<br>2006 |
|---|----------------------|------------------|
| <b>ASSETS</b>                               |                      |                  |
| <b>Current</b>                              |                      |                  |
| Cash and cash equivalents                   | \$ 6,453,574         | \$ 4,920,537     |
| Receivables                                 | 146,698              | 228,089          |
| Marketable securities                       | 646,546              | 576,873          |
|   | 7,246,818            | 5,725,499        |
| <b>Other assets</b>                         | <b>25,000</b>        | <b>25,000</b>    |
| <b>Equipment and leasehold improvements</b> | <b>9,686</b>         | <b>10,244</b>    |
| <b>Resource properties (Note 2)</b>         | <b>5,059,482</b>     | <b>2,659,424</b> |
|   | \$ 12,340,986        | \$ 8,420,167     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                      |                  |
| <b>Current</b>                              |                      |                  |
| Accounts payable and accrued liabilities    | \$ 244,993           | \$ 463,236       |
| <b>Shareholders' equity</b>                 |                      |                  |
| Capital stock (Note 3)                      | 20,973,355           | 16,507,981       |
| Contributed Surplus (Note 3)                | 2,226,904            | 1,578,837        |
| Deficit                                     | (11,104,266)         | (10,129,887)     |
|   | 12,095,993           | 7,956,931        |
|   | \$ 12,340,986        | \$ 8,420,167     |
| <b>Contingency (Note 5)</b>                 |                      |                  |

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

# MANTLE RESOURCES INC.

STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE SIX MONTHS ENDED DECEMBER 31, 2006 AND 2005  
(UNAUDITED – PREPARED BY MANAGEMENT)

|  | Three months ended<br>December 31, |                     | Six months ended<br>December 31, |                     |
|--|------------------------------------|---------------------|----------------------------------|---------------------|
|  | 2006                               | 2005                | 2006                             | 2005                |
| <b>ADMINISTRATION EXPENSES</b>                       |                                    |                     |                                  |                     |
| Administration                                       | \$ 7,500                           | \$ 3,000            | \$ 15,000                        | \$ 6,000            |
| Amortization   | 698                                | 509                 | 1,370                            | 1,020               |
| Interest and bank charges                            | 917                                | 405                 | 1,559                            | 602                 |
| Consulting   | 153,652                            | 83,744              | 187,061                          | 93,744              |
| Management fees                                      | 22,500                             | 15,000              | 45,000                           | 30,000              |
| Office and miscellaneous                             | 13,497                             | 13,573              | 21,925                           | 19,724              |
| Professional fees                                    | 68,500                             | 8,478               | 70,390                           | 24,161              |
| Regulatory fees                                      | 4,386                              | 5,782               | 4,386                            | 21,922              |
| Rent   | 4,888                              | 4,300               | 9,549                            | 8,600               |
| Stock-based compensation                             | 654,017                            | 205,334             | 654,017                          | 362,822             |
| Transfer agent fees                                  | 8,019                              | 5,787               | 10,833                           | 7,770               |
| Travel and promotion                                 | 20,862                             | 20,774              | 39,810                           | 25,309              |
| Wages and benefits                                   | 6,035                              | 3,001               | 16,851                           | 16,601              |
| <b>Loss before other items</b>                       | <b>965,471</b>                     | <b>369,687</b>      | <b>1,077,751</b>                 | <b>618,275</b>      |
| <b>OTHER ITEMS</b>                                   |                                    |                     |                                  |                     |
| Interest income                                      | 43,119                             | 1,211               | 90,058                           | 1,660               |
| Gain on sale of marketable securities                | 12,168                             | 1,020               | 12,168                           | 1,020               |
| Write-off of resource properties (Note 2)            | –                                  | (52,125)            | –                                | (59,882)            |
| Recovery of marketable securities                    | –                                  | –                   | 1,146                            | –                   |
|  | <b>55,287</b>                      | <b>(49,894)</b>     | <b>103,372</b>                   | <b>(57,202)</b>     |
| <b>Loss for the period</b>                           | <b>910,184</b>                     | <b>419,581</b>      | <b>974,379</b>                   | <b>675,477</b>      |
| <b>Deficit, beginning of period</b>                  | <b>10,194,082</b>                  | <b>8,265,965</b>    | <b>10,129,887</b>                | <b>8,010,069</b>    |
| <b>Deficit, end of period</b>                        | <b>\$ 11,104,266</b>               | <b>\$ 8,685,546</b> | <b>\$ 11,104,266</b>             | <b>\$ 8,685,546</b> |
| <b>Basic and diluted loss per share</b>              | <b>\$ (0.03)</b>                   | <b>\$ (0.03)</b>    | <b>\$ (0.03)</b>                 | <b>\$ (0.05)</b>    |
| <b>Weighted average number of shares outstanding</b> | <b>34,214,465</b>                  | <b>16,149,458</b>   | <b>31,106,079</b>                | <b>13,954,454</b>   |

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

# MANTLE RESOURCES INC.

## STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, 2006 AND 2005 (UNAUDITED – PREPARED BY MANAGEMENT)

|  | Three months ended<br>December 31, |                     | Six months ended<br>December 31, |                     |
|--|------------------------------------|---------------------|----------------------------------|---------------------|
|  | 2006                               | 2005                | 2006                             | 2005                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    |                                    |                     |                                  |                     |
| Loss for the period  | \$ (910,184)                       | \$ (419,581)        | \$ (974,378)                     | \$ (675,476)        |
| Items not affecting cash:                                      |                                    |                     |                                  |                     |
| Amortization   | 698                                | 510                 | 1,370                            | 1,020               |
| Gain on sale of marketable securities                          | (12,168)                           | (1,020)             | (12,168)                         | (1,020)             |
| Stock-based compensation                                       | 654,017                            | 205,334             | 654,017                          | 362,822             |
| Write-off of resource properties                               | –                                  | 52,125              | –                                | 59,882              |
| Recovery of marketable securities                              | –                                  | –                   | (1,146)                          | –                   |
| Changes in non-cash working capital items:                     |                                    |                     |                                  |                     |
| (Increase) decrease in receivables                             | 29,170                             | (59,993)            | 81,391                           | (30,224)            |
| Decrease in prepaid expenses                                   | –                                  | 1,619               | –                                | 3,741               |
| Decrease in accounts payable and accrued liabilities           | (279,837)                          | (25,730)            | (218,243)                        | (3,603)             |
| Cash used in operating activities                              | (518,304)                          | (246,736)           | (469,157)                        | (282,858)           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                    |                                    |                     |                                  |                     |
| Proceeds on sale of marketable securities                      | 79,280                             | 3,750               | 79,280                           | 3,750               |
| Purchase of marketable securities                              | (94,325)                           | –                   | (135,640)                        | –                   |
| Purchase of equipment  | (812)                              | –                   | (812)                            | –                   |
| Other assets   | –                                  | (25,000)            | –                                | (25,000)            |
| Resource property costs  | (953,721)                          | (696,008)           | (2,345,058)                      | (938,765)           |
| Cash used in investing activities                              | (969,578)                          | (717,258)           | (2,402,230)                      | (960,015)           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                    |                                    |                     |                                  |                     |
| Share subscriptions  | –                                  | (170,500)           | –                                | –                   |
| Issuance of capital stock, net of issuance costs               | 3,233,230                          | 2,914,688           | 4,404,424                        | 2,959,688           |
| Cash provided by financing activities                          | 3,233,230                          | 2,744,188           | 4,404,424                        | 2,959,688           |
| <b>Increase in cash and cash equivalents during the period</b> | <b>1,745,348</b>                   | <b>1,780,194</b>    | <b>1,533,037</b>                 | <b>1,716,815</b>    |
| <b>Cash and cash equivalents, beginning of period</b>          | <b>4,708,226</b>                   | <b>220,050</b>      | <b>4,920,537</b>                 | <b>283,429</b>      |
| <b>Cash and cash equivalents, end of period</b>                | <b>\$ 6,453,574</b>                | <b>\$ 2,000,244</b> | <b>\$ 6,453,574</b>              | <b>\$ 2,000,244</b> |
| <b>Cash and cash equivalents</b>                               |                                    |                     |                                  |                     |
| Cash   | \$ 228,574                         | \$ 2,000,244        | \$ 228,574                       | \$ 2,000,244        |
| Guaranteed Investment Certificate                              | \$ 6,225,000                       | \$ –                | \$ 6,225,000                     | \$ –                |

### Supplemental disclosure with respect to cash flows (Note 4)

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

# MANTLE RESOURCES INC.

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Unaudited – Prepared by Management)

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### 1. BASIS OF PRESENTATION

These interim financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP). The interim financial statements include normal recurring adjustments, which in management's opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not conform in all aspects to the requirements of Canadian GAAP for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These statements should be read in conjunction with the Company's June 30, 2006 financial statements and notes thereto.

### 2. RESOURCE PROPERTIES

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource properties. The Company has investigated title to all of its resource properties and, to the best of its knowledge, title to all of its properties are in good standing.

|   | December 31,<br>2006 | June 30,<br>2006 |
|---|----------------------|------------------|
| DA Property, Northwest Territories  |                      |                  |
| The Company held a 100% interest, subject to a 5% gross overriding royalty ("GOR") on diamonds, a 5% net smelter returns ("NSR") royalty on other minerals, and a 10% net profits interest ("NPI"), in certain mineral claims located in the Northwest Territories. |                      |                  |
| During 2005, management decided to discontinue its funding of its interest in the property. Accordingly, the Company's interest in this property was written-off.   |                      |                  |
|   | \$ –                 | \$ 7,757         |
| Written-off   | –                    | (7,757)          |
|   | –                    | –                |

#### Armstrong Brook Gold Property, New Brunswick

The Company entered into an option agreement with Geodex Minerals Ltd. ("Geodex") to earn a 65% interest in Geodex's 100%-owned Armstrong Brook gold property, located in the Cape Spencer area near Saint John, New Brunswick.

During the year ended June 30, 2006, the Company issued 100,000 common shares to Geodex pursuant to the option agreement and a further 50,000 common shares as a finder's fee to a third party as per the terms of the option agreement.

**MANTLE RESOURCES INC.**

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Unaudited – Prepared by Management)

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**2. RESOURCE PROPERTIES (cont'd...)**

|   | December 31,<br>2006 | June 30,<br>2006 |
|---|----------------------|------------------|
| Armstrong Brook Gold Property, New Brunswick (cont'd...)  |                      |                  |
| Management decided not to proceed with this option agreement. The Company introduced Geodex to Global Sortweb.Com Inc. (“Global”) and entered into a finder’s fee agreement as per the following terms: |                      |                  |
| <ul style="list-style-type: none"><li>• \$25,000 within 7 business days from the date of acceptance for filing of the agreement.</li><li>• \$10,000 within two months of the acceptance date.</li></ul> |                      |                  |
| The Company has not collected these amounts yet.  |                      |                  |
| Accordingly all acquisition and related exploration costs were written-off during the year ended June 30, 2006.   | –                    | 65,367           |
| Written-off   | –                    | (65,367)         |
|   | –                    | –                |

**Akie Property, British Columbia**

The Company entered into an agreement with Ecstall Mining Corporation (“Ecstall”), pursuant to which the Company has been granted an option entitling it to earn a 65% interest in Ecstall’s Akie property, located in the Omineca Mining Division of British Columbia, subject to the following terms:

- (i) by making the following cash payments to Ecstall:
  - immediately, \$100,000 (paid);
  - on June 21, 2006, \$100,000 (paid);
  - on June 21, 2007, \$125,000 (paid in advance);
  - and on June 21, 2008, \$125,000 (paid in advance)
- (ii) by incurring a minimum of \$4,000,000 on exploration work on the property as follows:
  - by August 31, 2006, \$1,000,000 (incurred);
  - by August 31, 2007, an additional \$1,500,000 (incurred); and
  - by August 31, 2008, an additional \$1,500,000 (incurred).

The Company shall be the operator of the Akie property until December 31, 2006 and responsible for managing all work carried out on the Akie property. In return and upon earning its 65% interest, Mantle shall be paid an operator’s fee equal to 10 – 15% of the expenditures made on the properties. Ecstall has the right to become the operator of the Akie property commencing January 1, 2007 until Mantle exercises the option.

**MANTLE RESOURCES INC.**

## NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Unaudited – Prepared by Management)

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**2. RESOURCE PROPERTIES (cont'd...)**

|  | December 31,<br>2006 | June 30,<br>2006 |
|--|----------------------|------------------|
| <i>Akie Property, British Columbia (cont'd...)</i>   |                      |                  |
| <p>Following earn-in by the Company of a 65% interest in the Akie property, further exploration and development will be carried out pursuant to a joint venture agreement, with the initial participating interests in the joint venture to be: Mantle – 65%; and Ecstall – 35%. Under the terms of the joint venture agreement, each of Mantle and Ecstall would be responsible for paying their proportionate share of all expenses respecting the Akie property, with a minimum of \$500,000 to be expended on exploration work on the Akie property during each year after June 1, 2008.</p> <p>The Company issued 150,000 shares as a finder's fee to a third party as per the terms of the agreement. During the period ended September 30, 2006, the Company received a Notice of Claim from Ecstall regarding the earn-in by the Company. (Note 5)</p> | 4,913,204            | 2,649,424        |
| <i>Mt Alcock Property, British Columbia</i>  |                      |                  |
| <p>During the six months ended December 31, 2006, the Company entered into a property purchase agreement to acquire, a 100% interest, subject only to a 1% Net Smelter Returns (NSR) royalty, in 18 mineral claims located in the Mt. Alcock area of northeastern British Columbia in consideration of the payment of \$75,000 cash and the issuance of 200,000 common shares (100,000 shares issued upon TSX Venture Exchange ("Exchange") approval and 100,000 shares issued on or prior to nine months after the anniversary of the Exchange acceptance date) of the Company. The Company has an option to purchase the entire NSR from the vendor for the sum of \$1 million cash, subject to Exchange approval.</p>   | 136,278              | –                |
| <i>West Range Property, British Columbia</i>   |                      |                  |
| <p>The Company entered into an agreement with West Range Exploration Ltd. ("West Range"), pursuant to which the Company has agreed to purchase all of West Range's interest held in its property located in British Columbia by making a payment of \$10,000 to West Range.</p>  | 10,000               | 10,000           |
|  | \$ 5,059,482         | \$ 2,659,424     |



**3. CAPITAL STOCK**

**(a) Authorized and issued**

|   | Number<br>of Shares | Amount        | Contributed<br>Surplus |
|---|---------------------|---------------|------------------------|
| Authorized                                |                     |               |                        |
| Unlimited common shares without par value |                     |               |                        |
| Issued                                    |                     |               |                        |
| As at June 30, 2006                       | 26,478,864          | \$ 16,507,981 | \$ 1,578,837           |
| Exercise of options                       | 35,000              | 12,950        | (5,950)                |
| Exercise of warrants                      | 6,567,999           | 1,538,857     | –                      |
| Acquisition of property                   | 100,000             | 55,000        | –                      |
| Private placement                         | 3,685,000           | 2,874,300     | –                      |
| Share issuance costs                      | –                   | (15,733)      | –                      |
| Stock-based compensation                  | –                   | –             | 654,017                |
| As at December 31, 2006                   | 36,866,863          | \$ 20,973,355 | \$ 2,226,904           |

During the period ended December 31, 2006:

- (i) an aggregate of 6,567,999 warrants were exercised at a price ranging from \$0.20 per share to \$0.85 per share and a total of 6,567,999 common shares were issued for total proceeds of \$1,538,857.
- (ii) 35,000 options were exercised at \$0.20 per share and 35,000 common shares were issued for gross proceeds of \$7,000. In addition, a reallocation of \$5,950 from contributed surplus to share capital was recorded on the exercise of these options.
- (iii) 100,000 shares were issued at a deemed value of \$0.55 per share towards the acquisition of the Mt Alcock Property.
- (iv) the Company entered into a financing arrangement with Lundin Mining Corp., pursuant to which Lundin Mining purchased units equal to just under a 10 per-cent equity position in the Company. Lundin Mining has subscribed, by way of a non-brokered private placement, for 3,685,000 units of the Company at a price of \$0.78 per unit for gross proceeds of \$2,874,300. Each unit consists of one common share and one common share purchase warrant. Each warrant shall entitle the purchaser to purchase, at any time within 24 months from closing, one common share of the Company at a price of \$0.78. The exercise of these warrants would bring Lundin Mining's interest in the Company to approximately 18 percent.

**(b) Stock options**

The Company maintains a 10% rolling stock option plan whereby the number of shares allotted and reserved for future issuances under the plan will be equal to 10% of the issued and outstanding shares of the Company on a “rolling” basis. Under the terms of the plan, all options vest immediately and expire not more than five years from the grant date.

During fiscal 2006, the Company graduated to Tier 1 of the TSX Venture Exchange. The Company had received shareholder approval on the renewal of its stock option plan at the Company's annual general and special meeting held on November 8, 2006. Accordingly, the expiration of options granted under the new plan may not exceed ten years.

**3. CAPITAL STOCK (cont'd...)**

**(b) Stock options (cont'd...)**

Stock option transactions and the number of stock options outstanding are summarized as follows:

|                           | Number of<br>Options | Weighted Average<br>Exercise Price |
|---------------------------|----------------------|------------------------------------|
| Balance June 30, 2006     | 2,602,500            | \$ 0.70                            |
| Granted                   | 1,050,000            | 0.73                               |
| Cancelled                 | (285,000)            | (0.56)                             |
| Exercised                 | (35,000)             | (0.20)                             |
| Balance December 31, 2006 | 3,332,500            | \$ 0.73                            |

Stock options outstanding and exercisable at December 31, 2006 are summarized as follows:

| Number of Shares | Exercise Price | Expiry Date       | Exercisable |
|------------------|----------------|-------------------|-------------|
| 672,500          | \$0.20         | July 4, 2010      | 672,500     |
| 100,000          | \$0.30         | August 25, 2010   | 100,000     |
| 100,000          | \$0.64         | October 13, 2010  | 100,000     |
| 860,000          | \$0.81         | January 9, 2011   | 895,000     |
| 210,000          | \$1.35         | February 23, 2007 | 210,000     |
| 340,000          | \$1.35         | February 24, 2011 | 340,000     |
| 600,000          | \$0.70         | November 14, 2016 | 600,000     |
| 350,000          | \$0.70         | November 14, 2011 | 350,000     |
| 100,000          | \$1.00         | December 28, 2008 | 2,282       |
| 3,332,500        |                |                   | 3,269,782   |

During the six months ended December 31, 2006, under the fair value based method \$654,017 (2005 – \$362,822) in compensation expense was recorded in the statements of operations and deficit for stock options granted to directors, officers, employees and consultants of the Company.

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

| Six months ended December 31, | 2006    | 2005    |
|-------------------------------|---------|---------|
| Risk free interest rate       | 3.93%   | 3.00%   |
| Expected dividend yield       | 0%      | 0%      |
| Stock price volatility        | 173%    | 256%    |
| Expected life of options      | 8 years | 3 years |

The weighted average fair value of options granted during the six months ended December 31, 2006 is \$0.69 (2005 – \$0.31) per share.

**3. CAPITAL STOCK (cont'd...)**

**(c) Warrants**

As at December 31, 2006, the Company had outstanding share purchase warrants and agents' warrants, enabling holders to acquire common shares as follows:

| Number of Shares | Exercise Price | Expiry Date       |
|------------------|----------------|-------------------|
| 1,250,000        | \$ 1.00        | December 23, 2007 |
| 700,000          | \$ 0.90        | December 23, 2007 |
| 145,824          | \$ 0.85        | December 23, 2007 |
| 1,500,000        | \$ 1.50        | February 23, 2007 |
| 54,363           | \$ 1.50        | February 23, 2007 |
| 3,685,000        | \$ 0.78        | December 4, 2008  |

Warrant transactions and the number of warrants outstanding are as follows:

|  | Number of Shares | Weighted Average Exercise Price |
|--|------------------|---------------------------------|
| Balance June 30, 2006                    | 10,668,186       | \$ 0.57                         |
| Private placement                        | 3,685,000        | 0.78                            |
| Warrants expired                         | (450,000)        | (0.50)                          |
| Warrants exercised                       | (6,567,999)      | (0.23)                          |
| Balance December 31, 2006                | 7,335,187        | \$ 0.98                         |
| Number of warrants currently exercisable | 7,335,187        | \$ 0.98                         |

**4. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

| December 31,                               | Three months ended |      | Six months ended |      |
|--|--------------------|------|------------------|------|
|  | 2006               | 2005 | 2006             | 2005 |
| Cash paid during the period for interest   | \$ -               | \$ - | \$ -             | \$ - |
| Cash paid during the period for income tax | \$ -               | \$ - | \$ -             | \$ - |

Significant non-cash transactions for the six months ended December 31, 2006 included:

- (a) Upon the exercise of stock options, \$5,950 was allocated to contributed surplus (2005 - \$Nil).
- (b) 100,000 common shares issued at a deemed value of \$55,000 in consideration for the acquisition of a resource property. (Note 2)

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## **5. CONTINGENCY**

During the six months ended December 31, 2006, the Company received a notice of dispute under the Akie property option agreement dated Aug. 23, 2005, from Ecstall Mining Corporation (“Ecstall”). The fundamental question in dispute is the extent to which expenditures incurred by Mantle on the Akie property during 2006 qualify as expenditures for purposes of Mantle earning its 65-per-cent interest in the Akie property as contemplated under the option agreement.

Under the terms of the option agreement, the parties had 30 days from the delivery of notice of dispute within which to reach an amicable settlement, failing which the matter would be referred to binding arbitration. The Company offered to meet and discuss the dispute amicably, and proposed several meeting dates; however, the parties were not able to arrange a mutually convenient time to do so within the 30-day time frame which expired on October 5, 2006.

Further to this, during the three months ended December 31, 2006, the Company announced that it intends to make a take-over bid to purchase all outstanding shares of Ecstall on the basis of 0.40 of a common share of the Company for each Ecstall share.

The Offer was subject to the terms and conditions set out in a formal Offer to Purchase and accompanying Offering Circular dated December 22, 2006, which was filed with securities regulatory authorities in Canada and mailed to Ecstall shareholders. The Offer contained customary conditions, including the absence of adverse material changes in Ecstall’s affairs, receipt of necessary regulatory approvals and at least 66 2/3 % of the outstanding shares being validly deposited under the Offer, among other conditions, all of which were set out in the formal Offer documents.

The Offer was open for acceptance until 4:00 p.m. (Vancouver time) on Monday, January 29, 2007 (the “Expiry Time”) unless withdrawn or extended.

On January 29, 2007, the Company entered into a Support Agreement with Ecstall whereby the Company has agreed to increase its outstanding offer from 0.40 of the Company’s Share for each Ecstall Share to 0.41 of the Company’s Share for each Ecstall Share and to extend the expiry date of its Offer to 11:59 p.m. (Vancouver time) Friday, February 9, 2007. If the Company’s revised offer is successful, Ecstall also intends to transfer at their book value certain non-core gold exploration properties to a new company to be formed by Mr. Chris Graf, the CEO of Ecstall, in trust for the benefit of the Ecstall shareholders.

On February 12, 2007, the Company announced that the conditions of its Offer have been satisfied and that it will be taking up the 43.2 million shares of Ecstall which were validly tendered prior to the February 9 expiry date. On taking up these shares, the Company will hold approximately 85% of the outstanding shares of Ecstall. Pursuant to the Offer, the Company will be issuing and distributing to those shareholders who have tendered, 0.41 of the Company’s share for each Ecstall share tendered. In order to allow additional time for those Ecstall shareholders who had not yet tendered their shares to do so, the Company decided to extend the Offer until 2:00 p.m. (Vancouver time) on Friday, February 23, 2007.

On February 26, 2007, the Company announced that the conditions of its Offer have been satisfied and that it will be taking up the additional 6,128,847 shares of Ecstall which were validly tendered prior to the February 23, 2007 expiry date. On taking up these shares, the Company will hold approximately 96% of the outstanding shares of Ecstall. Pursuant to the Offer, the Company will be issuing and distributing to those shareholders who have tendered, 0.41 of the Company share for each Ecstall share tendered.

## **6. TRANSACTIONS WITH RELATED PARTIES**

During the six months ended December 31, 2006, the Company paid or accrued \$45,000 (2005 – \$30,000) for management fees and \$15,000 (2005 – \$6,000) for administrative fees to a company controlled by a director of the Company.

## **MANTLE RESOURCES INC.**

### NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Unaudited – Prepared by Management)

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#### **6. TRANSACTIONS WITH RELATED PARTIES (cont'd...)**

During the six months ended December 31, 2006, the Company paid or accrued \$13,970 (2005 - \$7,324) for consulting and geological services fees to a company controlled by a director of the Company

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### **7. SUBSEQUENT EVENTS**

Subsequent to the period ended December 31, 2006:

- (a) 1,800 warrants were exercised at \$0.85 per share and an aggregate of 1,800 common shares were issued for gross proceeds of \$1,530.
- (b) 1,500,000 warrants exercisable at a price of \$1.50 expired. Also, 54,363 Agents Commission Warrants exercisable at a price of \$1.50 and 210,000 Agents Options exercisable at a price of \$1.35 expired.
- (c) Pursuant to the Company's take-over bid made December 22, 2006, as amended by its Notice of Variation dated January 10, 2007, the conditions of the Offer have been satisfied and the Company will be taking up the 43.2 million shares of Ecstall Mining Corporation which were validly tendered prior to the February 9 expiry date. On taking up these shares, Mantle will hold approximately 85% of the outstanding shares of Ecstall. Pursuant to the Offer, Mantle will be issuing and distributing to those shareholders who have tendered, 0.41 of a Mantle share for each Ecstall share tendered.
- (d) The Company finalized the principal terms of an option agreement with Megastar Development Corp. pursuant to which the Company will have an option to earn an initial 60% interest in Megastar's SEDEX zinc properties located in Northeastern British Columbia by spending up to \$2.25 million. Megastar's 100% owned SEDEX zinc properties are located within the highly prospective Gunsteel shale formation in the regionally extensive, world-class Kechika trough sedex zinc basin. The properties comprise over 18,000 hectares and are situated adjacent to and along strike the favorable geology which is host to several zinc deposits including the nearby Akie deposit where drilling has intersected extensive high-grade SEDEX style zinc-lead mineralization. A definitive agreement, which will be subject to regulatory approval, is currently being drafted. The Company will be the operator and can earn a 60% interest in Megastar's properties as follows:
  - (i) Payment to Megastar of \$50,000 and the issuance of 50,000 shares of the Company upon signing a definitive agreement;
  - (ii) The issuance of 50,000 shares of the Company nine months from signing a definitive agreement;
  - (iii) Payment to Megastar of \$100,000 and the issuance of 25,000 shares of the Company on or before the first anniversary of the signing of the definitive agreement; and
  - (iv) Spending \$2.25 million in exploration and development over a three-year period.