

**Sharpe Resources Corporation**

(Continued under the New Brunswick Business Corporation Act)

(An Exploration Stage Company)

**(Expressed in United States Dollars)**

**Consolidated Financial Statements**

**Years ended December 31, 2006, 2005 and 2004**

# Sharpe Resources Corporation

## CONSOLIDATED FINANCIAL STATEMENTS

### December 31, 2006

---

#### INDEX

	Page
Auditor's Report of Independent Registered Public Accounting Firm	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to the Financial Statements	5-17

February 16, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders of Sharpe Resources Corporation

We have audited the consolidated balance sheets of Sharpe Resources Corporation (An Exploration Stage Company) as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended 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 and with the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada

"McCarney Greenwood LLP"

McCarney Greenwood LLP  
Chartered Accountants  
Licensed Public Accountants

**Comments by Auditors on United States of America-Canada Reporting Difference**

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast doubt on the Company's ability to continue as a going concern, such as those described in Note 1 to the consolidated financial statements. Our report to the shareholders dated February 16, 2007 is expressed in accordance with Canadian reporting standards which do not require a reference to such conditions and events in the auditor's report when these are adequately disclosed in the financial statements.

Toronto, Canada

"McCarney Greenwood LLP"

McCarney Greenwood LLP  
Chartered Accountants  
Licensed Public Accountants

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Consolidated Balance Sheets

(Expressed in United States Dollars)

	December 31,	
	2006	2005
<b>Assets</b>		
Current assets		
Cash and cash equivalent (Note 9)	\$ 204,866	\$ 339,570
Due from related party (Note 6)	250,000	-
	454,866	339,570
Option to acquire mineral property (Note 1)	-	78,125
	\$ 454,866	\$ 417,695
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 110,209	\$ 82,896
Due to related parties (Note 6)	134,213	134,582
Loan claims (Note 3)	563,818	587,369
	808,240	804,847
<b>Capital Stock and Deficit</b>		
Share capital (Note 4(b))	11,174,108	10,999,986
Warrants (Note 4(c))	204,408	-
Contributed surplus (Note 4(d))	33,144	33,144
Deficit	(11,765,034)	(11,420,282)
	(353,374)	(387,152)
	\$ 454,866	\$ 417,695

The notes to the consolidated financial statements are an integral part of these statements.

Approved by the Board    "Roland M. Larsen"    Director    "Kimberly L. Koerner"    Director

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Consolidated Statements of Operations and Deficit

(Expressed in United States Dollars)

	Cumulative from start of the exploration stage (January 1, 2002)	Years ended December 31,		
		2006	2005	2004
<b>Revenue</b>				
Petroleum and natural gas revenue	\$ 328,548	\$ 6,928	\$ -	\$ 106,462
Royalty income	19,618	6,442	13,176	-
Interest income	11,280	5,028	4,468	1,784
Other income	3,239	2,487	-	752
	362,685	20,885	17,644	108,998
<b>Operating and administrative expenses</b>				
Operating	714,365	32,544	5,648	202,395
General and administrative	418,443	74,178	95,487	72,891
Depletion, depreciation and amortization	35,353	-	-	-
Stock-option compensation (Note 4(d))	33,144	-	15,484	-
Interest on advance	7,445	3,365	2,040	2,040
Interest on loan claims	63,608	23,425	26,067	26,581
Management fees (Note 6)	154,000	154,000	-	-
	1,426,358	287,512	144,726	303,907
<b>Loss before the following:</b>	(1,063,673)	(266,627)	(127,082)	(194,909)
Write-off of an option to acquire mineral property (Note 1)	(78,125)	(78,125)	-	-
Gain on disposal of petroleum and natural gas properties	606,047	-	416,320	-
Gain on disposal of capital asset	10,000	-	-	-
Gain on settlement of debt	149,681	-	-	-
<b>Net (loss) income before income taxes</b>	(376,070)	(344,752)	289,238	(194,909)
<b>Income taxes</b> (Note 5)		-	-	-
<b>Net (loss) income</b>	(376,070)	(344,752)	289,238	(194,909)
<b>DEFICIT, beginning of year</b>	(11,388,964)	(11,420,282)	(11,709,520)	(11,514,611)
<b>DEFICIT, end of year</b>	\$(11,765,034)	\$ (11,765,034)	\$ (11,420,282)	\$ (11,709,520)
<b>(Loss) income per common share</b> (Note 4(f))				
Basic		\$ (0.01)	\$ 0.01	\$ (0.01)
Diluted		\$ (0.01)	\$ 0.01	\$ (0.01)

The notes to the consolidated financial statements are an integral part of these statements.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

## Consolidated Statements of Cash Flows

(Expressed in United States Dollars)

	<b>Cumulative from start of the exploration stage (January 1, 2002)</b>	<b>Years ended December 31,</b>		
		<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Increase (decrease) in cash</b>				
<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (376,070)	\$ (344,752)	\$ 289,238	\$ (194,909)
Operating items not involving cash:				
Depreciation, depletion and amortization	35,353	-	-	-
Stock-option compensation (Note 4(d))	33,144	-	15,484	-
Gain on disposal of petroleum and natural gas properties	(606,047)	-	(416,320)	-
Gain on disposal of capital asset	(10,000)	-	-	-
Gain on settlement of debt	(149,681)	-	-	-
Changes in non-cash working capital (Note 8)	273,625	27,313	(2,579)	123,808
<b>Cash flows (used in) operating activities</b>	<b>(799,676)</b>	<b>(317,439)</b>	<b>(114,177)</b>	<b>(71,101)</b>
<b>Cash flows from financing activities</b>				
Repayment of long term debt	(117,654)	-	-	-
Repayment of loan claims	(100,715)	(23,551)	(77,164)	-
Advances to/from related parties	(148,307)	(250,369)	79,614	43,427
Common shares and warrants issued	378,530	378,530	-	-
<b>Cash flows provided by financing activities</b>	<b>11,854</b>	<b>104,610</b>	<b>2,450</b>	<b>43,427</b>
<b>Cash flows from investing activities</b>				
Additions to petroleum and natural gas properties	(31,404)	-	-	-
Proceeds on disposal of petroleum and oil and gas properties	606,467	-	416,740	-
Proceeds on disposal of capital assets	10,000	-	-	-
Write-off of an option to acquire mineral property (Note 1)	78,125	78,125	-	-
<b>Cash flows provided (used in) by investing activities</b>	<b>663,188</b>	<b>78,125</b>	<b>416,740</b>	<b>-</b>
<b>(Decrease) Increase in cash and cash equivalents</b>				
<b>during the year</b>	<b>(124,634)</b>	<b>(134,704)</b>	<b>305,013</b>	<b>(27,674)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>329,500</b>	<b>339,570</b>	<b>34,557</b>	<b>62,231</b>
<b>Cash and cash equivalents, end of year (Note 9)</b>	<b>\$ 204,866</b>	<b>\$ 204,866</b>	<b>\$ 339,570</b>	<b>\$ 34,557</b>

The notes to the consolidated financial statements are an integral part of these statements.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

---

## 1. Nature of operations and going concern

Sharpe Resources Corporation (the "Company") is a publicly held company, engaged in the development of minerals resources in the United States of America. Currently the Company has mineral and oil & gas royalty interests in Texas through its wholly-owned subsidiary, Sharpe Energy Company ("Sharpe Energy"), in a single cost centre in the United States of America. The Company's shares are listed in the United States on the OTC:BB symbol SHGPF and in Canada under the symbol SHO.H on the NEX exchange.

In August 1999, Sharpe Energy sought voluntarily reorganization under Chapter 11 of the United States Bankruptcy Code and on March 27, 2000, Sharpe Energy's second plan of reorganization ("the Chapter 11 Plan") was confirmed under which the Company recorded a gain on settlement of debt of \$1,313,900 in 2000. At December 31, 2006, 2005 and 2004 the Company still has outstanding debt under the Chapter 11 Plan, the details of which are described in Note 4.

The Company decided to withdraw from the Lyon County, Nevada project and accordingly the option price paid of US \$78,125 was written-off during the year. The Company purchased this option from Royal Standard Minerals Inc. ("RSM") to acquire a 60% interest in RSM's gold project located in Lyon County, Nevada (the "Project"), on September 15, 2004, in consideration for which the Company issued 2,000,000 common shares to RSM at a deemed value of CDN \$100,000 (US \$78,125).

RSM and the Company are related parties under common management and have common directors.

The Company is considered in the exploration stage as of January 1, 2002 for the following reasons:

- (i) The Company started disposing of its interests in petroleum and natural gas properties at the beginning of 2002. The entire process of disposal of these properties was completed during the fiscal year ended on December 31, 2005;
- (ii) The Company has not earned significant revenue from petroleum and natural gas interests since that date; and
- (iii) The Company changed the focus of its business and started looking for mineral properties and at present is exploring various options to invest in this industry.

These financial statements have been prepared on the basis that the Company is a going concern, which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue operations is dependent upon obtaining the necessary financing to complete the development of its properties and/or the realization of proceeds from the sale of one or more of its properties. These consolidated financial statements do not include any adjustments related to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

## 2. Summary of significant accounting policies

The preparation of these financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities and at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The significant accounting policies are as follows:

A summary of the differences between accounting principles generally accepted in Canada ("Canadian GAAP") and those generally accepted in the United States ("US GAAP") which affect the Company is contained in Note 10.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

---

## 2. Summary of significant accounting policies (Continued)

### (a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary Sharpe Energy Company. All significant intercompany balances and transactions have been eliminated upon consolidation.

### (b) Joint operations

The Company conducts substantially all of its petroleum and natural gas exploration and production activities jointly with others. The consolidated financial statements reflect only the Company's interest in such activities.

### (c) Cash and cash equivalents

Cash and cash equivalents include cash and term deposits at Canadian and United States financial institutions with a maturity of three months or less.

### (d) Revenue recognition

Revenue from the sale of petroleum and natural gas is recognized upon the passage of title, net of royalties and net profits interests. Gains or losses from the sale of assets is recognized when sold.

### (e) Petroleum and natural gas properties

#### Capitalized costs

The Company follows the full-cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration of and development of petroleum and natural gas resources are capitalized. Costs include lease acquisitions, geological and geophysical expenses, delay rentals and costs of drilling both productive and non-productive wells. Proceeds from the disposal of properties are applied against capitalized costs, without any gain or loss being realized, unless such sale would significantly alter the rate of depletion and depreciation.

#### Depletion and depreciation

Depletion of exploration and development costs and depreciation of production equipment is provided using the unit-of-production method based upon estimated proved petroleum and natural gas reserves. The costs of significant undeveloped properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude petroleum.

#### Ceiling Test

The Company uses the full cost method of accounting for oil and gas activities. The method requires a detailed impairment calculation when events or circumstances indicate a potential impairment of the carrying amount of oil and gas assets may have occurred, but at least annually. An impairment loss is recognized when the carrying amount of a cost centre is not recoverable and exceeds its fair value. The carrying amount is assessed to be recoverable when the sum of the undiscounted cash flows expected from proved reserves plus the cost of the unproved interest, net of impairments, exceeds the carrying amount of the cost centre. When the carrying amount is assessed not to be recoverable, an impairment loss is recognized to the extent that the carrying amount of the cost centre exceeds the sum of the discounted cash flows from proved and probable reserves plus the cost of unproved interest, net of impairments, of the cost centre. The cash flows are estimated using expected future product prices and cost and are discounted using a risk-free interest rate.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

---

## 2. Summary of significant accounting policies (Continued)

### **Future site restoration and abandonment costs**

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depleted and depreciated using a unit of production method over estimated gross proved reserves. Subsequent to the initial measurement of the asset retirement obligations, the obligations are adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

### **(f) Mineral property**

The Company is in the exploration stage and does not derive any income from its mineral property. It is the Company's policy to defer expenditures related to the exploration and development of its mineral property (including direct administrative expenditures, if any) until such time as they are brought into commercial production. The cost of acquiring the mineral property and all related deferred exploration and development expenditures will be amortized on a unit of production basis.

The recorded book value of mineral property is not intended to reflect their present or future value. Should a mining property become impaired as evidenced by unfavourable exploration results, or a decision to discontinue further work, the acquisition cost and related deferred exploration and development expenditures will be expensed.

### **(g) Stock-based compensation**

The Company has adopted the recognition of stock compensation expense for grants of options to officers, directors and employees in the financial statements based on the estimated fair value at the grant date for options granted after September 1, 2003. The Company, as permitted by CICA Handbook Section 3870, has adopted this section prospectively.

### **(h) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, income taxes are recognized for the future income tax consequences attributed to the difference between the financial statement carrying values and their respective income tax bases. Future income tax assets and liabilities are measured using substantially enacted income tax rates expected to apply when the asset is realized or the liability is settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date. Future income tax assets are evaluated and if realization is not considered "more likely than not", a valuation allowance is provided.

### **(i) Foreign currency translation**

The Company uses the United States Dollar as its reporting currency, as the majority of its transactions are denominated in this currency and the operations of its subsidiary are considered to be of an integrated nature.

Monetary assets and liabilities of the parent Company denominated in Canadian funds are translated into United States funds at year end rates of exchange. Other assets, liabilities and share capital of the parent Company are translated at historical rates. Revenues and expenses of the parent Company are translated at the average exchange rate for the period. Gains and losses on foreign exchange are recorded in operations in the current period.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

### 3. Loan claims

	2006	2005	2004
Unsecured vendor loan claims	\$ 563,818	\$ 587,369	\$ 664,533

Pursuant to the Chapter 11 Plan, agreed unsecured vendor loan claims were paid partially by 10% cash settlement. The remaining 90% of the claims were settled by the issue of preferred stock certificates of Sharpe Energy, bearing a quarterly dividend of 4% per annum. The certificates were fully redeemable in 2006. At the discretion of the Company, the certificates can be redeemed, all or in part, at a discount based upon the time of redemption.

The amount outstanding has been classified as a current liability given the redemption feature and the dividend payments are reflected as interest expense.

### 4. Share Capital

#### (a) Authorized

Unlimited common shares without par value

#### (b) Issued and outstanding

	Shares	Amount
Balance, December 31, 2002, 2003 and 2004	33,184,803	\$ 10,921,861
Shares issued for mineral property (Note 1)	2,000,000	78,125
Balance, December 31, 2005	35,184,803	\$ 10,999,986
Private placement	8,796,200	378,530
Warrant valuation	-	(204,408)
Balance, December 31, 2006	43,981,003	\$ 11,174,108

On January 24, 2006, the Company completed a private placement of 8,796,200 units at CDN \$0.05 per unit for gross proceeds of US \$378,530 (CDN \$439,810). Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable for one year from closing at a price of CDN \$0.10 per share. The warrants were valued using the Black-Scholes option pricing model where the value was determined to be US \$204,408 (CDN \$237,497). The following assumptions were used: dividend yield 0%, risk-free interest rate 3.83%, expected volatility 190% and an expected life of 1 year.

#### (c) Warrants

The following table sets out the warrant activity for each of the years ended December 31, 2006, 2005 and 2004 are as follows:

	Number of warrants	Value of warrants
Balance, December 31, 2003, 2004 and 2005	-	\$ -
Issued ( Note 4(b) )	8,796,200	204,408
Balance, December 31, 2006	8,796,200	\$ 204,408

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 4. Share Capital (Continued)

### (d) Stock options

The Company grants stock options to its directors and officers for the purchase of common shares. These options are valid for a maximum of 5 years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant. The exercise price of each option equals the market price prevailing at the date of the grant. The changes in stock options for each of the years ended December 31, 2006, 2005 and 2004 are as follows:

	Number of Stock Options	Weighted Average Exercise Price (CDN\$)
Balance, December 31, 2003 and 2004	3,250,000	\$ 0.10
Options granted	480,000	0.10
Expired/cancelled	(219,000)	0.15
<hr/>		
Balance, December 31, 2005 and 2006	3,511,000	\$ 0.10

A summary of the stock options outstanding is as follows:

Exercise price per share (CDN\$)	Expiry date	Black-Scholes Value	Number of stock options outstanding at December 31,		
			2006	2005	2004
\$ 0.10	May 16, 2010	\$ 15,484	480,000	480,000	-
0.10	May 8, 2008	17,660	1,431,000	1,431,000	1,431,000
0.10	May 13, 2007	-	1,000,000	1,000,000	1,000,000
0.10	May 8, 2007	-	600,000	600,000	600,000
0.15	May 4, 2005	-	-	-	219,000
<hr/>					
		\$ 33,144	3,511,000	3,511,000	3,250,000

During the year, the Company did not issue any stock options to directors of the Company.

### (e) Contributed surplus adjustment and stock-option compensation

The fair value of the stock options were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2006	2005	2004
Risk-free interest rate	N/A	3.58%	N/A
Expected life of options	N/A	5 years	N/A
Annualized volatility	N/A	242%	N/A
Dividend rate	N/A	0 %	N/A
Estimated value	N/A	\$15,484	N/A

During 2005, stock-option expense of \$15,484 was credited to contributed surplus. There is no change in contributed surplus during the current year.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 4. Share Capital (Continued)

### (f) Basic and diluted (loss) income per share

The following table sets forth the computation of basic and diluted (loss) income per share:

	2006	2005	2004
Numerator:			
(Loss) income for the year	\$ <u>(344,752)</u>	\$ <u>289,238</u>	\$ <u>(194,909)</u>
Numerator for basic and diluted (loss) income per share	\$ <u>(344,752)</u>	\$ <u>289,238</u>	\$ <u>(194,909)</u>
Denominator:			
Weighted average number of common shares	43,981,003	35,184,803	33,782,063
Effect of dilutive securities:			
Stock options (i)	-	3,511,000	-
Warrants (i)	-	-	-
Denominator for basic and diluted (loss) income per share	43,981,003	38,695,803	33,782,063
Basic (loss) income per share	\$ (0.01)	\$ 0.01	\$ (0.01)
Diluted (loss) income per share	\$ (0.01)	\$ 0.01	\$ (0.01)

(i) The stock options and warrants were not included in the computation of diluted (loss) income per share their inclusion would be anti-dilutive.

## 5. Income taxes

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. There are no future tax liabilities.

The following table reflects future income tax assets at December 31, 2006, 2005 and 2004.

	2006	2005	2004
Unclaimed non-capital losses	\$ 893,847	\$ 819,386	\$ 947,572
Income tax value of capital assets over carrying value	21,896	21,894	19,620
Unclaimed share issue costs	10,475	10,475	10,475
Excess petroleum tax basis over accounting value	102,895	71,867	68,724
	1,029,113	923,622	1,046,391
Valuation allowance	(1,029,113)	(923,622)	(1,046,391)
	\$ -	\$ -	\$ -

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 5. Income taxes (Continued)

The Company's actual income tax expense for each of the years ended is made up as follows:

	2006	2005	2004
(Loss) income before income taxes reflected in consolidated statements of operations	\$ (344,752)	\$ 289,238	\$ (194,909)
Expected income tax (recovery) expense	(124,524)	104,473	(70,401)
Deductible share issue costs	-	(10,000)	(10,000)
Statutory rate difference - Canada/US (i)	2,252	(3,158)	(2,304)
Non-deductible write-off of an option to acquire a mineral property	28,219	-	-
Other	(3,977)	-	-
Utilization of tax pools against taxable income	-	(97,631)	-
Taxable benefit not recognized	98,030	-	82,705
Income tax (recovery) expense	\$ -	\$ -	\$ -

(i) The statutory rate difference between Canada and U.S. is 1.12%. This was computed using the combined tax rate of 36.12% (Federal tax rate of 22.12% and Ontario tax rate of 14%). The U.S. combined tax rate is 35% (U.S. top Federal tax rate of 35% and Texas State tax rate of 0%).

### Non-capital losses and resource pools

The Company has resource pools of approximately US \$199,500 (CDN \$232,000) consisting of Canadian Exploration Expenditures of US \$133,900 (CDN \$155,700) and Canadian Development Expenditures of US \$65,600 (CDN \$76,300) which can be used to reduce taxable income in future years. The Company also has non-capital losses carried forward of approximately US \$2,489,800 (CDN \$2,901,500) which can also be used to reduce taxable income in future years. No benefit from these amounts has been recorded in these financial statements. The non-capital losses will expire as follows;

2007	\$ 652,800
2008	888,300
2009	178,600
2010	149,900
2014	233,000
2015	115,800
2026	<u>271,400</u>
	<u>\$ 2,489,800</u>

## 6. Related party transactions not disclosed elsewhere

Transactions with related parties not disclosed elsewhere in these financial statements comprise:

	2006	2005	2004
<b>(I) Due from related party</b>			
Standard Energy Company (i)	\$ 250,000	\$ -	\$ -
	\$ 250,000	\$ -	\$ -

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 6. Related party transactions not disclosed elsewhere (Continued)

	2006	2005	2004
<b>(II) Due to related parties</b>			
Roland M. Larsen (ii)	\$ 25,400	\$ 25,500	\$ 25,500
Royal Standard Minerals Inc. (iii)	108,813	109,082	29,468
	\$ 134,213	\$ 134,582	\$ 54,968

- (i) Standard Energy Company is related by virtue of its ownership by an officer and director of the Company. The loan receivable is unsecured, non-interest bearing and no date is set for its repayment.
- (ii) This loan is payable to an officer and director of the Company. It is unsecured, non-interest bearing and no date set for repayment.
- (iii) RSM is a related company by virtue of common management and have common directors. The loan payable is unsecured, non-interest bearing and no date set for its repayment.

Management fees of \$154,000 was paid to an officer and director of the Company.

These transactions are in normal course of operations and are measured at the exchange amount (the amount of consideration established and agreed to by the related parties which approximates the arm's length equivalent value).

## 7. Financial instruments

### Fair Value

At December 31, 2006 the Company's financial instruments consisted of cash and cash equivalents, due from related parties, accounts payable and accrued liabilities, and due to related parties. The Company estimates that these short term financial instruments approximate their carrying values due to their short term maturities. The characteristics of the loan claims are detailed in Note 3.

## 8. Supplemental cash flow information

	Cumulative from start of the exploration stage (January 1, 2002)	Years ended December 31,		
		2006	2005	2004
Changes in non-cash working capital:				
Trade and sundry receivables	\$ 209,937	\$ -	\$ -	\$ (1,288)
Notes receivable	-	-	-	89,228
Inventory	1,211	-	-	910
Accounts payable and accrued liabilities	62,477	27,313	(2,579)	34,958
Operating activities	\$ 273,625	\$ 27,313	\$ (2,579)	\$ 123,808
Interest paid (Note 3)	\$ 93,749	\$ 1,332	\$ 13,291	\$ 24,474
Income taxes paid	\$ -	\$ -	\$ -	\$ -

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 9. Cash and cash equivalents

	2006	2005	2004
Balance with bank	\$ 193,235	\$ 339,570	\$ 34,557
Term deposit	11,631	-	-
	<b>\$ 204,866</b>	<b>\$ 339,570</b>	<b>\$ 34,557</b>

## 10. Differences between Canadian GAAP and U.S. GAAP

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP. These principles, as they pertain to the Company's consolidated financial statements, differ from US GAAP as follows:

Under the Canadian GAAP, the Company does not impute interest on loans to/from related parties, while under the US GAAP, imputed interest is required to be recorded for the purpose of preparing financial statements. Had the Company's consolidated financial statements as at December 31, 2006 been prepared using US GAAP, such consolidated balance sheet would be presented as follows:

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 204,866	\$ 339,570
Due from related party	256,386	-
	461,252	339,570
Option to acquire mineral property	-	78,125
	<b>\$ 461,252</b>	<b>\$ 417,695</b>
<b>Liabilities</b>		
Current		
Accounts payables and accruals	\$ 110,209	\$ 82,896
Due to related parties	157,250	146,964
Loan claims	563,818	587,369
	831,277	817,229
<b>Capital stock and deficit</b>		
Share capital	11,174,108	10,999,986
Warrants	204,408	-
Contributed surplus	33,144	33,144
Deficit	(11,781,685)	(11,432,664)
	(370,025)	(399,534)
	<b>\$ 461,252</b>	<b>\$ 417,695</b>

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 10. Differences between Canadian GAAP and U.S. GAAP (Continued)

The cumulative-from-inception the statements of operations, changes in shareholders' equity and cash flows under US GAAP are as follows:

	Cumulative from start of the exploration stage (January 1, 2002)		Years ended December 31	
		2006	2005	2004
<b>Revenue</b>				
Petroleum and natural gas revenue	\$ 328,548	\$ 6,928	\$ -	\$ 106,462
Royalty income	19,618	6,442	13,176	-
Interest income	21,354	13,120	5,588	2,646
Other income	3,239	2,487	-	752
	372,759	28,977	18,764	109,860
<b>Operating and administrative expenses</b>				
Operating	714,365	32,544	5,648	202,395
General and administrative	418,443	74,178	95,487	72,891
Depletion, depreciation and amortization	35,353	-	-	-
Stock-option compensation	33,144	-	15,484	-
Interest on advance	34,170	15,726	10,159	8,285
Interest on loan claims	63,608	23,425	26,067	26,581
Management fees	154,000	154,000	-	-
	1,453,083	299,873	152,845	310,152
<b>Loss before the following</b>	(1,080,324)	(270,896)	(134,081)	(200,292)
Write-off of an option to acquire mineral property	(78,125)	(78,125)	-	-
Gain on disposal of capital asset	10,000	-	-	-
Gain on disposal of petroleum and natural gas properties	606,047	-	416,320	-
Gain on settlement of debt	149,681	-	-	-
<b>Net (loss) income before income taxes</b>	(392,721)	(349,021)	282,239	(200,292)
<b>Income taxes</b>	-	-	-	-
<b>Net (loss) income</b>	(392,721)	(349,021)	282,239	(200,292)
<b>DEFICIT, beginning of year</b>	(11,388,964)	(11,432,664)	(11,714,903)	(11,514,611)
<b>DEFICIT, end of year</b>	\$(11,781,685)	\$(11,781,685)	\$(11,432,664)	\$(11,714,903)
<b>(Loss) Income per common share</b>				
Basic		(0.01)	0.01	(0.01)
Diluted		(0.01)	0.01	(0.01)

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 10. Differences between Canadian GAAP and U.S. GAAP (Continued)

The changes in share capital since the Company's inception as required by US GAAP are as follows:

	<u>Shares</u>	<u>Common Stock Price Per Share</u>	<u>Amount Under US GAAP</u>
Outstanding at December 31, 2002, 2003 and 2004	33,184,803	\$ -	\$ 10,921,861
Shares issued for option in mineral property	2,000,000	0.04	78,125
Outstanding at December 31, 2005	35,184,803	-	10,999,986
Private placement	8,796,200	0.04	378,530
Warrants valuation	-	-	(204,408)
Outstanding at December 31, 2006	43,981,003	\$ -	\$ 11,174,108

Statement of Cash Flows:

	<b>Cumulative from start of the exploration stage (January 1, 2002)</b>	<b>Years ended December 31,</b>		
		<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Increase (decrease) in cash</b>				
<b>Cash flows from operating activities</b>				
Net (loss) income	\$ (392,721)	\$ (349,021)	\$ 282,239	\$ (200,292)
Operating items not involving cash:				
Depreciation, depletion and amortization	35,353	-	-	-
Stock-option compensation	33,144	-	15,484	-
Gain on disposal of petroleum and natural gas properties	(606,047)	-	(416,320)	-
Gain on disposal of capital asset	(10,000)	-	-	-
Gain on settlement of debt	(149,681)	-	-	-
Changes in non-cash operating working capital	296,073	27,313	(2,579)	167,235
Cash flows (used in) operating activities	(793,879)	(321,708)	(121,176)	(33,057)
<b>Cash flows from financing activities</b>				
Repayment of long term debt	(117,654)	-	-	-
Repayment of loan claims	(100,715)	(23,551)	(77,164)	-
Advances to/from related parties	(154,104)	(246,100)	86,613	5,383
Common shares and warrants issued	378,530	378,530	-	-
Cash flows provided by financing activities	6,057	108,879	9,449	5,383

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

## 10. Differences between Canadian GAAP and U.S. GAAP (Continued)

Statement of Cash Flows (Continued):

	Cumulative from start of the exploration stage (January 1, 2002)	Years ended December 31,		
		2006	2005	2004
<b>Cash flows from financing activities</b>				
Repayment of long term debt	(117,654)	-	-	-
Repayment of loan claims	(100,715)	(23,551)	(77,164)	-
Advances to/from related parties	(154,104)	(246,100)	86,613	5,383
Common shares and warrants issued	378,530	378,530	-	-
<b>Cash flows provided by financing activities</b>	<b>6,057</b>	<b>108,879</b>	<b>9,449</b>	<b>5,383</b>
<b>Cash flows from investing activities</b>				
Additions to petroleum and natural gas properties	(31,404)	-	-	-
Proceeds on disposal of petroleum and oil and gas properties	606,467	-	416,740	-
Proceeds on disposal of capital assets	10,000	-	-	-
Write-off of an option to acquire mineral property	78,125	78,125	-	-
<b>Cash flows provided (used in) by investing activities</b>	<b>663,188</b>	<b>78,125</b>	<b>416,740</b>	<b>-</b>
<b>(Decrease) Increase in cash and cash equivalents</b>				
<b>during the year</b>	<b>(124,634)</b>	<b>(134,704)</b>	<b>305,013</b>	<b>(27,674)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>329,500</b>	<b>339,570</b>	<b>34,557</b>	<b>62,231</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 204,866</b>	<b>\$ 204,866</b>	<b>\$ 339,570</b>	<b>\$ 34,557</b>

Under US GAAP the income tax calculation would be at enacted and not substantially enacted rates. There is no reportable difference from Canadian GAAP as no future income tax assets have been recognized.

# SHARPE RESOURCES CORPORATION

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

(Expressed in United States Dollars)

Years ended December 31, 2006, 2005 and 2004

---

## **10. Differences between Canadian GAAP and U.S. GAAP (continued)**

Recent accounting pronouncements --

In December 2004, the FASB issued Statement No. 153, "Exchanges of nonmonetary Assets an Amendment of APB Opinion No. 29, Accounting for nonmonetary Transactions" (FASB 153). FASB 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. FASB 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FASB 153 is effective for fiscal periods beginning after June 15, 2005. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN47), which clarifies FASB Statement No. 143 ("Accounting for Asset Retirement Obligations") to define a conditional asset retirement obligation as a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are FIN47 was required to be adopted for calendar 2005 enterprises. The adoption of this standard had no effect on the Company's financial statements.

In April 2005, the FASB Staff issued FASB Staff Position No. FAS 19-1, "Accounting for Suspended Well Costs" (FSP FAS 19-1), which clarifies whether there are circumstances that would permit the continued capitalization of exploratory oil and gas well costs beyond one year, other than when additional exploration wells are necessary to justify major capital expenditures and those wells are under way or firmly planned for the near future. FSP FAS 19-1 is effective for the first reporting period beginning after April 4, 2005 and is not expected to have a significant impact on the Company's financial statements.

## **11. Segment information**

The Company has one reportable business segment. Substantially all of the Company's assets are located in the United States except for small balances held in Canadian banks. The Company's operations in Canada consist of general and administrative expenses necessary to maintain the Company's public company status.

## **12. Comparative figures**

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.