



**CONSOLIDATED FINANCIAL STATEMENTS**

**For the three months ended February 28, 2007**  
**(Prepared without audit)**

**(RESTATED)**



#### **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 and are the responsibility of the Company's management.

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

#### **NOTICE OF RESTATEMENT OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements have been restated as described in Note 17.

# CLINE MINING CORPORATION

## CONSOLIDATED BALANCE SHEETS

As at February 28, 2007 and November 30, 2006  
(Prepared without audit)

	February 28, 2007 <i>(restated - Note 17)</i>	November 30, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	\$ 7,260,628	\$ 8,966,229
Marketable securities (Note 4)	104,824	21,359
Receivables	315,894	323,561
Prepaid expenses and deposits	30,768	23,230
	7,712,114	9,334,379
RECLAMATION DEPOSITS	54,000	54,000
INVESTMENTS (Note 5)	4,414,169	-
MINERAL PROPERTIES AND DEFERRED COSTS (Note 6)	10,051,126	9,952,188
CAPITAL ASSETS (Note 7)	230,732	222,243
OTHER ASSETS	1,017	73,510
	\$ 22,463,158	\$ 19,636,320
 <b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 8)	\$ 511,595	\$ 1,420,138
Advances	-	545,472
	511,595	1,965,610
FUTURE INCOME TAXES (Notes 5 and 9)	1,059,000	44,000
	1,570,595	2,009,610
 <b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 9)	21,637,591	21,693,297
Contributed surplus (Note 10)	2,299,500	1,693,500
Warrants (Note 9)	1,190,114	1,190,114
Deficit	(4,257,342)	(6,950,201)
Accumulated other comprehensive income (Note 11)	22,700	-
	20,892,563	17,626,710
	\$ 22,463,158	\$ 19,636,320

*Nature of Operations (Note 1)*

*Commitments (Note 13)*

*Subsequent Events (Note 16)*

*Restatement of Interim Financial Statements (Note 17)*

APPROVED BY THE DIRECTORS

Signed "Ken Bates"

Director

Signed "Bill McKnight"

Director

*The accompanying notes form an integral part of these consolidated financial statements.*

CLINE MINING CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE EARNINGS (LOSS)

For the three months ended February 28, 2007 and February 28, 2006  
(Prepared without audit)

	2007 <i>(restated - Note 17)</i>	2006
<b>EXPENSES</b>		
Amortization	\$ 18,007	\$ 7,593
Capital and other tax	-	(574)
Consulting and management fees (Note 8)	164,756	128,985
Directors fees and expenses	46,105	50,634
Foreign exchange loss (gain)	1,354	(436)
General, administrative and office	75,244	51,916
Investor and public relations	9,851	31,263
Legal and audit	27,623	41,831
Property assessment costs	-	42,560
Transfer agent and filing fees	22,948	26,372
Travel and accommodation	100,417	46,118
<b>LOSS FROM OPERATIONS</b>	<b>(466,305)</b>	<b>(426,262)</b>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	73,817	64,743
Stock based compensation (Note 9)	(67,000)	-
Warrant revaluation (Note 9)	(539,000)	-
Gain on sale of subsidiary (Note 5)	3,537,668	-
Unrealized loss on marketable securities (Note 4)	(5,821)	-
Management fee (Note 8)	70,214	-
<b>EARNINGS (LOSS) FOR PERIOD</b>	<b>2,603,573</b>	<b>(361,519)</b>
Other comprehensive income, net of tax (Note 11)	22,700	-
<b>COMPREHENSIVE EARNINGS (LOSS)</b>	<b>\$ 2,626,273</b>	<b>\$ (361,519)</b>
<b>Basic earnings (loss) per share (Note 12)</b>	<b>\$ 0.041</b>	<b>\$ (0.007)</b>
<b>Diluted earnings per share (Note 12)</b>	<b>\$ 0.041</b>	<b>\$ (0.007)</b>
<b>Weighted average number of common shares outstanding - basic</b>	<b>63,713,053</b>	<b>55,499,900</b>
<b>Weighted average number of common shares outstanding - diluted</b>	<b>63,863,053</b>	<b>55,499,900</b>

*The accompanying notes form an integral part of these consolidated financial statements*

CLINE MINING CORPORATION  
CONSOLIDATED STATEMENTS OF DEFICIT

For the three months ended February 28, 2007 and February 28, 2006  
(Prepared without audit)

	2007	2006
	<i>(restated - Note 17)</i>	
DEFICIT, beginning of period	\$ (6,950,201)	\$ (5,623,377)
Fair value adjustment on held-for-trading investments (Note 2)	89,286	-
Deficit, beginning of period adjusted	(6,860,915)	(5,623,377)
Earnings (loss) for period	2,603,573	(361,519)
DEFICIT, end of period	\$ (4,257,342)	\$ (5,984,896)

*The accompanying notes form an integral part of these consolidated financial statements.*

# CLINE MINING CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended February 28, 2007 and February 28, 2006  
(Prepared without audit)

	2007	2006
	<i>(restated - Note 17)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Earnings (loss) for the period	\$ 2,603,573	\$ (361,519)
Items not involving cash:		
Amortization	18,007	7,593
Gain on sale of subsidiary	(3,537,668)	-
Stock based compensation	67,000	-
Warrant revaluation	539,000	-
Unrealized loss on marketable securities	5,821	-
	(304,267)	(353,926)
Changes in non-cash working capital items		
Receivables	7,667	13,746
Prepaid expenses and deposits	(7,538)	(8,609)
Accounts payable and accrued liabilities	(908,543)	(749,115)
	(1,212,681)	(1,097,904)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares, net of costs	47,794	115,500
Advances	(545,472)	-
	(497,678)	115,500
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments	515,076	-
Mineral properties and deferred costs	(556,315)	(747,725)
Capital assets	(26,497)	(5,697)
Other assets	72,493	-
	4,757	(753,422)
<b>DECREASE IN CASH</b>	(1,705,602)	(1,735,826)
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	8,966,229	9,892,220
<b>CASH AND CASH EQUIVALENTS, end of period</b>	\$ 7,260,627	\$ 8,156,394
 Cash and cash equivalents is comprised of:		
Cash	\$ 660,627	\$ 206,394
Term Deposits	6,600,000	7,950,000
<b>Total</b>	\$ 7,260,627	\$ 8,156,394

*The accompanying notes form an integral part of these consolidated financial statements.*

CLINE MINING CORPORATION  
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES  
AND DEFERRED COSTS

For the three months ended February 28, 2007  
(Prepared without audit)

	Canada						Total
	Cline Lake	Strike Edwards	Lodgepole	Lossan	Other	Madagascar	
Balance as at December 1, 2005	\$ 104,404	\$ -	\$ 2,432,780	\$ 4,611,317	\$ 33,334	\$ 132,184	\$ 7,314,019
Acquisition costs	-	-	102,994	68,750	1,518	-	173,262
Exploration costs	5,264	-	1,572,871	385,901	24,106	476,765	2,464,907
<b>Balance as at November 30, 2006</b>	<b>109,668</b>	<b>-</b>	<b>4,108,645</b>	<b>5,065,968</b>	<b>58,958</b>	<b>608,949</b>	<b>9,952,188</b>
Acquisition costs	-	-	-	122,500	-	-	122,500
Environmental & Permitting	-	-	81,982	-	-	-	81,982
Geologists/Engineers/Contractors	254,551	163,676	-	-	-	14,683	432,910
License fees	362	-	-	5,235	7,007	-	12,604
Royalties	-	-	-	25,000	-	-	25,000
Project Administration	-	-	3,819	-	-	-	3,819
	254,913	163,676	85,801	152,735	7,007	14,683	678,815
Less: Deferred costs associated with sale of URAMAD SA	-	-	-	-	-	(579,877)	(579,877)
<b>Balance as at February 28, 2007</b>	<b>\$ 364,581</b>	<b>\$ 163,676</b>	<b>\$ 4,194,446</b>	<b>\$ 5,218,703</b>	<b>\$ 65,965</b>	<b>\$ 43,755</b>	<b>\$ 10,051,126</b>

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### **NOTE 1 NATURE OF OPERATIONS**

Cline Mining Corporation and its wholly owned subsidiary, Iron Ore Corporation of Madagascar SARL ("IOCM") are hereinafter referred to as "Cline" or "the Company". The Company is listed on the Toronto Stock Exchange ("TSX") and is engaged in the business of locating and exploring mineral resource properties. Substantially all of the efforts of the Company are devoted to these business activities. To date, the Company has not earned any mining revenues and is considered to be in the exploration stage.

### **NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

These consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles, using the same accounting policies and methods used to prepare the consolidated financial statements for the year ended November 30, 2006 except as noted below. The consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company's latest annual report. All amounts are recorded in Canadian currency.

#### **Consolidation principles**

Entities over which the Company is considered to have significant influence are reported in investments and are accounted for using the equity method of accounting. The Company's share of earnings or losses, gains and losses on disposition and write downs to reflect other-than-temporary impairment in the value of such entities is reported in the Consolidated Statements of Operations and Comprehensive Earnings (Loss).

#### **Long-term investments**

The Company accounts for investments over which it has significant influence, using the equity method, whereby the investment is initially recorded at cost and is subsequently adjusted annually for the Company's pro-rata share of the income or loss of the investee company and reduced by the amount of any dividends received.

The Company accounts for other long-term investments as available for sale whereby the investment is measured at fair value, with changes in fair value, except for impairment losses, recognized in other comprehensive income. When the investment is derecognized, the cumulative gain or loss previously included in accumulated other comprehensive income is recognized in earnings for the period.

#### **Recent accounting pronouncements and changes in accounting policies**

Effective December 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 Financial Instruments – Recognition and Measurement; Section 3861 Financial Instruments – Disclosure and Presentation; Section 3865 Hedges and Section 1530 Comprehensive Income. These recommendations establish standards for the recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives and require that fair value be used to measure financial assets that are held for trading or available for sale, financial liabilities that are held-for-trading and all derivative financial instruments. Other financial assets, such as loans and receivables and investments that are held to maturity and other financial liabilities are measured at their carrying value. As the Company has not previously undertaken hedging activities, adoption of Section 3865 currently has no impact. Prior to December 1, 2006, the principal accounting policies affecting financial instruments related to marketable securities that were valued at the lower of original cost and quoted market value.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### **NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - continued**

Under adoption of Section 3855, the Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Marketable securities purchased for resale, generally within a short period of time, are classified held-for-trading and are recorded at fair value. The Company's long-term investments are designated as available-for-sale and are measured at fair value. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost. The Company has chosen to add transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading to the costs of the financial instruments.

The Company also adopted Section 1530 regarding the reporting and disclosure for comprehensive income. Comprehensive income is the change in net assets during a period from transactions and other events and circumstances from non-owner sources, and includes both net earnings and other comprehensive income. Other comprehensive income comprises all revenues, expenses, gains and losses that are included in comprehensive income but are not recognized in net earnings, such as those resulting from changes in the fair value of financial assets classified as available for sale.

The adoption of the new standards resulted in an increase in the carrying value of held-for-trading securities of \$89,286. The new standards permit prospective application without restatement of comparative figures. Accordingly the net impact of the change has been credited to the opening deficit.

#### **Description of accounting policies**

The narrative relating to *Asset Retirement Obligations* and *Translation of Foreign Currency* accounting policies as included in Note 2 to the audited financial statements for the year ended November 30, 2006 has been revised. The revised narrative is as follows:

#### ***Asset retirement obligations***

CICA Handbook Section 3110, Asset Retirement Obligations requires the recognition of a legal liability for obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which the liability is incurred. A corresponding increase in the carrying amount of the related asset is recorded and amortized over the life of the asset. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimates of its ultimate reclamation and closure liabilities could change as a result of changes in regulations, changes in the extent of environmental remediation required, changes in the means of reclamation or changes in the cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability has been recorded as the Company is in the pre-feasibility stage on its properties and the fair value of the liability cannot be reasonably estimated at this stage.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### NOTE 2 SIGNIFICANT ACCOUNTING POLICIES - continued

#### *Foreign currency translation*

The Company's subsidiary is accounted for as an integrated foreign operation. Transactions of the Company and its subsidiary originating in foreign currencies are translated at the rates in effect at the time of the transaction. Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet dates and non-monetary items are translated at historical exchange rates. Foreign exchange gains and losses are included in operations.

Self-sustaining foreign operations, accounted for using the equity method, are translated using the exchange rates in effect at the balance sheet date and the results of operations at the average rates for the period. The resulting exchange gains and losses are included in accumulated other comprehensive income in shareholder's equity.

### NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and term deposits issued by banks that are short-term highly liquid investments. Cash and cash equivalents at February 28, 2007 include approximately \$680,000 which is reserved for qualifying Canadian Exploration Expenditures pursuant to flow-through private placement agreements.

### NOTE 4 MARKETABLE SECURITIES

Effective December 1, 2006, marketable securities are designated as held-for-trading and reported at fair value based on quoted market prices. At November 30, 2006 the marketable securities were carried at the lower of cost and market value being cost of \$21,359. During the period, an unrealized loss on marketable securities of \$5,821 has been included in the Statement of Operations and Comprehensive Earnings (Loss). The portion of the unrealized gain accrued to November 30, 2006 has been credited to the opening deficit.

### NOTE 5 INVESTMENTS

Investments at February 28, 2007 are represented by the following:

Strike Minerals Inc. - 2,000,000 common shares, at market value	\$ 192,700
UMC Energy plc - 12,272,667 ordinary shares, at cost	4,221,469
	<hr/>
	\$ 4,414,169

#### **Strike Minerals Inc.**

The Company's investment in Strike Minerals Inc. has been classified as available-for-sale and has been recorded at fair value with unrealized gains of \$22,700 net of tax of \$7,300 recognized in other comprehensive income.

**CLINE MINING CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the three months ended February 28, 2007  
(Prepared without audit)

**NOTE 5 INVESTMENTS - continued**

**UMC Energy plc**

On December 22, 2006, Cline acquired a 40% interest in UMC Energy plc (“UMC”), receiving 12,272,667 ordinary shares of UMC in exchange for Cline’s 80% interest in URAMAD SA (“URAMAD”). The shares of UMC are listed for trading on the London Stock Exchange AIM market and are subject to trading restrictions until December 22, 2007.

The acquisition of UMC has been accounted for as an equity investment and accordingly, the investment was initially recorded at cost. Cline's pro-rata share of the results of operations since acquisition will be included in the investment and Consolidated Statements of Operations and Comprehensive Earnings (Loss) in the period in which they become publicly available. UMC’s fiscal year end is January 31 and the company reports its financial results twice yearly.

As at February 28, 2007, the investment in UMC is recorded as follows:

Shares of UMC received as consideration	\$ 5,977,089
Deduct: 40% interest in URAMAD still held through investment in UMC	(2,374,620)
	3,602,469
Add (deduct):	
Future income tax liability	619,000
	\$ 4,221,469

The gain on sale of URAMAD in the amount of \$3,537,668 has been recorded in the Consolidated Statements of Operations and Comprehensive Earnings (Loss) and was calculated as follows:

Fair value of UMC shares received	\$ 5,977,089
Deduct: Net investment in and advances to URAMAD	(48,605)
Professional fees	(16,196)
Total gain on sale	5,912,288
Less: 40% interest in URAMAD still held through investment in UMC	(2,374,620)
Gain on sale recognized	\$ 3,537,668

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### NOTE 6 MINERAL PROPERTIES

On December 11, 2006, the Company entered into an agreement with Strike Minerals Inc. (“Strike”) to earn an interest in three mineral claims owned by Strike and located in Jacobson Township, northeast of Wawa, Ontario (the “Strike Edwards property”). The Agreement provides that the Company can earn up to a 12.5% joint venture interest in the Strike Edwards property and related assets by spending up to \$350,000 on a diamond drilling exploration program on the property by June 30, 2007. In addition, the Company and Strike agreed on a share swap whereby the Company issued 500,000 common shares to Strike in exchange for 2,000,000 common shares of Strike (see Note 9).

### NOTE 7 CAPITAL ASSETS

Capital assets are represented by the following:

	February 28, 2007	November 30, 2006
Furniture, fixtures and office equipment	\$ 33,323	\$ 31,616
Computer equipment	26,049	22,702
Computer software	11,479	21,931
Leasehold improvements	10,764	10,764
Vehicle	29,547	29,547
Exploration equipment	184,572	155,455
	295,734	272,015
Less: accumulated amortization	65,002	49,772
	\$ 230,732	\$ 222,243

### NOTE 8 RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES

- (i) During the period, the Company entered into Management and Administrative Services Agreements with company’s related to or controlled by officers of the Company with respect to consulting services. The agreements are for a one year term effective December 1, 2006 and are subject to a termination fee of one year’s fees. Payments pursuant to these contracts aggregate \$44,500 per month (see Note 13 (iii)).

During the period, companies related to or controlled by officers and directors of the Company were paid \$133,500 (2006 - \$115,800) in consulting and management fees. These amounts are included in consulting and management fees of \$164,756 (2006 - \$128,985). In addition, certain officers of the Company, who also acted as directors were paid a total of \$12,000 (2006 - \$12,000) with respect to directors fees and a company controlled by an officer was paid \$nil (2006 - \$3,000) with respect to office support services.

- (ii) Accounts payable and accrued liabilities at February 28, 2007 in the amount of \$511,595 (November 30, 2006 - \$1,420,138) includes amounts due to, or accrued as payable, to related parties in the amount of \$77,927 (November 30, 2006 - \$86,201) and is recorded net of amounts due from related parties of \$35,539 (November 30, 2006 - \$35,539). The parties are related by virtue of their shareholders or principals acting as directors or officers of the Company.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### NOTE 8 RELATED PARTY TRANSACTIONS AND DUE TO RELATED PARTIES - continued

- (iii) Accounts receivable as at February 28, 2007 in the amount of \$315,894 includes an amount of \$49,898 receivable from UMC. The advances at November 30, 2006 in the amount of \$545,472 were payable to UMC. These amounts relate to advances made by UMC to the Company with respect to URAMAD (see Note 5). In addition, the management fee included in the Consolidated Statements of Operations and Comprehensive Earnings (Loss) in the amount of \$70,214 was due to the Company by UMC for services rendered in connection with the Morondava uranium property owned by URAMAD.
- (iv) During the period, the Company issued 200,000 stock options to a director. The fair value of these stock options, calculated using the Black-Scholes option pricing model, is \$39,000.

Transactions with related parties are incurred in the normal course of operations and recorded at the exchange amount, being the price agreed between the parties

### NOTE 9 SHARE CAPITAL

Authorized - Unlimited common shares without par value.

The Company's share capital outstanding as at February 28, 2007 and the changes for the three months then ended are as follows:

	Number of Shares	Amount
Balance as at November 30, 2006	63,110,275	\$ 21,693,297
For cash:		
Exercise of options	500,000	50,000
Property acquisition	250,000	122,500
Share exchange	500,000	167,794
Renunciation of flow-through share income tax benefits	-	(396,000)
Balance as at February 28, 2007	64,360,275	\$ 21,637,591

#### Share Issuance

During the period the Company:

- (i) Issued 250,000 common shares, at a price of \$0.49 per share, with respect to the acquisition of the Lossan coal property.
- (ii) Issued 500,000 common shares in exchange for 2,000,000 common shares of Strike Minerals Inc. at a price of \$0.34 per share. Share issuance costs of \$2,206 relating to this transaction have been allocated to share capital (see Note 6).
- (iii) Effective December 31, 2006, the Company renounced \$1,097,000 of Canadian Exploration Expenditures with respect to the flow-through private placements completed during the year ended November 30, 2006. The estimated tax effect of renouncing these expenditures in the amount of \$396,000 has been allocated to share capital and recorded as a future tax liability.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### NOTE 9 SHARE CAPITAL - continued

#### Stock options

The Company's outstanding stock options as at February 28, 2007 and the changes for the three months then ended are as follows:

	Number of Options	Weighted Average Exercise Price
Balance as at November 30, 2006	3,540,000	\$ 0.69
Options granted	300,000	0.39
Options exercised	(500,000)	0.10
Balance as at February 28, 2007	3,340,000	\$ 0.75

The stock options exercised during the year were issued when the Company used the settlement method of accounting for stock options. Accordingly, no amount has been transferred from contributed surplus on exercise of the options. For purposes of stock-based compensation, the fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model. Assumptions used were as follows: dividend yield 0%, risk-free interest rate of 3.76 to 4.06%, expected volatility of 62 to 71% and expected life of 5 years. The weighted average grant date fair value of options granted during the period was \$0.17 per option.

The Black-Scholes pricing model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this pricing model requires the use of estimates, including management's assumptions about future stock price volatility and expected time until exercise. The Company's outstanding stock options have characteristics which, are significantly different from those of traded options, and changes in any of the assumptions can materially affect fair value estimates.

Options to acquire common shares outstanding at February 28, 2007 are as follows:

Number Outstanding	Exercise Price	Expiry Date
150,000	\$ 0.10	May 27, 2007
600,000	0.82	January 6, 2010
550,000	0.82	March 9, 2010
740,000	0.82	September 7, 2010
500,000	0.82	February 2, 2011
500,000	0.82	September 6, 2011
200,000	0.35	December 5, 2011
100,000	0.47	January 23, 2012

All stock options outstanding at the period end are fully vested and exercisable. The weighted average remaining contractual life of the options outstanding at the period end is 3.5 years.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

### NOTE 9 SHARE CAPITAL - continued

#### Warrants

The Company's share purchase warrants outstanding as at February 28, 2007 and the changes for the three months then ended are as follows:

	Number of Warrant Shares	Fair Value of Warrants	Weighted Average Exercise Price
Balance, as at November 30, 2006	6,057,087	\$ 1,190,114	\$ 0.82
Repriced	(5,000,000)	-	0.75
Repriced	5,000,000	-	0.35
Balance, as at February 28, 2007	6,057,087	\$ 1,190,114	\$ 0.49

The number of warrant shares represents the number of shares that may be acquired on the exercise of the outstanding warrants.

During the period, the terms of 5,000,000 previously issued warrants were amended. The exercise price was reduced to \$0.35 from \$0.75 and the exercise period was extended from January 8, 2007 to January 8, 2009. As a result of these changes, Canadian generally accepted accounting principles require that a fair value be attributed to the change in the exercise terms of these warrants. Accordingly, the Company has attributed an incremental fair value of \$539,000 to these warrants using the Black-Scholes option pricing model. This amount is reflected in the Consolidated Statements of Operations and Comprehensive Earnings (Loss) as "warrant revaluation" with a corresponding amount included in contributed surplus.

The assumptions used in the Black-Scholes option pricing model for these warrants were as follows; dividend yield 0%, risk-free interest rate of 3.76%, expected volatility of 57% and expected life of 2.1 years.

Warrants to acquire common shares outstanding at February 28, 2007 are as follows:

Number of Warrants	Number of Warrant Shares	Fair value of warrants	Exercise Price	Expiry Date
5,000,000	5,000,000	\$ 1,188,000	\$ 0.35	January 8, 2009
1,923,074	961,537	1,923	1.15	April 30, 2008
191,100	95,550	191	1.15	May 3, 2008

The weighted average remaining contractual life of the warrants outstanding at the end of the period is 1.7 years.

#### Agent Units

In connection with flow-through private placements completed during the year ended November 30, 2006, the Company granted to the agents, options to purchase units (the "Agent Units") equal to 7% of the number of FT Units subscribed for at a price of \$0.52 per unit until October 31, 2008. Each Agent Unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to acquire one additional common share of the Company at a price of \$1.15 per share on or before April 30, 2008. Pursuant to these private placements, the Company has granted the agents the option to purchase 147,985 Agent Units. As at February 28, 2007, all of these Agent Units were outstanding.

The weighted average exercise price of the outstanding Agent Units at the end of the period was \$0.52 and the weighted average remaining contractual life is 1.7 years.

CLINE MINING CORPORATION  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
(Prepared without audit)

**NOTE 10 CONTRIBUTED SURPLUS**

The Company records stock based compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Stock based compensation costs are recognized over the vesting period as an increase to stock based compensation expense and contributed surplus. When options are subsequently exercised, the fair value of such options in contributed surplus is credited to share capital.

The Company's contributed surplus as at February 28, 2007 and the changes for the three months then ended are as follows:

Balance, as at November 30, 2006	\$ 1,693,500
Fair value attributable to stock based compensation recorded during the period	67,000
Fair value attributable to change in warrant terms recorded during the period	539,000
Balance, as at February 28, 2007	\$ 2,299,500

**NOTE 11 ACCUMULATED OTHER COMPREHENSIVE INCOME**

The Company's accumulated other comprehensive income as at February 28, 2007 and the changes for the three months then ended are as follows:

Balance, as at November 30, 2006	\$ -
Unrealized gain on available-for-sale securities, net of tax of \$7,300	22,700
Balance, as at February 28, 2007	\$ 22,700

**NOTE 12 EARNINGS (LOSS) PER SHARE**

Basic earnings per share are computed by dividing earnings by the weighted average number of shares outstanding during the year. The Company uses the treasury stock method for calculating diluted earnings per share. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are 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 that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the year.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
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### NOTE 13 COMMITMENTS

- (i) The Company is required to make the following payments with respect to operating lease agreements for office space, equipment and a vehicle.

Year ending November 30, 2007	\$ 61,346
Year ending November 30, 2008	80,159
Year ending November 30, 2009	6,702

- (ii) In order to keep its mineral properties in good standing, the Company is required to make annual payments of approximately \$75,000 in coal license fees to the government of British Columbia, \$10,000 to the government of Madagascar for permit fees and \$200,000 in annual royalty payments to the optionors of the Lossan and Lodgepole coal properties.
- (iii) The Management and Administrative Services Agreements discussed in Note 8(i) commit the Company to pay \$44,500 per month to company's related to or controlled by officers of the Company. In addition, termination payments equivalent to one year's fees are payable with respect to these agreements.
- (iv) Pursuant to the joint venture agreement entered into with Strike Minerals Inc. on December 5, 2006, the Company can earn a 12.5% interest in the Strike Edwards gold property by expending \$350,000 before June 30, 2007. As of February 28, 2007, the Company had expended \$163,676 leaving a balance of \$186,324 in required expenditures to earn its 12.5% interest.

### NOTE 14 SEGMENTED INFORMATION

The Company operates in one industry - the exploration and development of mineral properties, which are located in Canada and Madagascar. Identifiable assets are:

	Canada	Madagascar	United Kingdom	Total
Mineral interests	\$ 10,007,371	\$ 43,755	\$ -	\$ 10,051,126
Corporate and other assets	8,155,325	35,238	4,221,469	12,412,032
Total assets	\$ 18,162,696	\$ 78,993	\$ 4,221,469	\$ 22,463,158
Earnings (loss)	\$ 2,618,135	\$ (14,562)	\$ -	\$ 2,603,573

### NOTE 15 FINANCIAL INSTRUMENTS

The Company does not have a significant credit risk exposure to any individual customer or counterparty. Concentrations and exposure to credit risk are directly imparted by a decline in the economic conditions of the mining industry. The maximum credit risk exposure for all financial assets is the carrying value of those assets.

The Company operates internationally, giving rise to market risks from changes in interest rates, foreign exchange rates and commodity prices.

# CLINE MINING CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended February 28, 2007  
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### NOTE 16 SUBSEQUENT EVENT

On March 21, 2007, the Company completed a non-brokered flow-through private placement financing agreement for a total of \$750,000 through the sale of 1,875,000 flow-through units (the "FT Units") at a price of \$0.40 per FT Unit with the MineralFields Group. Each FT Unit consisted of one flow-through common share and one-half non-flow-through share purchase warrant with one whole share purchase warrant entitling the holder to acquire one additional common share of Cline at a price of \$0.90 per share for a period of eighteen months.

In connection with this placement, Cline paid a cash finder's fee of 5% of the total proceeds and granted options to purchase units equal to 7% of the number of units subscribed for, at a price of \$0.40 per unit, for a two year period to Limited Market Dealer Inc. (the "LMD Units"). Each LMD Unit consists of one share and one-half common share purchase warrant entitling the holder to acquire one additional common share of Cline, at a price of \$0.90 per share, for a period of eighteen months.

### NOTE 17 RESTATEMENT OF INTERIM FINANCIAL STATEMENTS

Subsequent to filing the unaudited consolidated financial statements for the three months ended February 28, 2007, the Company determined that certain adjustments would be required to these financial statements.

The description and effect of these identified adjustments follows:

- (i) As a result of adopting the CICA recommendations pertaining to financial instruments, earnings have decreased by \$5,821 (loss on marketable securities) and comprehensive income has increased by \$22,700 (unrealized gain on investments). These changes have been reflected in the Consolidated Statements of Operations and Comprehensive Earnings (Loss). In the Consolidated Balance Sheets, the deficit and accumulated other comprehensive income under shareholders equity have increased by \$5,812 and \$22,700 respectively with corresponding changes to marketable securities and investments. In addition, opening deficit has been decreased by \$89,286 and marketable securities has increased by the same amount (see Note 2).
- (ii) As a result of changes to the terms of warrants, earnings have decreased by \$539,000. During the period, the terms of 5,000,000 previously issued warrants were amended. The exercise price was reduced to \$0.35 from \$0.75 and the exercise period was extended from January 8, 2007 to January 8, 2009. As a result of these changes, Canadian generally accepted accounting principles require that a fair value be attributed to the change in the exercise terms of these warrants. Accordingly, the Company has attributed an incremental fair value of \$539,000 to these warrants using the Black-Scholes option pricing model. This amount is reflected in the Consolidated Statements of Operations and Comprehensive Earnings (Loss) as "warrant revaluation" with a corresponding amount being included in contributed surplus.
- (iii) As a result of changes to the assumptions used when applying the Black-Scholes option pricing model to calculate the fair value of the stock options issued during the period, earnings have decreased by \$37,500. Stock based compensation expense in the Consolidated Statements of Operations and Comprehensive Income (Loss) and contributed surplus, under shareholders' equity in the Consolidated Balance Sheets, have both increased by this amount.