



**JAGUAR NICKEL INC.
ANNUAL MD&A AND
FINANCIAL STATEMENTS**

2006

March 29, 2007

To Our Shareholders

The year ended December 31, 2006 was a year of significant change for Jaguar Nickel Inc (“Jaguar” or the “Company”).

The year began with the closing of the sale of our Guatemalan subsidiary, Jaguar Nickel, S.A. to BHP Billiton Limited for \$19,000,000 and an exploration and development alliance agreement (“Alliance”) relating to certain Canadian and USA mining properties. At that point, Jaguar was a well-funded junior mining company with working capital of \$30 million and no operating business.

Over the next several months, the Company invested a limited amount of funds into the Alliance and searched for business combination opportunities with other exploration and development companies. A planned business combination with First Nickel Inc. was not completed and the Company began to seriously downsize its activities. Spending on the Alliance was reduced and the USA component of the agreement was terminated. The Company continued to search for a viable strategy.

It was at this point that Northern Financial Corporation (“Northern”) became interested in Jaguar. Northern approached Jaguar with a business opportunity but was rejected by the existing Board of Directors. Northern recognized the considerable potential that Jaguar held and put together an investment group to challenge the board’s handling of the Company’s strategy for the future.

After a protracted battle, you, the shareholders, chose to elect a slate of directors nominated by Northern at the special meeting of shareholders held on December 6, 2006. The new board immediately replaced the management team and began reviewing strategic alternatives. The first order of business was to terminate the remaining obligations under the Alliance thereby preserving Jaguar’s considerable potential investment funds.

On February 23, 2007, Jaguar announced that it intended to change the focus of the Company from a mineral exploration company to a merchant bank focused on creating value for the Company’s shareholders by making investments in undervalued companies in various industry sectors. The management team has an excellent record in creating shareholder value in undervalued companies and will employ a variety of passive or proactive techniques depending on the circumstances.

The Company intends to propose a new corporate name, likely Jaguar Financial Corporation, at the next annual meeting of shareholders. The Company is also developing a governance agreement between the Company and its largest shareholder, Northern, which will govern the relationship between the two companies and address any potential conflicts of interest.

Notwithstanding the fact that Jaguar is no longer a mining exploration company, the Company intends to protect the considerable investment it has made in proprietary process technology. This includes the patent rights and research data relating to the atmospheric chloride leach process (“ACLP”) and a process for the recovery of value metals from sulphide based ores. During 2006, the Company was pleased to announce that it had been granted its first patent relating to the ACLP.

We look forward to updating you on the progress of turning Jaguar into a successful merchant bank.

On behalf of the Board of Directors, we thank our shareholders for their support and the confidence they have placed in us.

Vic Alboini
Chairman and President

Introduction

Jaguar Nickel Inc. (“Jaguar” or the “Company”) is a Canadian merchant bank that intends to invest in undervalued small capitalization companies in a variety of industry sectors. Up until the current year the Company was a mineral exploration and development company. Jaguar is listed on the Toronto Stock Exchange under the symbol JNI.

The following Management’s Discussion and Analysis (“MD&A”) of the financial condition and results of operations of the Company are the views of management and should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2006 compared to the year ended December 31, 2005.

The audited financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

This MD&A contains “forward-looking statements” that reflect Jaguar’s current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as “estimate”, “consider”, “expect”, “anticipate”, “objective” and similar expressions or variations of such words. Forward looking statements are, by their very nature, not guarantees of Jaguar’s future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Jaguar’s actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward looking statements. No representation or warranty is intended with respect to anticipated future results, that estimates and projections will be sustained or that any project will otherwise prove to be economic.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties elsewhere in this MD&A, actual events may differ materially from current expectations. Jaguar disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Strategic Initiatives

Over the course of the last 20 months, the Company has reviewed a series of strategic options available to it and taken action in a number of areas that have ultimately lead to its current focus.

Sale of Guatemalan Subsidiary

In May 2005, the Company formed a Special Committee of the Board of Directors which established the criteria and review process to identify the most advantageous strategic relationship for the Company and its shareholders with a view to enhancing shareholder value. To assist in this regard, the Committee retained Scotia Capital Inc. (“Scotia Capital”) as its financial advisor. Jaguar requested that Scotia Capital assist the Company in exploring market interest with potential strategic and financially interested parties for a transaction involving the possible sale of its wholly owned Guatemalan subsidiary Jaguar Nickel, S.A. (“Jaguar, S.A.”) and other assets of the Company, including identifying potential buyers, assessing possible offers, and assisting Jaguar in the execution of a potential transaction and any related matters.

In July 2005, Jaguar prepared a confidential information memorandum with respect to the business of Jaguar, S.A. and held discussions with a number of parties regarding a range of potential transactions. A number of strategic and financial players were contacted in connection with a confidential competitive auction process, including BHP Billiton Limited (“BHP Billiton”).

In October 2005, BHP Billiton submitted an offer to Jaguar. Jaguar determined that the proposed offer from BHP Billiton represented the best offer that the Company received, given the price to be paid and the benefit of an on-going relationship with BHP Billiton by way of an alliance agreement (the “Alliance”), and two mining property

option agreements with wholly owned indirect subsidiaries of BHP Billiton, the Canadian Property Agreement and the USA Property Agreement, respectively, for the exploration and development of nickel mining properties in Canada, Alaska, the mid-continental United States and Greenland.

On November 29, 2005, the Company and BHP Billiton entered into a Share Purchase Agreement, pursuant to which the Company agreed to sell 100% of the issued and outstanding common shares of Jaguar, S.A. for a total consideration of \$19,000,000 and the benefits of the Alliance and the Canadian and USA Property Agreements. Following receipt of shareholders' approval, the Company closed the sale on January 31, 2006, receiving \$18,000,000 cash, a holdback receivable of \$1,000,000 bearing interest at 5% per annum due on or before January 31, 2007, reimbursement of specified exploration expenditures totalling \$797,219, and executed Alliance option agreements.

On February 1, 2007 the Company received payment from BHP Billiton Limited relating to the \$1,000,000 holdback receivable. The amount was reduced by \$443,561 relating to alleged losses suffered by BHP Billiton for environmental expenditures. The Company is currently reviewing available options to recover this amount in whole or in part.

Alliance Agreement

The Company was granted an option to acquire a 51% interest in the Cottonwood Property in Minnesota under the terms of the USA Property Agreement by incurring aggregate exploration expenditures of \$1,000,000 by December 31, 2008. After initial investigation of the mineral potential of the property, the Company elected not to incur further expenditures.

The Company was also granted an option to acquire a 51% interest in the Kasba and Target 87 project areas in the Northwest Territories and Nunavut, respectively, under the terms of the Canadian Property Agreement by incurring aggregate exploration expenditures of \$1,000,000 in each project area. During the year the Company incurred expenditures of approximately \$607,000, primarily in the Target 87 area. The exploration programs were put on hold as the Company engaged in business combination discussions. Subsequently, management determined that meeting the remaining expenditure requirements of the Alliance agreement would not be in the best interests of the Company and terminated the Alliance with BHP Billiton.

Business Combination Discussions

As a result of inquiries from and discussions with a number of interested parties regarding a range of potential transactions following the sale of the Guatemalan subsidiary, the Board of Directors formed a Special Committee of the Board in April 2006 to establish the criteria and a review process for the purpose of identifying the most advantageous strategic relationship for Jaguar and its shareholders.

On May 1, 2006 the Company signed a letter agreement, subject to due diligence and receipt of all necessary and shareholder approvals, to combine with First Nickel Inc. ("FNI") where under FNI would issue to the shareholders of the Company one common share of FNI in exchange for every 3.5 common shares of Jaguar. On June 12, 2006 the Company and FNI announced that they had mutually agreed not to proceed with the business combination. Each of FNI and Jaguar considered it in their respective best interest not to enter into a definitive merger agreement and negotiations ended on amicable terms. As there were no technical or financial findings identified in the mutual due diligence which led to the decision not to proceed, each of FNI and Jaguar agreed that no termination fees would be payable as a result of the termination of the proposed combination.

Immediately following the decision not to proceed with the business combination with FNI, the Company undertook an exercise to greatly reduce Jaguar's corporate overhead and significantly reduced the number of employees at the Company as well as downsizing premises and other costs.

The Company subsequently entered into discussions relating to a potential business combination with Monterey Explorations Ltd. ("Monterrey"), a private oil and natural gas exploration and development company. Negotiations did not advance beyond the discussion phase.

New Board of Directors

On September 19, 2006 Northern Financial Corporation and Romspen Investment Corporation (“Northern”) announced that they, together with an investment group, owned or exercised control over 14.6% of the issued common shares of Jaguar and requested a special meeting of Jaguar’s shareholders for the purpose of removing Jaguar’s directors and appointing five new directors nominated by Northern. Jaguar’s Board of Directors thereon adopted a shareholders rights plan in connection with any offer to acquire shares of the company. Northern applied for a cease trade order with respect to the rights plan and after hearings held in October, the Bureau de decisions et de revisions en valeurs mobilières (Quebec) issued a cease trade order on the rights plan. On November 2, 2006 Northern announced that it acquired additional shares of Jaguar bringing its ownership to 18.2% in total.

At the December 6, 2006 special meeting of Jaguar’s shareholders a new slate of directors nominated by Northern, Jaguar’s largest shareholder, was elected.

On February 23, 2007 Jaguar announced its intention to change the focus of the Company from a mineral exploration company to a merchant bank focused on creating value for Jaguar’s shareholders by making investments in undervalued companies in various industry sectors. The Company believes that management has very good merchant banking experience, which will assist it in making undervalued investments and realizing on such investments, passively or proactively, depending on the circumstances of the particular company. Proactive involvement by Jaguar could involve working with management or the directors of the particular company to implement necessary changes to create shareholder value, or by initiating change at the board level, or by implementing a change of control transaction.

Results of Operations

Interest revenue for the year was \$1,088,825 compared to \$411,514 the prior year. The increase is due to the investment of the funds received from the sale of the Guatemalan subsidiary on January 31, 2006.

Total expenses increased from \$2,904,720 in 2005 to \$4,747,641 in 2006. Operating expenses (excluding the write offs of exploration properties costs and metallurgical process costs) were approximately \$4,141,000, up from approximately \$2,322,000 last year. The increase in expenses is attributable to legal fees and shareholder costs related to the change in control of the Company. As well, severance costs increased year over year for employees whose termination packages were not included as transaction costs in the sale of the Guatemalan subsidiary. General exploration costs of \$119,109 were incurred in the current year. As well, \$606,994 of exploration costs related to the Canadian Property Agreement was written off when the Company terminated the Alliance with BHP Billiton.

On January 31, 2006 Jaguar closed the sale of its wholly owned Guatemalan subsidiary to BHP Billiton for \$19,000,000 of which \$18,000,000 was received in cash and \$1,000,000 plus 5% interest was held back for indemnification purposes as a receivable due from BHP Billiton by January 31, 2007. The gain realized on the sale was \$2,361,570 net of transaction costs including severance pay of \$1,176,443, consulting fees of \$1,029,930, and legal and shareholder meeting costs of \$195,559. A reserve of \$443,561 was taken on the \$1,000,000 receivable as BHP Billiton has alleged losses suffered due to environmental clean up expenditures. As part of the terms of closing, Jaguar was reimbursed \$797,219 of exploration expenditures incurred in Guatemala between October 1, 2005 and January 31, 2006.

Share Capital Information

As at March 26, 2007 the Company has 108,096,432 common shares together with 4,072,000 stock options outstanding, which, if exercised, would amount to a fully diluted position of 112,168,432 common shares. No common shares were issued in the year. The Company issued 1,250,000 stock options, with an exercise price of \$0.30, in 2006, while 1,313,000 stock options expired.

Liquidity and Capital Resources

As a result of the pending sale of the Guatemalan subsidiary, the Company had reclassified its Guatemalan assets and liabilities as held for sale at December 31, 2005 and reported them as current assets of \$14,521,000 and current payables of \$87,000. The working capital at December 31, 2005 thereby exceeded \$27,500,000. During the year ended December 31, 2006, the sale of the Guatemalan subsidiary closed and the Company received approximately \$18,800,000 in cash. As at December 31, 2006 the Company's working capital position was approximately \$26,500,000. Cash and term deposits exceeded \$26,300,000.

Presently, the Company has sufficient funds on hand to fund its working capital requirements. There are no planned exploration or capital expenditures.

Process Technology

While it is no longer in the mineral exploration and development business, the Company retains its proprietary process technology patent rights, research data and engineering studies that consists of the atmospheric chloride leach process ("ACLP") and a process for the recovery of value metals from sulphide based ores. The Company had filed patent applications and continues to pursue the applications with respect to its proprietary technology in Canada, the United States, and other critical jurisdictions.

On November 30, 2006 Jaguar announced that the Commissioner of Patents had granted a Canadian patent for the ACLP. The term of the patent is 20 years from the date of filing, which is May 13, 2024. This marked an important step in protecting the investment which Jaguar undertook beginning in 2002.

Management Changes

Following the special meeting of shareholders held December 6, 2006 wherein a new Board of Directors was elected, the Company announced the appointments of Mr. Vic Alboini to the position of President and Mr. Doug Chornoboy to the position of Chief Financial Officer.

Mr. Richard Weizenbach, Executive Vice President and Chief Operating Officer, Mr. John Francis, Chief Financial Officer, Mr. Paul Nagerl, Chief Geologist, Mr. Somerset Parker, Vice President Marketing and Corporate Development, and Mr. George Gordon, Secretary and Legal Counsel, tendered their resignations during the year.

Selected Annual Information

The following table provides selected financial information that should be read in conjunction with the audited financial statements of the Company.

	Years ended December 31,		
	2006	2005	2004
	\$	\$	\$
Revenue – interest	1,088,825	411,514	537,135
Net income (loss)	(1,297,246)	(2,419,365)	(4,795,494)
Net income (loss) per share – basic and diluted	(0.01)	(0.02)	(0.05)
Cash and term deposits	26,325,360	12,630,047	20,726,947
Total assets	27,490,363	28,192,346	30,496,564

Contractual Obligations

As at December 31, 2006, the Company has committed to lease payments for its premises in the following amounts:

2007	\$ 35,799
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Related Party Transactions

For the years ended December 31, 2006 and 2005 the Company had related party transactions, with directors and/or officers of the Company or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

	<u>2006</u>	<u>2005</u>
Financial advisor fee and costs		
Scotia Capital Inc. who employed J. Eby	\$500,000	\$525,000
Legal expenses and deferred costs:		
M. Blouin's law firm, Lavery de Billy, LLP	186,950	187,692
Consulting fees:		
J. Eby (for work performed on a special committee)	39,250	-
D. Goldman (for work performed on a special committee)	43,000	-
J. Francis (as CFO)	24,650	-
Metallurgical process costs:		
Bryn Harris consulting fees	-	25,833
Exploration expenditures:		
House rental from J. Yates	-	21,000
Payable:		
J. Yates	-	185,000
Lavery de Billy, LLP	-	31,992

The directors and officers listed above no longer serve in any capacity with the Company.

Summary of Quarterly Results

The following table provides selected unaudited financial information for each of the last eight quarters:

	2006	2006	2006	2006	2005	2005	2005	2005
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income (loss)	(2,441,819)	(462,362)	(441,780)	2,048,715	(437,096)	(653,527)	(459,896)	(868,846)
Income (loss) per common share basic and diluted	(0.02)	0.00	0.00	0.02	0.00	(0.01)	0.00	(0.01)
Total assets	27,490,363	29,472,744	29,707,771	30,623,549	28,192,346	28,711,852	28,873,320	29,436,610

The quarterly breakdown of net income has been revised slightly in prior quarters of 2006 to reflect the correction of stock compensation expense.

Critical Accounting Estimates

Critical accounting estimates used in the preparation of the financial statements include the Company's estimate of the value of stock-based compensation. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control. The factors affecting stock-based compensation include estimates of when stock options might be exercised and the stock price volatility. The timing for exercise of options is out of the Company's control and will depend, among other things, upon a variety of factors including the market value of the Company's shares and financial objectives of the holders of the options. The Company has used historical data to determine volatility in accordance with Black-Scholes modeling, however the future volatility is inherently uncertain and the model has its limitations. While these estimates can have a material impact on the stock-based compensation and hence results of operations, there is no impact on the Company's financial condition.

Disclosure Controls and Procedures

The President and Chief Financial Officer have established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information related to the Company is made known in a timely manner. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as of the date of this report and believe them to be adequate and effective in providing reasonable assurance that material information is reliable and timely.

Internal Control Over Financial Reporting

The President and Chief Financial officer are responsible for certifying that they have designed the Company's internal control over financial reporting ("ICFR") to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The certifying officers have evaluated the design of the Company's ICFR as of the date of this report and have concluded the design to be sufficient to provide such reasonable assurance.

Although management has been able to reach this conclusion, certain weaknesses have been identified in the Company's ICFR. Given the small size of the Company, the ability to achieve an appropriate level of segregation of duties does not exist. The Chief Financial Officer is responsible for approving invoices, signing cheques, and preparing financial statements. This weakness is mitigated by the limited activity of the Company following the sale of the Guatemalan subsidiary, the integrity and reputation of the Chief Financial Officer and an open and candid discussion regarding this weakness with the external auditors. The Company will also be adding staff in the accounting function with responsibility for preparing financial statements. This will allow the Chief Financial Officer to perform a review function.

As well, the chair of the audit committee of the Board of Directors is an employee of the major shareholder of Jaguar, which could lead to a lack of independence. The board will address the independence of the audit committee in the near future with a view to adding independent directors.

General

This report is dated as at March 26, 2007 and the Company's public filings, including its most recent Annual Information Form, can be reviewed via the SEDAR website (www.sedar.com).

Auditors' Report

To the Shareholders of
Jaguar Nickel Inc.

We have audited the balance sheets of **Jaguar Nickel Inc.** as at December 31, 2006 and 2005 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“Grant Thornton LLP”

Toronto, Canada
February 16, 2007

Chartered Accountants

Jaguar Nickel Inc.
Balance Sheets as at December 31

	2006	2005
	<u>\$</u>	<u>\$</u>
Assets		
Current		
Cash and cash equivalents	764,490	774,586
Term deposits	25,560,870	11,855,461
Receivables	1,147,775	224,462
Guatemalan property held for sale (Note 3)	-	14,520,944
Deferred transaction costs (Note 3)	-	664,473
	<u>27,473,135</u>	<u>28,039,926</u>
Capital assets (Note 4)	17,228	152,420
	<u>27,490,363</u>	<u>28,192,346</u>
Liabilities		
Current		
Payables and accruals	983,564	439,456
Guatemalan payables held for sale (Note 3)	-	87,429
	<u>983,564</u>	<u>526,885</u>
Shareholders' Equity		
Capital stock (Note 6(b))	62,977,130	62,977,130
Contributed surplus (Note 7)	2,503,767	2,365,183
Deficit	(38,974,098)	(37,676,852)
	<u>26,506,799</u>	<u>27,665,461</u>
	<u>27,490,363</u>	<u>28,192,346</u>

Nature of operations (Note 1)
 Commitments and contingencies (Note 12)
 Subsequent event (Note 14)

Approved on behalf of the Board:

"Richard Pinkerton"

Director

"Vic Alboini"

Director

Jaguar Nickel Inc.
Statements of Operations and Deficit
Years Ended December 31

	2006	2005
	<u>\$</u>	<u>\$</u>
Revenue		
Interest	1,088,825	411,514
Gain on sale of capital assets (Note 3)	2,361,570	73,841
	<u>3,450,395</u>	<u>485,355</u>
Expenses		
Management salaries and consulting fees	1,843,315	1,030,948
Stock based compensation	138,584	327,683
Office and general	288,627	324,928
Shareholder information and transfer agent	402,548	171,888
Travel	51,108	74,982
Legal and audit fees	1,009,569	186,189
Amortization	119,192	136,000
Patent rights	168,595	69,250
General Exploration	119,109	-
Exploration properties costs written off (Note 5)	606,994	-
Metallurgical process costs written off (Note 5)	-	582,852
	<u>4,747,641</u>	<u>2,904,720</u>
Net loss	<u>(1,297,246)</u>	<u>(2,419,365)</u>
Basic and diluted loss per common share (Note 8)	(0.01)	(0.02)
Deficit at beginning of year	<u>37,676,852</u>	<u>35,257,487</u>
Net loss	1,297,246	2,419,365
Deficit at end of year	<u>38,974,098</u>	<u>37,676,852</u>

See accompanying notes to the financial statements.

Jaguar Nickel Inc.
Statements of Cash Flows
Years Ended December 31

	2006	2005
	<u>\$</u>	<u>\$</u>
Increase (decrease) in cash and cash equivalents		
Operating activities		
Net loss	(1,297,246)	(2,419,365)
Amortization	119,192	136,000
Stock based compensation	138,584	327,683
Gain on sale of capital assets	(2,361,570)	-
Metallurgical process costs written off	-	582,852
	<u>(3,401,040)</u>	<u>(1,372,830)</u>
Decrease (increase) in receivables	(366,874)	41,282
Increase in payables and accruals	544,108	317,401
	<u>(3,223,806)</u>	<u>(1,014,147)</u>
Financing activities		
Issue of common shares for cash	-	75,600
	<u>-</u>	<u>75,600</u>
Investing activities		
Term deposits	(13,705,409)	8,511,876
Net change in working capital items	(87,429)	(252,138)
Capital assets	16,000	(55,792)
Property held for sale, net of transaction costs	16,990,548	(664,473)
Exploration properties	-	(6,185,950)
	<u>3,213,710</u>	<u>1,353,523</u>
Net increase (decrease) in cash and cash equivalents	(10,096)	414,976
Cash and cash equivalents at beginning of year	<u>774,586</u>	<u>359,610</u>
Cash and cash equivalents at end of year	<u>764,490</u>	<u>774,586</u>
Supplemental cash flow information		
Cash and cash equivalents consist of:		
Cash	764,490	(23,403)
Short term deposits	-	797,989
	<u>764,490</u>	<u>774,586</u>

See accompanying notes to the financial statements.

1. Nature of operations

Jaguar Nickel Inc. (the "Company") is a Canadian merchant bank (up until the current year the Company was a mineral exploration and development company) that invests in undervalued small capitalization companies in a variety of industry sectors. The Company is governed by Part 1A of the *Companies Act* (Quebec) and its common shares are listed on the Toronto Stock Exchange.

2. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

Estimates, risks and uncertainties

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. Significant estimates and assumptions include those related to the estimated useful lives of capital assets, determinations as to whether costs are expensed or deferred and stock compensation valuation assumptions. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of less than three months.

Term deposits

Term deposits are recorded at cost with maturities ranging from three months to one year. Interest rate yields range from 4.1% to 4.3%.

Exploration properties

All direct costs associated with exploration properties are capitalized as incurred. If a property proceeds to development, these costs become part of preproduction and development costs of the mine. If a property is abandoned or continued exploration is not deemed appropriate in the foreseeable future, the related costs and expenditures are written off. The amounts capitalized represent costs to be charged to operations in the future and do not necessarily reflect the present or future values of the particular properties. Once commercial production commences, such capitalized costs are amortized on the unit of production method based on estimated reserves of ore.

Stock-based compensation

Compensation expense for grants of stock, stock options and other equity instruments to officers, directors and consultants is recognized based on the estimated fair value at the grant date.

Income taxes

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered more likely than not.

Loss per common share

Loss per common share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares which are included when the conditions necessary for issuance have been met. Diluted loss per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of

common share purchase options and warrants, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method for options and warrants.

Foreign currency translation

The operations of the Company's subsidiary, prior to disposal, were considered to be of an integrated nature.

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian funds at period end exchange rates while non-monetary items are translated at historical rates. Revenue and expense items so denominated are translated at average rates for the period with the exception of amortization, which is translated at historical rates. Translation gains and losses are included in operations except those related to exploration properties.

Financial instruments

The Company's financial instruments consist of cash and cash equivalents, term deposits, receivables and payables. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The Company estimates that the fair value of these instruments approximate the carrying values due to their short term nature.

Patent rights

Costs of patent rights for processing the recovery of value metals from laterite-based and sulphide-based ores are expensed as incurred.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization of capital assets used for exploration and development is capitalized to exploration properties. Amortization is recorded using the straight-line method based on a useful life of three years for office equipment, five years for vehicles and varying rates between three and five years for exploration equipment. Leasehold improvements are amortized on a straight-line basis over the term of the respective lease.

Asset retirement obligation

The fair value of the liability for asset retirement obligations and the associated retirement costs related to site reclamation and abandonment are recorded when incurred and the corresponding increase to the asset is depreciated over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

Impairment of long-lived assets

Long-lived assets and intangibles to be held and used by the Company are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized.

Disposal of long-lived assets and deferred transaction costs

On November 29, 2005, the Company committed to a plan to sell its wholly-owned Guatemalan subsidiary. The sale was closed on January 31, 2006 after receiving shareholders' approval. As at December 31, 2005, the assets and liabilities of the subsidiary were reclassified as current Guatemalan property and payables held for sale and measured at the lower of the carrying amount or fair value less cost to sell. The costs to sell the Guatemalan subsidiary are reported as deferred transaction costs (Note 3).

Jaguar Nickel Inc.
Notes to the Financial Statements
December 31, 2006 and 2005

3. Sale of Guatemalan subsidiary

In May 2005 the Company formed a Special Committee of the Board of Directors which established the criteria and review process to identify the most advantageous strategic relationship for the Company and its shareholders with a view to enhancing shareholder value. To assist in this regard, the Committee retained Scotia Capital as its financial advisor.

On November 29, 2005 the Company announced that it had signed a definitive share purchase agreement with a wholly-owned subsidiary of BHP Billiton Limited ("BHP Billiton"), whereby BHP Billiton would acquire all of the issued and outstanding shares of the Company's wholly-owned Guatemalan subsidiary, Jaguar Nickel, S.A., for \$19,000,000. Furthermore the Company would enter into option agreements through an exploration alliance ("Alliance") with BHP Billiton (Note 5).

The proposed transactions were fully described in a Management Proxy Circular that was mailed in December, 2005 to the Company's shareholders for their approval at a special shareholders' meeting held on January 24, 2006. Following receipt of the shareholders' approval, the Company closed the sale of its wholly-owned Guatemalan subsidiary receiving \$18,000,000 cash, a holdback receivable of \$1,000,000 bearing interest at 5% per annum due on or before January 31, 2007, reimbursement of specified exploration expenditures detailed below, and executed Alliance option agreements on January 31, 2006. The Company has provided for a reserve on the holdback receivable in the amount of \$443,561 relating to alleged losses suffered by BHP Billiton. (Note 14).

As at December 31, 2005, the Company has reclassified its Guatemalan assets and liabilities held for sale as follows:

Cash	\$ 131,217
Capital assets (Note 4)	532,398
Exploration properties (Note 5)	<u>13,857,329</u>
Guatemalan property held for sale	14,520,944
Guatemalan payables held for sale	<u>(87,429)</u>
Guatemalan subsidiary held for sale	<u>\$14,433,515</u>

The costs to sell the Guatemalan subsidiary were reported as deferred transaction costs as at December 31, 2005, then combined with the 2006 expenses for a total of \$2,401,932 and reported in the net gain on sale as detailed below:

	2005	2006
Consulting fees	\$ 521,250	\$ 508,680
Legal fees	127,087	36,980
Shareholders meeting costs	16,136	15,356
Severance pay	-	<u>1,176,443</u>
	<u>\$ 664,473</u>	<u>\$1,737,459</u>

Specified exploration expenditures amounting to \$797,219 that were incurred by the Company on the Guatemalan property between October 1, 2005 and the closing on January 31, 2006 (including \$156,641 incurred in 2006) was reimbursed to the Company

The net gain on the sale of the Guatemalan subsidiary is reported as follows

Proceeds on sale	\$19,000,000
Holdback receivable reserve	(443,561)
Cost of subsidiary at December 31, 2005	(14,433,515)
Exploration expenditures incurred in 2006	(156,641)
Specified exploration expenditures reimbursed	797,219
Transaction costs	<u>(2,401,932)</u>
	<u>\$ 2,361,570</u>

Jaguar Nickel Inc.
Notes to the Financial Statements
December 31, 2006 and 2005

The net gain of \$2,361,570 on the sale of the Company's Guatemalan subsidiary is not expected to attract any current tax payable because of the estimated tax pools available to the Company on closing in 2006.

4. Capital assets

	2006	2005 Held for Sale (Note 3)	2005
Vehicles	\$ -	\$ 581,792	\$ -
Exploration and office equipment	270,728	328,406	286,728
Leasehold improvements	-	-	90,892
	<u>270,728</u>	<u>910,198</u>	<u>377,620</u>
Less: Accumulated amortization			
Vehicles	-	223,100	-
Exploration and office equipment	253,500	154,700	157,900
Leasehold improvements	-	-	67,300
	<u>253,500</u>	<u>377,800</u>	<u>225,200</u>
Net book value			
Vehicles	-	358,692	-
Exploration and office equipment	17,228	173,706	128,828
Leasehold improvements	-	-	23,592
	<u>\$ 17,228</u>	<u>\$ 532,398</u>	<u>\$ 152,420</u>

5. Exploration properties

Balance – December 31, 2004		<u>\$8,178,348</u>
Exploration expenditures:		
Drilling and assays	806,541	
Environmental studies	263,550	
Geology and field expenses (including amortization of \$207,100)	<u>4,608,890</u>	5,678,981
Metallurgical process costs:		
Engineering - ACLP	116,553	
Pilot plant testing - ACLP	402,193	
Pyrometallurgical process costs	<u>64,106</u>	582,852
		<u>6,261,833</u>
Metallurgical process costs written off during the period		<u>(582,852)</u>
Balance Held for Sale – December 31, 2005		<u>\$ 13,857,329</u>

The Company's wholly-owned subsidiary, Jaguar Nickel, S.A., held exploration licenses and applications for exploration licenses comprising in the aggregate over 730 km².

As at December 31, 2004 and 2005, the Company wrote off the costs associated with the Atmospheric Chloride Leach Process (ACLP) and pyrometallurgical process as it was determined that the processes were not economically viable for use on the Sechol deposit located in Guatemala.

As at January 31, 2006 the Company established an Alliance with BHP Billiton for the purpose of exploring for and developing minerals within Canada, Alaska, the Mid-Continental United States and Greenland whereby the Company has the right, but not the obligation, to earn varying interests by expending at least \$2,000,000 per year over a three year period on agreed projects.

As at December 31, 2006 the Company had expended the following amounts within the terms of the Alliance:

Jaguar Nickel Inc.
Notes to the Financial Statements
December 31, 2006 and 2005

Northwest Territories / Nunavut

(i) Option to earn 51% interest in the Kasba property by expending \$1,000,000 by December 31, 2007	\$128,737
(ii) Option to earn 51% interest in the Target 87 property by expending \$200,000 by December 31, 2006; additional \$400,000 by December 31, 2007; and a further \$400,000 by December 31, 2008	478,257
	\$606,994

Upon the exercise of any option and the formation of a joint venture, BHP Billiton would have the right of first opportunity to become the exclusive sales agent for the products of the joint venture and the option to acquire back a 21% interest by solely funding a pre-feasibility study, capped at \$20,000,000 in expenditures on the joint venture within 10 years. As at December 31, 2006, the Company had terminated the Alliance with BHP Billiton as it was determined that meeting the expenditure requirements of the Alliance agreement were not in the best interests of the Company and wrote off the costs associated with the Alliance.

6. Capital stock

(a) Authorized

The authorized capital of the Company consists of an unlimited number of no par value common shares.

(b) Issued

	Shares	Amount
Outstanding at December 31, 2004	107,816,432	\$62,901,530
Issued for cash on exercise of stock options	280,000	75,600
Outstanding at December 31, 2005 and December 31, 2006	108,096,432	\$62,977,130

(c) Common share warrants

The following table reflects the continuity of warrants for the period indicated.

Year ended December 31, 2005

Expiry Date	Exercise Price	Number of Common Shares				Closing Balance
		Opening Balance	Warrants Granted	Warrants Exercised	Warrants Expired	
November 2005	\$1.27	1,400,000	-	-	1,400,000	-
November 2005	\$1.75	20,000,000	-	-	20,000,000	-
		21,400,000			21,400,000	

(d) Stock option plan

The Company has a stock option plan (the "Plan") under which the directors of the Company can grant options to acquire up to a maximum of 19,000,000 (December 31, 2005 – 19,000,000) common shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant or the five day weighted trading average of the Company's shares preceding the date of grant, and the maximum term of any option cannot exceed ten years. Under the Plan, cancelled or expired options increase the number of options available to be granted. As at December 31, 2006 there were 4,272,000 (December 31, 2005 – 4,335,000) options outstanding and 6,043,300 (December 31, 2005 – 5,980,300) options available to be granted.

The following tables reflect the continuity of options for the periods indicated:

Jaguar Nickel Inc.
Notes to the Financial Statements
December 31, 2006 and 2005

Year ended December 31, 2005

Expiry Date	Exercise Price	Number of Common Shares				Closing Balance
		Opening Balance	Options Granted	Options Exercised	Options Expired	
March 2005	\$0.27	280,000	-	280,000	-	-
November 2006	\$0.20	258,000	-	-	250,000	8,000
February 2007	\$0.30	300,000	-	-	-	300,000
April 2007	\$0.30	330,000	-	-	-	330,000
May 2007	\$0.25	250,000	-	-	-	250,000
June 2007	\$0.26	480,000	-	-	-	480,000
July 2007	\$0.30	530,000	-	-	250,000	280,000
September 2007	\$0.80	150,000	-	-	-	150,000
August 2009 (1)	\$1.00	2,887,000	-	-	650,000	2,237,000
October 2009 (1)	\$1.00	300,000	-	-	-	300,000
		5,765,000	-	280,000	1,150,000	4,335,000

Year ended December 31, 2006

Expiry Date	Exercise Price	Number of Common Shares				Closing Balance
		Opening Balance	Options Granted	Options Exercised	Options Expired	
November 2006	\$0.20	8,000	-	-	8,000	-
February 2007	\$0.30	300,000	-	-	100,000	200,000
April 2007	\$0.30	330,000	-	-	330,000	-
May 2007	\$0.25	250,000	-	-	-	250,000
June 2007	\$0.26	480,000	-	-	-	480,000
July 2007	\$0.30	280,000	-	-	-	280,000
September 2007	\$0.80	150,000	-	-	-	150,000
August 2009 (1)	\$1.00	2,237,000	-	-	775,000	1,462,000
October 2009 (1)	\$1.00	300,000	-	-	100,000	200,000
July 2011 (2)	\$0.30	-	500,000	-	-	500,000
July 2011	\$0.30	-	750,000	-	-	750,000
		4,335,000	1,250,000	-	1,313,000	4,272,000

(1) Options vest 1/3 immediately in 2004, 1/3 in August and October 2005, and 1/3 in August and October 2006.

(2) Options vest 20% immediately in July 2006, then 20% every 6 months thereafter until July 2008.

	Number of Stock Options	Weighted Average Exercise Price
Balance December 31, 2005	4,335,000	\$ 0.72
Cancelled	(1,313,000)	0.77
Granted	1,250,000	0.30
Balance December 31, 2006	4,272,000	\$ 0.58

Range Of Exercise Prices	Number of Stock Options	Average Remaining Life	Weighted Average Exercise Price
\$ 0.20 - \$ 0.30	2,460,000	2.50 years	\$ 0.29
\$ 0.80 - \$ 1.00	1,812,000	2.46 years	0.98
	4,272,000	2.48 years	\$ 0.58

All options are currently exercisable except for 300,000 options expiring July 2011.

7. Stock-based compensation

The fair value of 1,250,000 options granted in 2006 has been estimated at the date of grant using a Black-Scholes pricing model. The valuation for 2006 was calculated with the following assumptions: weighted average risk free interest rate of 4.2%; volatility factor of the expected market price of the Company's common stock of 100%; and a weighted average expected life of the of 5 years.

The fair value compensation and contributed surplus recorded for the year ended December 31, 2003 in respect of all awards granted in 2003 was \$1,998,000. The contributed surplus in 2004 was reduced by \$433,000 relating to the exercise of 2,000,000 warrants and 225,000 options, and increased by \$472,500 for options granted in 2004 and estimated to vest in 2004; further increased by \$327,683 for options vesting in 2005; and further increased by \$138,584 for options granted and vesting in 2006.

8. Per share amounts

The weighted average number of common shares outstanding, used in computing basic loss per common share for the respective periods were as follows:

December 31, 2005	108,049,765
December 31, 2006	108,096,432

The effect of common share purchase options and warrants on the net loss in 2005 and 2006 is not reflected as to do so would be anti-dilutive.

9. Income taxes

The Company's income tax provision (recovery) has been calculated as follows:

	2006	2005
Net loss for the year	\$(1,297,246)	\$ (2,419,365)
Expected income tax (recovery) at Canadian statutory tax rate	(469,000)	(874,000)
Permanent differences	51,000	176,000
Increase in valuation allowance	418,000	698,000
Provision for (recovery of) income taxes	\$ -	\$ -

The Company's future income tax assets at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Property, plant and equipment	\$ 1,035,000	\$ 1,041,000
Exploration and development	4,250,000	5,469,000
Losses carried forward	1,702,000	2,582,000
Share issue costs	254,000	1,097,000
Gross future tax assets	7,241,000	10,189,000
Valuation allowance	7,241,000	7,795,000
Net future tax assets	-	2,394,000
Assets held for sale	-	(2,294,000)
Net future tax assets recorded	\$ -	\$ -

As at December 31, 2006, the Company has unclaimed non-capital losses that expire as follows:

2010	\$ 955,000
2014	1,973,000
2015	2,145,000
Total	<u>\$5,073,000</u>

10. Related party information

The Company had related party transactions with directors and/or officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

	2006	2005
Transaction costs	\$ 532,184	\$ 627,087
Legal expenses	154,766	60,605
Consulting expenses	106,900	25,000
Metallurgical process costs	-	25,833
Exploration expenditures	-	21,000
Payables and accruals	-	216,992

11. Segmented information

The Company has one operating segment, the acquisition, exploration and development of resource properties.

Geographic segmentation of capital assets and exploration properties is as follows:

	2006	2005
Guatemala	\$ -	\$ 14,389,727
Canada	17,228	152,420
	<u>\$ 17,228</u>	<u>\$ 14,542,147</u>

12. Commitments and contingencies

The Company has committed to lease payments for their premises in the following amounts:

2007	\$ 35,799
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The Company is party to legal proceedings in the ordinary course of its operations. Management does not expect the outcome of any of these proceedings to have a materially adverse effect on the results of the Company's financial position or operations.

The Company is the defendant in a legal action where the plaintiffs are claiming damages totalling approximately \$21 million with regard to the Company's agreements related to the development of its leaching technology. The Company believes that the actions are without merit, however, it is premature to make an estimate of the potential outcome of financial impact of these actions. No amounts have been included in the financial results relating to these actions.

Litigation is subject to many uncertainties and the outcome of individual matters is not predictable. It is possible that the final resolution of these matters may require the Company to make expenditures over an extended period of time and in a range of amounts that cannot be reasonably estimated.

13. Indemnities

No director or officer of the Company shall be held responsible for any losses or damages sustained by the Company while in the execution of the duties of his office save if such resulted from his gross negligence or willful omission, or if he has not acted with honesty and in good faith. The Company shall fully indemnify and save harmless all directors and officers from any and all losses or damages they may sustain while in the execution of the duties of their office save if such resulted from their

gross negligence or willful omission or if they did not act with honesty and in good faith. The Company maintains insurance policies that may provide coverage against certain claims

14. Subsequent event

On February 1, 2007, the Company received payment from BHP Billiton Limited ("BHP Billiton") relating to the final instalment of the \$1,000,000 holdback receivable for the sale of the Guatemalan subsidiary. The amount was reduced by \$443,561 relating to alleged losses suffered by BHP Billiton for environmental expenditures. The Company is currently reviewing available options to recover this amount in whole or in part.