Red Hill Energy Inc.

Consolidated Financial Statements

June 30, 2007

(Unaudited, See Advisory to Reader)

Red Hill Energy Inc.

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Advisory to Reader

I have prepared these financial statements for Red Hill Energy Inc. in my capacity as Controller. No independent firm of professional accountants has audited, reviewed, compiled, or otherwise attempted to verify the accuracy or completeness of these financial statements.

"D. Frederiksen, CA"

Red Hill Energy Inc.
Consolidated Balance Sheet
(Unaudited, See Advisory to Reader)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	**$ 9,213,676**	$ 1,804,484
Accounts receivable and accrued interest	**96,401**	60,556
Prepaid expenses and deposits	**11,395**	5,047
	9,321,472	1,870,087
Property and equipment, net (Note 4)	**120,879**	106,583
Mineral properties (Note 5)	**7,902,269**	7,081,378
	$ 17,344,620	$ 9,058,048
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**$ 33,349**	$ 32,217
	33,349	32,217
SHAREHOLDERS' EQUITY		
Share capital (Note 6)	**30,339,760**	21,199,430
Contributed Surplus (Note 6(e))	**2,082,314**	1,505,366
Deficit	**(15,110,803)**	(13,678,965)
	17,311,271	9,025,831
	$ 17,344,620	$ 9,058,048

Approved by the Board:

" G. Arnold Armstrong "
Director

" Ranjeet Sundher "
Director

See notes to consolidated financial statements.

Red Hill Energy Inc.
Consolidated Statement of Income and Deficit
(Unaudited, See Advisory to Reader)

	Three months ended June 30 2007	Three months ended June 30 2006	Six months ended June 30 2007	Six months ended June 30 2006
Revenue				
Capital gain	$ -	$ 301,604	$ -	$ 301,604
Interest	112,224	20,183	142,101	39,761
	112,224	321,787	142,101	341,365
General and Administrative Expenses				
Amortization	8,531	7,161	15,754	12,593
Consulting and management fees (Note 6 (c))	197,098	133,334	260,897	252,923
Director fees (Note 6 (c))	350,400	116,000	350,400	329,750
Professional fees	24,232	27,279	35,026	32,599
Stock exchange and shareholder services	58,673	23,154	74,939	36,736
Advertising and promotion (Note 6(c))	162,213	83,883	214,944	134,013
Office and administration	47,679	37,818	100,367	77,772
Travel and accommodation	78,475	91,235	120,059	127,089
Foreign exchange loss (gain)	251,608	9,034	268,925	13,465
Bank charges and interest	635	1,187	1,198	2,545
Salary and benefits (Note 6(c))	87,262	52,396	131,430	92,833
	1,266,806	582,481	1,573,939	1,112,318
Mineral property written-off	-	142,468	-	142,468
Net income (loss)	(1,154,582)	(403,162)	(1,431,838)	(913,421)
Deficit - beginning of period	(13,956,221)	(12,710,253)	(13,678,965)	(12,199,994)
Deficit - end of period	$(15,110,803)	$ (13,113,415)	$(15,110,803)	$ (13,113,415)
Earnings (Loss) Per Share	$ (0.03)	$ (0.01)	$ (0.04)	$ (0.02)
Weighted Average Number of Shares Outstanding	41,950,784	30,270,159	39,142,954	30,270,159

See notes to consolidated financial statements.

Red Hill Energy Inc.
Consolidated Statement of Cash Flows
(Unaudited, See Advisory to Reader)

	Three months ended June 30		Three months ended March 31	
	2007	2006	**2007**	2006
Cash flows from operating activities				
Net income (loss)	**$ (1,154,582)**	$ (403,162)	**$ (1,431,838)**	$ (913,421)
Adjustments non-cash items:				
Stock based compensation	**638,750**	188,500	**638,750**	489,500
Capital gain	**-**	(301,604)	**-**	(301,604)
Mineral properties written off	**-**	142,468	**-**	142,468
Amortization	**8,531**	7,161	**15,754**	12,593
	(507,301)	(366,637)	**(777,334)**	(570,464)
Changes in non-cash working capital				
Accounts receivable	**(80,944)**	2,096	**(35,845)**	2,406
Prepaid expenses and deposits	**1,853**	(4,421)	**(6,348)**	(1,390)
Accounts payable and accrued liabilities	**10,849**	53,006	**1,132**	31,163
	(575,543)	(315,956)	**(818,395)**	(538,285)
Cash flows from investing activities				
Purchase of capital assets	**(25,139)**	(24,800)	**(29,683)**	(47,250)
Proceeds of sale of marketable securities	**-**	472,104	**-**	472,104
Expenditures on mineral properties	**(327,222)**	(2,291,356)	**(814,283)**	(2,843,920)
	(352,361)	(1,844,052)	**(843,966)**	(2,419,066)
Cash flows from financing activities				
Shares issued	**8,163,519**	669,523	**9,071,553**	2,975,468
Prepaid share subscription	**-**	-	**-**	(32,649)
	8,163,519	669,523	**9,071,553**	2,942,819
Net increase (decrease) in cash	**7,235,615**	(1,490,485)	**7,409,192**	(14,532)
Cash and cash equivalents - beginning of period	**1,978,061**	4,054,848	**1,804,484**	2,578,895
Cash and cash equivalents - end of period	**$ 9,213,676**	$ 2,564,363	**$ 9,213,676**	$ 2,564,363
Supplemental Cash Flow Information				
Interest paid	$ -	$ -	**$ -**	$ -
Income tax paid	$ -	$ -	**$ -**	$ -

See notes to consolidated financial statements.

1. Nature of Operations

The Company is a development stage public company. The principal business activity of the Company is the acquisition, exploration and development of mineral properties.

Since June 1, 2003, the Company's principal activity has been the acquisition, exploration and development of mineral properties located in Mongolia held directly and through its subsidiary companies. All of the projects in Mongolia are in the initial stages of contract formalization and obtaining necessary government approvals. The ability of the Company to continue operations is dependent upon the continued financial support of its shareholders, other investors and lendors and with the successful development of the Company's interests in the mineral properties.

2. Significant Accounting Policies

(a) Interim financial statements

The interim financial statements follow the same accounting policies and methods of their application as the most recent audited financial statements for the year ended December 31, 2006. However, they do not include all the information and disclosures required by the annual financial statements. In the opinion of management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for the interim periods are not necessarily indicative of the results for the entire year. The information contained in the interim financial statements should be read in conjunction with the Company's latest annual financial statements and notes thereto.

(b) Basis of presentation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned British Virgin Islands subsidiary, Canrim Minerals Limited, its wholly owned Mongolian subsidiaries, UGL Enterprises LLC, and Redhill Mongolia LLC.. All inter-company balances and transactions have been eliminated.

(c) Investment in and expenditures on resource properties

The Company follows the practice of capitalizing all costs relating to the acquisition of, exploration for and the development of mineral claims, net of all incidental revenues received. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on estimated recoverable reserves. The aggregate costs related to abandoned mineral claims will be charged to operations at the time of abandonment. General and administrative expenditures that are not directly related to specific mineral properties are expensed in the period in which they are incurred.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term deposits with original maturity of less than three months.

2. Significant Accounting Policies (continued)

(e) Foreign currency translation

Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities at the rate of exchange in effect as at the balance sheet date;

(ii) Non-monetary assets and liabilities at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenues and expenses at the average rate of exchange for the year.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss for the year.

(f) Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share has not been presented separately as the outstanding stock options are anti-dilutive.

(g) Use of estimates

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

(h) Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to apply in the period that the temporary differences are expected to reverse. A valuation allowance is provided to reduce the asset to the net amount management estimates to be reasonable to carry as a future income tax asset.

(i) Asset retirement obligations

Effective January 1, 2004, the Company adopted the new Canadian accounting requirements for asset retirement obligations. The new standard requires liability recognition for retirement obligations associated with long-lived assets at fair value. The asset retirement cost equal to the fair value of the retirement obligation is capitalized as part of the cost of the related asset. These capitalized costs are depreciated using a straight-line method on the estimated life of the asset. Amounts are recorded once they become known or can be readily estimated.

2. Significant Accounting Policies (continued)

(j) Stock-based compensation plans

The Company accounts for stock options granted to directors, employees and consultants using the fair value method. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to capital stock.

(k) Amortization of property and equipment is recorded on a declining-balance basis at the following annual rates:

Furniture and equipment	20%
Vehicle	30%
Computer equipment	45%

Additions during the year are amortized at one-half the annual rates.

(l) Revenue recognition

The Company recognizes interest income on its cash and cash equivalents on an accrual basis at the stated rates over the term to maturity.

3. Financial Instruments

(a) Fair value

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these financial instruments. The fair value of the long-term investment is disclosed in note 5.

(b) Credit risk

A financial instrument that potentially subjects the Company to concentration of credit risk is its cash. The Company has placed the majority of its cash with a major Canadian commercial bank. The Company is also exposed to credit risk with respect to its accounts receivable, which consists of an amount receivable from a Mongolian company.

(c) Currency risk

The Company translates the results of US transactions into Canadian currency using rates approximating the average exchange rate for the year. The exchange rate may vary from time to time. The Company translates Mongolian transactions into Canadian currency at rates approximating the average exchange rate for the year. Management believes that the currency risk is minimal for Mongolian dollars as the risk is mitigated by the fact that the majority of the Mongolian transactions are completed in US currency.

For the period ended June 30,	**2007**	2006

4. Property and equipment

				2007	2006
		Cost	**Accumulated Amortization**	**Net**	Net
Furniture and Equipment		$ **89,918**	$ **26,487**	$ **63,431**	$ 63,133
Vehicle	**62,242**	**18,521**	**43,721**	30,420	
Computer Equipment		**20,257**	**6,530**	**13,727**	13,030
		$ **172,417**	$ **51,538**	$ **120,879**	$ 106,583

5. Investment in and Expenditures on Resource Properties

The Company's investment in and expenditures on resource properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent on establishing legal ownership of the properties, on the attainment of successful production from the properties or from the proceeds of their disposal.

	2007	2006
Banbury Property (note 5(a))		
Cost	$ **1**	$ 1
Gold Ram Property (note 5(b))		
Cost	**11,857**	11,857
Exploration expenditures	**35,370**	30,089
	47,227	41,946
Khondloy Property (note 5(c))		
Cost	**33,402**	33,402
Exploration expenditures	**104,848**	87,957
	138,250	121,359
Naranbulag Property (note 5(d))		
Cost	**186,396**	186,396
Exploration expenditures	**24,432**	22,891
	210,828	209,287

For the period ended June 30,	**2007**	2006
5. Investment in and Expenditures on Resource Properties (continued)		
Bayan Undur Property (note 5(f))		
Cost	**-**	20,778
Exploration expenditures	**-**	78,237
	-	99,015
Write-off of property	**-**	(99,015)
	-	-
Shavar Uul Property (note 5(g))		
Cost	**-**	13,852
Exploration expenditures	**-**	29,531
	-	43,383
Write-off of property	**-**	(43,383)
	-	-
Argalant Property (note 5(h))		
Cost	**119,485**	119,485
Exploration expenditures	**203,332**	203,332
	322,817	322,817
Ulan Ovoo Property (note 5(i))		
Cost	**5,146,837**	4,210,503
Exploration expenditures	**1,257,603**	1,155,586
	6,404,440	5,366,089
Chandgana Property (note 5(e))		
Cost	**814,334**	814,334
Exploration expenditures	**250,371**	13,862
	1,064,705	828,196
Uranium Properties (note 5(j))		
Cost	**(36,608)**	(36,608)
Option agreement receipt (shares deemed value)	**-**	-
Write-off of property	**-**	-
Exploration expenditures	**1,244,715**	1,131,147
Option agreement exploration funding	**(1,494,106)**	(902,856)
	(285,999)	191,683
Total Mineral Properties	**$ 7,902,269**	$ 7,081,378

5. Investment in and Expenditures on Resource Properties (continued)

(a) Banbury Property

The Company owns a 100% undivided interest in six patented mineral claims near Hedley, B.C. described as the Banbury Property. The interest is recorded at a nominal value of $1.

(b) Gold Ram Property

The Company through Canrim Minerals Limited ("Canrim") acquired a 100% interest in the Gold Ram in South Gobi, Mongolia. The Gold Ram project (15,533 hectares) is located in the western Gobi region of Mongolia, 190km southwest of the south Gobi's capital city, Dalanzadgad. Canrim holds a 100% interest in the Gold Ram property, subject only to annual Government license fees.

(c) Khondloy Property

The Company purchased a 100% interest in the Khondloy Property (9,078 hectares) located in Bayanhonger Province, Mongolia for US$25,000.

(d) Naranbulag Property

The Company purchased a 100% interest in the Naranbulag Property (1,428 hectares) located in Zavkhan Province, about 700km west of Mongolia's capital Ulaan Bataar. The Company agreed to purchase the license from the vendor for US$26,000 and CDN$152,000 payable through the issuance of 200,000 shares at a deemed price of $0.76 per share.

(e) Chandgana Property

The Company entered into an agreement to acquire a 100% interest in a Coal exploration property known as Chandgana. The Chandgana property, consisting of two licenses, is located in the northeast part of the Nyalga coal basin, approximately 290 km east of Ulaan Bataar. Under the terms of the agreement, the Company paid a total of US$400,000, plus 250,000 common shares of the Company. A finder's fee of 50,000 common shares was paid to a third party by the Company. The purchase price was paid as follows:

- within 3 days of the date that the agreement was accepted and approved by the TSX Venture Exchange, the issuance of 250,000 common shares of the Company.
- US$50,000 within 21 days of signing the letter agreement.
- US$75,000 on or before July 1, 2006.
- US$275,000 on or before October 1, 2006.

During the period ended December 31, 2006, payments totaling US$400,000 were made, 250,000 shares were issued to the Vendor, and 50,000 shares were issued as a finder's fee to a third party.

5. Investment in and Expenditures on Resource Properties (continued)

(f) Bayan Undur Property

The Company acquired a 100% interest in a property known as Bayan Undur. The Bayan Undur property (28,830 hectares) is situated in Bulgan sum of Khovd province which is 1800 km west of Ulaan Bataar, 350 km south from Khovd provincial centre and 56 km from Yarant Mongolia-Chinese border station.

During the period ended December 31, 2006, the Company wrote off its investment in the Bayan Undur property.

(g) Shavar Uul Property

The Company acquired a 100% interest in a property known as Shavar uul. The Shavar uul property (2,933 hectares) is situated in the northwest side of Edren and Suman Khad Mountains located in the area of Erdene sum of Gobi altai province. The property is located 1250 km west of Ulaanbaatar and 250 km south from the provincial centre Altai.

During the period ended December 31, 2006, the Company wrote off its investment in the Shavar Uul property.

(h) Argalant Property

On October 6, 2005, and amended on August 13, 2006, the Company entered into a letter of intent with Planet Exploration Ltd. ("Planet") which gives the Company an option to earn a 60% interest, and a second option to earn an additional 20% interest, in Planet Exploration's 100% owned Argalant property.

Under the terms of the agreement Red Hill paid Planet US$100,000 and will incur an aggregate of US$1,500,000 of exploration expenditures on Argalant within three years. Within a six month period of completing the US$1,500,000 in expenditures Red Hill is entitled to, at its discretion, pay Planet US$1,000,000 for an additional 20% interest in the property. If Red Hill does not exercise its second option the two companies will then proceed forward on a 60/40% basis. If Red Hill does exercise its second option the two companies will proceed forward on an 80/20% basis.

(i) Ulan Ovoo Property

On November 15, 2005, the Company entered into a letter of intent with Ochir LLC that sets out the terms to acquire a 100% interest in the property known as Ulan Ovoo coal project. The Ulan Ovoo property is located in Selenge province, Mongolia. It is held by the vendor under a transferable, 55 year mining licence with a 45 year option for extension granted by the Government of Mongolia. The purchase price for the 100% interest, together with all equipment, buildings and other facilities, assembled and constructed at the property is US$9,600,000.

5. Investment in and Expenditures on Resource Properties (continued)

(i) Ulan Ovoo Property (continued)

The original agreement provided the purchase price to be paid as follows:

US$500,000 within 14 days of the execution of the letter of intent, comprised of a US$200,000 non-refundable deposit and US$300,000 secured loan, which will revert to a payment upon completion of a NI 43-101 technical report and receipt of all necessary regulatory approvals;

US$500,000 on or before March 1, 2006;
US$500,000 on or before May 1, 2006;
US$500,000 on or before July 1, 2006;
US$1,500,000 on or before November 1, 2006; and
US$6,100,000 on or before November 1, 2007

A finder's fee of 75,000 common shares was paid to a third party by the Company in respect of the Ulan Ovoo purchase.

On May 10, 2006, the Company agreed to amend the purchase agreement as follows:

Ochir shall incorporate and register with the relevant Mongolian authorities a Mongolian-Canadian Joint Venture Company ("JVC") in Mongolia and transfer into the JVC the Ulan Ovoo Mining and Exploration Licenses. The initial shareholders of the JVC shall be Ochir 51% and Red Hill 49% of the outstanding equity of the JVC.

In consideration for the transfer of the Licenses to the JVC an accelerated payment of US$500,000 shall be paid by Red Hill to Ochir within 30 days of the successful transfer of the Licenses. The remaining US$1,000,000 shall remain due on or before November 1, 2006.

Within 30 days of the US$1,000,000 November 1, 2006 payment by Red Hill to Ochir, Ochir shall transfer to Red Hill its 51% interest in the JVC. The final payment of US$6,100,000 remains due on or before November 1, 2007.

On September 25, 2006, the Company agreed to amend the purchase agreement as follows:

On signing the amendment US$750,000 shall be paid and Ochir shall transfer to Red Hill its 51% interest in the JVC. A payment of US$750,000 shall be due on or before April 1, 2007. The final payment of US$5,600,000 shall be due on or before November 1, 2007.

As at March 31, 2007, the Company had made payments totalling US$4,000,000.

On November 15, 2006, the Company entered into an agreement with a private Mongolian corporation, to purchase 100% title and interest in five mineral licences including licences that are contiguous and entirely surrounding the Ulaan Ovoo property. The aggregate purchase price for the licences is US$400,000 with $50,000 being payable within 10 days of signing the agreement and the balance of the payment due upon transfer of ownership title to Red Hill. Under the terms of the agreement the Vendor will retain a 2% Net Smelter Return (NSR) on the five newly acquired licences. The Vendor owes the Company US$50,000, which amount has been included in the cost of the properties due to uncertainty of collection.

A finder's fee of 58,500 shares were issued to a third party on the acquisition.

5. Investment in and Expenditures on Resource Properties (continued)

(j) Mongolia Uranium Option Agreement

On June 14, 2005, the Company entered into a Letter Agreement with Maple Minerals Corp. (now known as Mega Uranium Ltd. "Mega") for uranium exploration and target generation in Mongolia. The agreement covered the Company's current uranium ground holdings in Mongolia, totaling approximately 339,000 hectares, which were then comprised of 18 granted exploration licenses, and an option to earn 100% of two exploration licenses in the Nergui Project. In addition, Mega and the Company will cooperate during the term of the agreement in the generation and acquisition of other uranium exploration targets in Mongolia. the Company's extensive gold/copper property holdings are not included in this agreement.

Upon completion of a due diligence review by Mega, a definitive formal option agreement was executed. The formal option agreement granted Mega the exclusive option to earn a 50% interest in the Company's uranium properties through the expenditure of US$1.5 million over three years, with a minimum of US$350,000 expended within the first year. Mega was required to issue the Company 50,000 common shares in its capital within 3 business days of the date that the executed formal agreement was accepted and approved by the TSX Venture Exchange. In addition, Mega was required to issue to the Company the equivalent of CDN$75,000 in its common share capital (which shall be determined using the ten day average closing price) within 10 business days of the later of the date upon which the Company issues 250,000 common shares for the acquisition of its interest in the Nergui property, and the date that the executed formal agreement is accepted and approved by the TSX Venture Exchange. During the year ended December 31, 2005, the Company decided not to complete the Nergui acquisition and wrote-off its investment in the Nergui Property. The shares were not issued.

Upon Mega earning a 50% interest, a joint venture will be formed with the parties contributing pro-rata. Mega will also have the option to increase its interest to 60% by expending a further US$2 million over the subsequent three years.

The uranium properties include the:

<u>Naidal Property</u>

The Company acquired a 100% interest in a property known as Naidal Uranium project located in the province Tuv in northeast Mongolia. The Naidal project (39,810 hectares) acquisition cost US$5,000 and 100,000 shares at a deemed price of $0.40 per share.

<u>Maikhan Property</u>

The Company acquired a 100% interest in a property known as Maikhan. The Maikhan property (2,500 hectares) is a Uranium project and is located in the Khentii and Dornod provinces of Mongolia. The Maikhan property was acquired by payment of US$40,000.

<u>Baganaran Property</u>

The Company acquired a 100% interest in a property known as Baganaran. The Baganaran property (13,446 hectares) is a Uranium project located in the Darnogovi province of Mongolia. The purchase price for the Baganaran property is US$30,000 of which US$15,000 has been paid, and US$15,000 to be paid within 14 days of the title of the license being transferred to the Company.

6. Share Capital

(a) Authorized
Unlimited Common shares without par value.

(b) Issued

	Number of Shares		Amount
Balance, year ended December 31, 2005	**26,062,937**	**$**	**15,334,193**
Private placement	**3,300,000**		**2,475,000**
Finder's fee	**-**		**(78,750)**
Finder's fee	**183,500**		**119,940**
Property acquisition	**250,000**		**300,000**
Exercise of warrants	**5,783,694**		**2,860,821**
Exercise of stock options	**175,000**		**82,000**
Fair value of stock options exercised	**-**		**73,577**
Share subscription	**163,243**		**32,649**
Balance, year ended December 31, 2006	**35,918,374**	**$**	**21,199,430**
Private placement	**7,500,000**		**6,000,000**
Finder's fee	**-**		**(390,150)**
Private placement	**2,430,000**		**2,430,000**
Finder's fee	**-**		**(31,500)**
Exercise of options	**130,000**		**65,650**
Exercise of warrants	**1,431,471**		**997,553**
Fair value of stock options exercised	**-**		**68,777**
Balance, period ended June 30, 2007	**47,409,845**	**$**	**30,339,760**

On December 12, 2006, the Company closed a $2,475,000 private placement. Under the placement, the Company issued 3,300,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.00 per share. The units issued under the placement are subject to a hold period that expired on April 12, 2007. A finder's fee of 7.5% on the proceeds placed payable in cash was paid on portions of the placement.

6. Share Capital (continued)

(b) On April 5, 2007, the Company closed a $6,000,000 private placement. Under the placement, the Company issued 7,500,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.00 per share during the first year of the warrant term and $1.25 per share during the second year of the warrant term, subject to forced exercise provisions. The units issued under the placement are subject to a hold period that expires on July 5, 2007. A finder's fee of 7.5% on the proceeds placed payable in cash was paid on portions of the placement.

On June 8, 2007, the Company closed a $2,430,000 private placement. Under the placement, the Company issued 2,430,000 units, each unit is comprised of one common share and one-half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share for a period of two years at a price of $1.25 per share during the warrant term, subject to forced exercise provisions. The units issued under the placement are subject to a hold period that expires on October 1, 2007. A finder's fee of 6.0% on the proceeds placed payable in cash was paid on portions of the placement

(c) Share purchase options
Details of the status of the Company's stock option plans as at December 31, 2006 and June 30, 2007 and changes during the respective year are as follows:

	Number of Shares	Weighted Average Exercise Price	Expiry Date
Outstanding, December 31, 2005	1,840,000	0.50	
Granted January 31, 2006	650,000	0.45	January 31, 2011
Granted February 9, 2006	100,000	0.65	February 9, 2011
Options exercised	(50,000)	0.45	February 10, 2007
Granted March 15, 2006	50,000	1.20	March 15, 2011
Options exercised	(25,000)	0.48	November 24, 2008
Options exercised	(50,000)	0.50	June 10, 2009
Options exercised	(50,000)	0.45	January 31, 2011
Granted April 3, 2006	130,000	1.10	April 3, 2011
Outstanding, December 31, 2006	2,595,000	0.55	
Expired January 21, 2007	(200,000)	0.40	
Granted January 29, 2007	45,000	0.78	January 29, 2010
Granted April 5, 2007	875,000	0.92	April 5, 2012
Options exercised	(30,000)	0.48	November 24, 2008
Options exercised	(50,000)	0.50	June 10, 2009
Options exercised	(25,000)	0.60	March 1, 2010
Options exercised	(25,000)	0.45	January 31, 2011
Outstanding, June 30, 2007	3,185,000	$ 0.66	

6. Share Capital (continued)

The Company applies the fair value method using the Black-Scholes options pricing model to account for options granted to employees, directors and non-employees.

During the period ended December 31, 2006, the Company granted 930,000 incentive options to directors employees, and consultants. As a result, additional compensation expense of $525,606 was recognized as stock-based compensation expense.

During the period ended June 30, 2007, the Company granted 45,000 incentive options to a consultant with an exercise price of $0.78 vesting 25% every three months expiring January 29, 2010. As a result compensation expense of $6,975 was recognized as stock-based compensation expense.

During the period ended June 30, 2007, the Company granted 875,000 incentive options to directors, employees, and consultants. As a result compensation expense of $638,750 was recognized as stock-based compensation expense.

The Black-Scholes model was calculated based on the following assumptions:

Expected life (years)	5
Interest rate	4.07%
Volatility	104%-108%
Dividend yield	0%

The stock-based compensation has been included in the statements of operations and deficit as at June 30, 2007 and 2006 as follows:

	2007	2006
Directors' fees	$ 350,400	$ 213,750
Advertising and promotion	98,225	-
Salaries	51,100	-
Consulting fees	146,000	87,250
	$ 645,725	$ 301,000

(d) Warrants outstanding

The following warrants are outstanding at December 31, 2006, and June 30, 2007.

Expiry Date	Number of Warrants **2007**	2006	Exercise Price
February 4, 2007	**-**	665,000	$0.60
March 8, 2007	**-**	562	$0.60
March 31, 2007	**-**	633,334	$0.75
April 8, 2007	**-**	57,576	$0.75
December 12, 2008	**1,562,500**	1,650,000	$1.00
April 3, 2009	**3,750,000**	-	$1.00
May 31, 2009	**1,215,000**	-	$1.25
	6,527,500	3,006,472	

6. Share Capital (continued)

(e) Contributed surplus

	2007	2006
Balance, beginning of year	**$ 1,505,366**	$ 1,053,337
Options exercised	**(68,777)**	(73,577)
Stock-based compensation	**645,725**	525,606
Balance, end of period	**$ 2,082,314**	$ 1,505,366

7. Related Party Transactions

(a) The Company has paid accounting fees of $6,000 (2006 - $6,000), management consulting fees of $18,000 (2006 - $7,500), and rent of $9,165 (2006 - $9,000) to a company controlled by a common director.

(b) The Company has paid legal fees of $552 (2006 - $12,057) to a law firm in which a director is the principal.

(c) The Company entered into a letter of intent with a company that has a common director (See note 5(h)).

8. Income Tax Losses

The Company has operating losses which may be carried forward to apply against future years' income for Canadian income tax purposes. The tax effect has not been recorded in these financial statements. The losses expire as follows:

2007	57,000
2008	90,000
2009	56,000
2010	194,000
2014	395,000
2015	688,000
2026	615,000
	$ 2,095,000

8. Income Tax Losses (continued)

The components of future income tax assets are as follows:

	2006
Future Income Tax Assets	
Non-capital loss carry-forwards	$ 2,095,000
Tax value over book value of capital assets	164,245
Book value over tax value of share issue costs	63,000
Tax value over book value of mineral properties	6,583,952
	8,906,197
Appropriate tax rate	34.12%
	3,039,000
Less: Valuation allowance	(3,039,000)
	$ -

The valuation allowance reflects the Company's estimate that the tax assets, more likely than not, will not be realized.

9. Commitment

The Company has entered into an investor relations services contract with The Richmond Club Corp. The Richmond Club will receive a monthly fee of $1,450 and will be granted 45,000 stock options vesting 25% every three months during the first 12 months at an exercise price of $0.78 per share for a period of three years, expiring January 29, 2010. The term of the investor relations contract with the Richmond Club is one year.

10. Subsequent Events

On July 12, 2007, the Company announced it had retained the services of Mau Capital Management to conduct investor relations services for the company. Mau Capital will receive a fee of $2,500 per month for four months. The Company has also granted an option to Mau Capital to purchase 50,000 common shares of the Company at $2.55 per share for a five year period, subject to regulatory approval. The options will vest in equal stages over 12 months.

11. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.