Consolidated Financial Statements of

NORSEMONT MINING INC.

Years ended June 30, 2007 and 2006

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Norsemont Mining Inc. as at June 30, 2007 and 2006 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 consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada

August 31, 2007, except as to note 13(d)
which is as of September 13, 2007

NORSEMONT MINING INC.

Consolidated Balance Sheets
(Expressed in Canadian dollars)

June 30, 2007 and 2006

		2007		2006
				(Restated - note 3)
Assets				
Current assets:				
Cash and cash equivalents	$	1,538,324	$	681,944
Short-term investments (market value, June 30, 2007 - $1,358,454)		1,349,535		10,095,300
Receivables (note 4)		605,582		36,594
Prepaid expenses		19,693		69,083
		3,513,134		10,882,921
Furniture, equipment and leasehold improvements (note 5)		319,723		224,435
Mineral properties and deferred exploration costs (note 6)		1,252,269		99,392
	$	5,085,126	$	11,206,748
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	971,003	$	537,639
Due to related parties (note 11(b))		314,963		37,588
		1,285,966		575,227
Asset retirement obligation (note 12)		202,000		-
Stock-based compensation liability (note 7(c))		1,810,772		-
Shareholders' equity:				
Share capital (note 7(b))		31,251,692		25,309,440
Contributed surplus (note 7(e))		5,881,701		4,032,526
Deficit		(35,347,005)		(18,710,445)
		1,786,388		10,631,521
Nature of operations (note 1)				
Commitments (notes 6 and 11)				
Subsequent events (notes 7(c) and 13)				
	$	5,085,126	$	11,206,748

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Patrick Evans" Director **"Robert Parsons"** Director

NORSEMONT MINING INC.

Consolidated Statements of Operations and Deficit
(Expressed in Canadian dollars)

Years ended June 30, 2007 and 2006

	2007	2006 (Restated - note 3)
Expenses:		
Advertising, promotion and travel:	$ 464,137	$ 846,921
Accretion of asset retirement obligation	14,000	-
Amortization	67,106	34,686
Consulting fees:		
Incurred	230,236	365,301
Stock-based compensation	556,623	1,645,217
Foreign exchange loss	178,042	10,548
Interest and bank charges	33,216	4,710
Management fees (notes 8 and 11(b)):		
Incurred	534,758	171,000
Stock-based compensation	1,148,408	304,582
Mineral property exploration expenditures (note 6):		
Incurred	8,574,171	4,812,349
Stock-based compensation	143,839	130,980
Office, rent and administration	377,499	163,064
Professional fees:		
Incurred	598,900	206,195
Stock-based compensation	293,174	288,756
Regulator, transfer agent and shareholder information	209,560	162,993
Wages and benefits and directors fees:		
Incurred	2,123,796	110,393
Stock-based compensation	1,374,840	903,242
	16,922,305	10,160,937
Other items:		
Interest and other investment income	76,125	108,015
Gain on sale of short-term investments	209,620	61,805
	285,745	169,820
Loss for the year	(16,636,560)	(9,991,117)
Deficit, beginning of year:		
As previously reported	(13,137,289)	(8,003,129)
Change in accounting for mineral exploration expenditures (note 3(a))	(5,439,750)	(582,793)
Adjustment related to accounting for stock-based compensation (note 3(b))	(133,406)	(133,406)
As restated	(18,710,445)	(8,719,328)
Deficit, end of year	$ (35,347,005)	$ (18,710,445)
Basic and diluted loss per share	$ (0.62)	$ (0.45)
Weighted average number of shares outstanding	26,990,061	22,128,747

See accompanying notes to consolidated financial statements.

NORSEMONT MINING INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended June 30, 2007 and 2006

	2007	2006 (Restated - note 3)
Cash provided by (used in):		
Operations:		
Loss for the year	$ (16,636,560)	$ (9,991,117)
Items not involving cash:		
Accretion of asset retirement obligation	14,000	-
Amortization	67,106	34,686
Gain on sale of short-term investments	(209,620)	(61,805)
Shares issued for mineral property	-	745,000
Stock-based compensation	3,516,884	3,272,777
Changes in non-cash working capital and other:		
Receivables	(568,988)	(25,939)
Prepaid expenses	49,390	(66,583)
Accounts payable and accrued liabilities	(143,074)	513,248
Accrual of asset retirement obligation	188,000	-
Stock-based compensation liability	1,810,772	-
	(11,912,090)	(5,579,733)
Financing:		
Issuance of shares, net of share issue costs	4,274,543	14,094,834
Due to related parties	277,375	16,289
	4,551,918	14,111,123
Investments:		
Proceeds on sale of short-term investments	8,955,385	(10,033,495)
Purchase of furniture and equipment and leasehold improvements	(162,394)	(230,193)
Acquisition of mineral properties	(576,439)	-
	8,216,552	(10,263,688)
Increase (decrease) in cash and cash equivalents	856,380	(1,732,298)
Cash and cash equivalents, beginning of year	681,944	2,414,242
Cash and cash equivalents, end of year	$ 1,538,324	$ 681,944
Supplementary information:		
Cash paid during the year:		
Interest	$ -	$ -
Income taxes	-	-
Non-cash investing and financing activities:		
Acquisition of mineral properties in consideration for amounts payable (note 6(a))	576,438	-
Reclassification of contributed surplus on exercise of options (note 7(e))	1,667,709	193,571
Warrants issued for services:		
Share issue costs	-	619,055
Shares issued for share subscriptions previously received	-	1,750

See accompanying notes to consolidated financial statements.

1. Nature of operations:

The Company was incorporated in 1977 under the laws of British Columbia. The Company's principal activities include acquiring, exploring and developing mineral exploration properties. The Company was listed for trading on the TSX Venture Exchange (the Exchange) and on August 18, 2003 was transferred and traded on NEX, a separate board of the Exchange. On January 27, 2005, the Company changed its name from Consolidated Norsemont Ventures Ltd. to Norsemont Mining Inc. and was transferred to and traded on the Exchange. Effective April 5, 2007, the Company's common shares commenced trading on the Toronto Stock Exchange.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The underlying value and recoverability of the amounts shown for mineral properties is dependent upon the ability of the Company to complete exploration and development and the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to explore and develop the properties and upon future profitable production or proceeds from disposition of the Company's mineral properties.

These financial statements have been prepared on the going-concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the normal course of business. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to generate future profitable operations. Subsequent to June 30, 2007, the Company completed two non-brokered private placements raising gross proceeds of $12,720,000 to fund future operations and also to address certain liquidity issues being experienced with investments acquired subsequent to June 30, 2007 (note 13).

2. Significant accounting policies:

(a) Basis of consolidation:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They include the accounts of the Company and its wholly-owned subsidiary, Norsemont Peru S.A.C., incorporated in Peru. All intercompany amounts and transactions have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid short-term investments that are readily convertible to known amounts of cash and have maturities of three months or less when acquired.

(c) Short-term investments:

Short-term investments are marketable securities that will be realized beyond three months. Short-term investments are recorded at lower of cost and market.

(Expressed in Canadian dollars)

2. Significant accounting policies (continued):

(d) Value added taxes recoverable:

The Company incurs value added tax (VAT) in Peru. Effective August 29, 2006, the Company entered into an agreement with the Ministry of Energy and Mines to recover such amounts incurred after that date. VAT paid related to mineral property expenditures prior to August 29, 2006 are only recoverable when future sales revenues are earned from the related mineral properties by offsetting the VAT otherwise payable at that time. As the VAT payments incurred prior to August 29, 2006 are uncertain of collection, they have been expensed and included in mineral property exploration expenditures. VAT expenditures incurred after August 29, 2006 and not yet recovered are recorded as receivables, net of any required allowance for uncollectible amounts.

(e) Furniture, equipment and leasehold improvements:

Furniture, equipment and leasehold improvements are carried at cost less accumulated amortization. Amortization is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. The annual rates used to compute amortization are as follows:

Asset	Basis	Rate
Computers	Declining-balance	30% per annum
Furniture and office equipment	Declining-balance	20% per annum
Leasehold improvements	Straight-line	Lesser of useful life and term of lease

(f) Mineral properties:

The Company expenses, as incurred, exploration expenditures and periodic option payments related to mineral properties. Administrative and land use costs incurred prior to commercial feasibility of mining operations being established are also expensed. The Company previously capitalized these expenditures. Mineral property acquisition expenditures under which the Company acquires an ownership interest in a mineral property continue to be capitalized.

(g) Impairment of long-lived assets:

The Company assesses the impairment of long-lived assets, which consist of mineral property interests and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of a long-lived asset is then determined by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value.

2. Significant accounting policies (continued):

(h) Asset retirement obligations:

The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs). As the Company expenses exploration costs as incurred, asset retirement obligations recognized are also expensed as incurred.

(i) Stock-based compensation:

The Company has a stock-based compensation plan which is described in note 7(c). The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

During the years ended June 30, 2007 and 2006, the Company granted stock options to directors, officers, employees and non-employees as set out in note 7(c).

2. Significant accounting policies (continued):

(j) Earnings (loss) per share:

The Company calculates basic earnings (loss) per share using the weighted average number of common shares outstanding during the period excluding escrowed shares for which the release is subject to the satisfaction of performance criteria. Diluted net earnings (loss) per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants. For all periods presented, diluted loss per share is the same as basic loss per share as the stock options and warrants outstanding are anti-dilutive.

(k) Foreign currency transactions:

The functional currency of the Company and its subsidiary is the Canadian dollar. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the amounts were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are recognized in the determination of net earnings (loss) in the year in which they arise.

(l) Measurement uncertainty:

The presentation of financial statements requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the period. Significant areas requiring the use of estimates include the assessment of impairment of long-lived assets including mineral properties, amortization periods of furniture, equipment and leasehold improvements, valuation of stock-based compensation, and the estimation of future income tax asset valuation allowances. Actual results could differ from those estimates.

(m) Comparative figures:

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

(Expressed in Canadian dollars)

3. Change in mineral property accounting policy and adjustment related to accounting for stock-based compensation:

(a) Mineral properties change in accounting policy:

The Company changed its accounting policy for mineral property exploration expenditures in its quarter ended December 31, 2006. Prior to October 1, 2006, mineral property exploration expenditures were capitalized. The Company changed its policy, on a retroactive basis, to expense, as incurred, exploration expenditures, periodic option payments related to mineral properties and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. Mineral property acquisition expenditures continue to be capitalized. As a result of this change, deficit as at June 30, 2006 increased by $5,439,750 (2005 - $582,793), net loss increased by $4,856,957 for the year ended June 30, 2006 (2005 - $577,792) and capitalized mineral property costs as at June 30, 2006, after the adjustment related to stock-based accounting described in 3(b), decreased by $5,439,750, all as compared to amounts previously reported.

(b) Adjustment related to accounting for stock-based compensation:

The Company has restated its consolidated financial statements for the year ended June 30, 2005 as previously presented to reflect corrections related to recognition of compensation expense for stock options granted to directors, officers, employees and non-employees of the Company. As a result of this restatement, deficit as at June 30, 2006 increased by $133,406 (2005 - $133,406), contributed surplus increased by $177,626 as at June 30, 2006 (2005 - $133,406) and mineral properties as at June 30, 2006, prior to the change in accounting policy described in 3(a), increased by $44,220, all as compared to amounts previously reported.

The combined effect of (a) and (b) above was to increase the net loss for the year ended June 30, 2006 by $4,856,957 and the net loss per share increased by $0.22 to $0.45 per share.

4. Receivables:

	2007	2006
Value added tax - Peru (note 2(d))	$ 535,573	$ -
Goods and services tax - Canada and other receivables	70,009	36,594
	$ 605,582	$ 36,594

(Expressed in Canadian dollars)

5. Furniture, equipment and leasehold improvements:

2007		Cost		Accumulated amortization		Net book value
Computers	$	113,440	$	49,578	$	63,862
Furniture and office equipment		313,175		73,809		239,366
Leasehold improvements		26,942		10,447		16,495
	$	453,557	$	133,834	$	319,723

2006		Cost		Accumulated amortization		Net book value
Computers	$	76,132	$	30,135	$	45,997
Furniture and office equipment		188,089		32,744		155,345
Leasehold improvements		26,942		3,849		23,093
	$	291,163	$	66,728	$	224,435

6. Mineral properties and continuity of mineral properties exploration expenditures:

		2007		2006
Mineral property acquisition costs:				
Constancia (a)	$	1,152,877	$	-
Amata (b)		99,392		99,392
	$	1,252,269	$	99,392

(Expressed in Canadian dollars)

6. Mineral properties and continuity of mineral properties exploration expenditures (continued):

Continuity of mineral properties exploration expenditures by year and cumulative is as follows:

	Peru		B.C., Canada		
	Constancia	Amata	Joss'alun	Nome claims	Total
	(a)	(b)	(c)	(d)	
Balance, June 30, 2005	499,780	-	83,012	90,787	673,579
Option related payments:					
Cash consideration	525,735	-	-	-	525,735
Common shares	745,000	-	-	-	745,000
Exploration:					
Analysis	237,941	50,108	-	-	288,049
Contract and consulting fees	87,939	-	-	-	87,939
Drilling	1,437,960	-	-	-	1,437,960
Equipment rental	107,349	20,304	-	-	127,653
Field costs	216,434	9,710	-	-	226,144
Geological fees	94,313	-	-	-	94,313
Professional fees	146,078	53,253	-	-	199,331
Project administration	49,136	889	-	-	50,025
Property payments	136,674	43,884	-	3,360	183,918
Stock-based compensation	130,980	-	-	-	130,980
Taxes	393,746	28,259	-	-	422,005
Travel and accommodation	157,073	19,876	-	-	176,949
Wages and benefits	240,098	7,230	-	-	247,328
Exploration and related costs	4,706,456	233,513	-	3,360	4,943,329
Balance, June 30, 2006	5,206,236	233,513	83,012	94,147	5,616,908
Option related payments:					
Cash consideration	1,179,559	-	-	-	1,179,559
Exploration:					
Analysis	536,561	-	-	-	536,561
Asset retirement obligation	188,000	-	-	-	188,000
Contract and consulting fees	505,777	-	-	-	505,777
Drilling	2,875,134	-	-	-	2,875,134
Equipment rental	283,123	-	-	-	283,123
Field costs	1,603,837	487	-	-	1,604,324
Geological fees	468,411	-	-	-	468,411
Professional fees	173,250	12,500	-	-	185,750
Project administration	17,065	-	-	-	17,065
Property payments	19,312	78,492	-	-	97,804
Stock-based compensation	143,839	-	-	-	143,839
Taxes	33,709	-	-	-	33,709
Travel and accommodation	85,469	283	-	-	85,752
Wages and benefits	513,202	-	-	-	513,202
Exploration and related costs	8,626,248	91,762	-	-	8,718,010
Balance, June 30, 2007	$ 13,832,484	$ 325,275	$ 83,012	$ 94,147	$ 14,334,918

(Expressed in Canadian dollars)

6. Mineral properties and continuity of mineral properties exploration expenditures (continued):

(a) Constancia property, Peru:

On February 9, 2005, the Company signed an agreement with Rio Tinto Mining and Exploration Ltd. (Rio Tinto) whereby the Company may acquire up to a 70% interest in the Constancia copper-gold-molybdenum porphyry deposit located in Chumbivilcas Province, Peru (Constancia Property). This includes an initial option to acquire an undivided 51% interest in the Constancia project by making property payments of US$5,000,000, completing work expenditures of US$7,800,000 and issuing 1,250,000 common shares of the Company (or cash in lieu of shares) over a period ending October 31, 2009.

Upon exercise of the initial option, Rio Tinto has the right to claw back an undivided 17% interest if, in the reasonable opinion of Rio Tinto, global reserve estimates for the property are not less than four million tonnes (8.8 billion pounds) of copper, by paying the Company up to 300% of the Company's net cash payments on the project. If Rio Tinto does not exercise its claw back right, the Company may acquire an additional 9% interest for US$3,750,000 or an additional 19% interest for US$8,000,000.

The Company issued 150,000 common shares as finder's fee at a fair value of $96,000 in connection with this transaction.

The cash payment, share issuance and work expenditure schedule is as follows:

Option exercise schedule	Cash (US$)	Exploration expenditures (US$)	Shares
On signing of LOI	$ 10,000 [(1)]	$ -	-
45 days following LOI	90,000 [(1)]	-	-
April 20, 2005	150,000 [(1)]	-	-
June 30, 2005	-	-	250,000 [(2)]
October 2005	200,000 [(1)]	500,000	-
April 2006	250,000 [(1)]	500,000	-
June 30, 2006	-	-	250,000 [(2)]
October 2006	300,000 [(1)]	500,000	-
April 20, 2007	400,000 [(1)]	-	-
June 30, 2007	-	-	250,000 [(3)]
October 2007	500,000	1,300,000	-
April 2008	500,000	1,000,000	-
June 30, 2008	-	-	250,000
October 2008	750,000	1,500,000	-
October 2009	1,850,000	2,500,000	250,000
Total	$ 5,000,000	$ 7,800,000 [(4)]	1,250,000

(1) Paid.
(2) Issued.
(3) Paid US$365,169 in lieu of shares.
(4) Incurred. As at June 30, 2007, the Company had expended in excess of US$7,800,000 of exploration expenditures.

6. Mineral properties and continuity of mineral properties exploration expenditures (continued):

(a) Constancia property, Peru:

Upon commencement of commercial production, the Company is required to also make the following additional payments to Rio Tinto:

- US$250,000 should the Company have between 34% and 50.9% interest in the Constancia Property; or
- US$500,000 should the Company have a majority interest in the Constancia Property of 51% or greater.

In addition, upon production, the Company will pay a net smelter return royalty (NSR) of 0.5% with a cap of US$10,000,000 to the underlying owners.

In May, 2007, Norsemont Peru renewed its surface rights lease agreements with two Peruvian communities to gain access to the surface of the Constancia Property for its mining exploration activities for a total cash monthly lease cost of US$3,400. The two leases have twelve-month terms expiring April 24, 2008 and May 6, 2008 and are renewable at the end of each term for another twelve months. In addition to making cash rental payments to the communities, the Company is obligated to provide educational assistance, medical and veterinary services as well as an irrigation system in each of the communities. The total estimated lease obligation costs over the lease terms are recognized over the respective lease terms. The Company expended approximately $395,000 under these agreements during the year and these costs have been included in mineral property exploration expenditures.

On March 27, 2007, Norsemont Peru entered into a purchase agreement to acquire a property located in the Constancia district in the Chumbivilcas Province, Peru for a total consideration of US$1,000,000 or CAD$1,152,877. The Company paid US$500,000 upon execution of the agreement and the remaining US$500,000 plus interest at 10% or US$50,000 shall be paid by December 27, 2007. Norsemont Peru guaranteed the payment of US$550,000 by issuing a bond letter to the vendor.

(b) Amata property, Peru:

On September 5, 2005, the Company signed a letter agreement with Rio Tinto Mining and Exploration Ltd. whereby the Company acquired a 100% interest in 13 mineral properties known as the Amata Project in southern Peru plus property studies, for a total consideration of US$80,000, which was paid as of June 30, 2006. The Company expended $91,762 for exploration during the year ended June 30, 2007.

(c) Joss'alun Copper Property:

On June 18, 2004, the Company entered into an option agreement with Copper Ridge Exploration Inc. (Copper Ridge), whereby the Company could earn a 51% interest in the Joss'alun Copper Property, Atlin Mining Division, BC, Canada. Under the terms of the Agreement, the Company would acquire a 51% undivided interest in the property for consideration of $5,000 in cash, 300,000 treasury shares and $900,000 of work expenditure commitment. The Company paid $5,000 in cash, expensed $49,012 in exploration expenditures and issued 100,000 common shares with a fair value of $29,000.

During the year ended June 30, 2006, the Company terminated the option agreement.

(Expressed in Canadian dollars)

6. Mineral properties and continuity of mineral properties exploration expenditures (continued):

(d) Nome claims:

During the year ended June 30, 1995, the Company entered into an option agreement to acquire a 40% interest in the Nome 1-2 mineral claims, Laird Mining Division, British Columbia, Canada for a total consideration of 100,000 common shares of the Company. The vendors retained a 1.5% net smelter return royalty. During the year ended June 30, 2004, the Company abandoned its option. The Company subsequently acquired a 100% interest in Nome #1 by staking.

(e) Corcovado property, Province of Chubut, Argentina:

On March 14, 2003, the Company signed an option agreement with IMA Explorations Inc. (now Golden Arrow Resources Corporation) whereby the Company may acquire a 75% undivided interest in Expediente No. 13892/02 (Corcovado property) located in the Province of Chubut, Argentina by issuing 800,000 shares of the Company over 24 months and incurring $1,260,000 in exploration and/or development expenditures over four years. The completion of the agreement is subject to approval by regulatory authorities. No shares have been issued to date and no exploration expenditures have been incurred.

7. Share capital:

(a) Authorized:

Unlimited number of common shares without par value

(b) Issued and outstanding:

	Number of shares	Amount
Balance, June 30, 2005	19,120,125	$ 10,893,340
Issued pursuant to:		
Private placement	3,500,000	14,000,000
Exercise of options	494,850	324,067
Exercise of warrants	1,490,403	1,135,330
Issued on acquisition of mineral property (note 6(a))	500,000	745,000
Share issue costs	-	(1,788,297)
Balance, June 30, 2006	25,105,378	25,309,440
Issued pursuant to:		
Exercise of options	1,560,375	2,480,414
Exercise of warrants	3,147,125	3,461,838
Balance, June 30, 2007	29,812,878	$ 31,251,692

During the year ended June 30, 2007, 1,560,375 common shares were issued for gross proceeds of $812,705 on exercise of options. In addition, a reclassification of $1,667,709 from contributed surplus to share capital was recorded on the exercise of these options.

During the year ended June 30, 2007, 3,147,125 common shares were issued for gross proceeds of $3,461,838 on exercise of warrants.

7. Share capital (continued):

(b) Issued and outstanding (continued):

During the year ended June 30, 2006, the Company completed a non-brokered private placement of 3,500,000 units at $4.00 per unit for gross proceeds of $14,000,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at an exercise price of $4.75 per common share for a period of two years expiring January 19, 2008. If the closing price of the Company's share is $6.00 or higher for 10 consecutive trading days, the Company may give notice of an accelerated expiry date. The Company paid cash of $1,120,000 and issued 350,000 share purchase warrants exercisable at a price of $4.75 per share for a period of two years expiring January 19, 2008, as finder's fees on this private placement.

During the year ended June 30, 2006, 494,850 common shares were issued for gross proceeds of $130,496 on exercise of options. In addition, a reclassification of $193,571 from contributed surplus to share capital was recorded on the exercise of these options.

During the year ended June 30, 2006, 1,490,403 common shares were issued for gross proceeds of $1,135,330 on exercise of warrants.

During the year ended June 30, 2006, the Company issued 250,000 shares with a fair value of $0.91 per share and 250,000 shares with a fair value of $2.07 per share pursuant to the Constancia property option agreement (note 6(a)).

(c) Stock options:

The Company established a stock option plan under which the Company may grant incentive stock options for the purchase of common shares of the Company to its officers, directors, and consultants. Stock options are non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed certain levels and may not exceed 5% to any individual (maximum of 2% to any consultant). Shareholders approved an increase in the authorized number of common shares that may be granted under the plan from 2,735,445 to 4,106,963 on December 6, 2005 and from 4,106,963 to 5,222,526 on November 29, 2006. The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant, but cannot be less than market price on the Exchange, less permissible discounts. Options have a maximum term of five years and terminate thirty days from the date of termination of the optionee's employment, except in the case of death, in which case the options terminate 120 days after the event. If terminated with cause, any outstanding options held by the optionee on the day of termination shall be cancelled. Vesting of options is made during periodic intervals approved by the Exchange, namely 12.5% of the options upon Exchange approval and 12.5% every three months thereafter. Once vested, options are exercisable at any time.

(Expressed in Canadian dollars)

7. Share capital (continued):

(c) Stock options (continued):

Subsequent to June 30, 2006, shareholders of the Company approved an amendment to the plan from a fixed plan with an authorized number of shares of 5,222,526 to a 20% rolling plan. As determined by the Board of Directors, options may vest immediately, in installments or pursuant to a vesting schedule, 1/3 on date of grant, 1/3 on the first anniversary and 1/3 on the second anniversary of the grant. Once vested, options are exercisable at any time. Options have a maximum term of five years and terminate ninety days from the date of termination of the optionee's employment or such longer period as determined by the Board, provided that no option shall remain outstanding for any period which exceeds the later of the expiry date of the option and 36 months following the termination date. In addition, the Board may delegate authority to the Chief Executive Officer to make any determination with respect to vesting of options held by any departing employee, other than the Chief Executive Officer.

A summary of the status of the options outstanding follows:

	Number of options	Weighted average exercise price
Balance, June 30, 2005	2,101,100	$ 0.27
Granted	2,285,000	1.78
Exercised	(494,850)	(0.26)
Cancelled/expired	(437,500)	(0.26)
Balance, June 30, 2006	3,453,750	1.29
Granted	2,991,026	1.69
Exercised	(1,560,375)	(0.52)
Cancelled/expired	(215,000)	(1.83)
Balance, June 30, 2007	4,669,401	$ 1.78

(Expressed in Canadian dollars)

7. Share capital (continued):

(c) Stock options (continued):

Pursuant to agreements with the Company, certain directors who agreed to resign on June 1, 2007 and a current officer of the Company were granted 1,050,000 fully vested stock options with an exercise price of $1.62 on June 1, 2007, subject to shareholder approval. In addition, all their existing outstanding unvested options were amended to become fully vested and all outstanding options were to be exercisable to the original expiry dates of the awards effective June 1, 2007 subject to shareholder approval.

If the shareholders did not approve the above option grants and amendments to outstanding awards, the Company agreed to compensate such resigning directors and current officer for the fair value of the additional options and modifications. The shareholders approved the grants and amendments on August 16, 2007. The fair value of the grants and modifications were estimated using an option pricing model as $1,810,772 and this amount has been recorded as a stock-based compensation liability and as director fees of $1,704,694 and professional fees of $106,078 in the financial statements. Subsequent to June 30, 2007, the liability was settled by the grant of options and completion of the amendments.

The following table summarizes the stock options outstanding, option grants subject to shareholder approval as at June 30, 2007. The shareholder approval for these option grants and for amendments to the expiry dates and vesting terms of certain previously granted options was received subsequent to June 30, 2007. The amount of options exercisable shown in the table below excludes options approved for immediate vesting by the shareholders subsequent to June 30, 2007.

Outstanding	Subject to shareholder approval	Exercise price	Expiry date	Exercisable
39,600 (1)	-	$0.19	June 10, 2009	39,600
25,000	-	$0.26	November 22, 2009	25,000
100,000 (1)	-	$0.50	February 1, 2010	100,000
150,000	-	$0.76	March 7, 2010	150,000
42,500	-	$0.80	June 19, 2010	42,500
259,375 (2)	-	$1.00	July 28, 2010	259,375
161,900 (3)	-	$1.06	August 17, 2010	161,900
260,000 (1)	-	$1.33	August 21, 2010	260,000
140,000	-	$2.38	September 9, 2010	140,000
90,000	-	$2.00	April 3, 2011	56,250
300,000 (1)	-	$4.00	April 13, 2011	187,500
110,000	-	$2.70	May 8, 2011	68,750
150,000 (4)	-	$2.00	July 7, 2011	75,000
530,000	-	$2.00	July 24, 2011	265,000
1,460,000 (5)	-	$1.60	December 11, 2011	547,500
270,000	-	$1.60	April 25, 2012	33,750
581,026	1,468,974 (6)	$1.62	June 1, 2012	-
-	450,000 (6)	$1.57	June 25, 2012	-
4,669,401	1,918,974			2,412,125

(Expressed in Canadian dollars)

7. Share capital (continued):

(c) Stock options (continued):

[1] All of these options are held by a director and former directors of the Company and the immediate vesting and the extension of the expiry date of the term of these options pursuant to an agreement dated June 1, 2007 were approved by disinterested shareholders of the Company subsequent to June 30, 2007.

[2] These options are held by former directors and an officer of the Company and the immediate vesting and the extension of the expiry date of the term of these options pursuant to an agreement dated June 1, 2007 were approved by disinterested shareholders of the Company subsequent to June 30, 2007.

[3] 140,000 of these options are held by a director of the Company and the immediate vesting and the extension of the expiry date of the term of these options pursuant to an agreement dated June 1, 2007 were approved by disinterested shareholders of the Company subsequent to June 30, 2007.

[4] 100,000 of these options are held by a former director of the Company and the immediate vesting and the extension of the expiry date of the term of these options pursuant to an agreement dated June 1, 2007 were approved by disinterested shareholders of the Company subsequent to June 30, 2007.

[5] An aggregate of 915,000 of these options are held by former directors and an officer of the Company and the immediate vesting and the extension of the expiry date of the term of these options pursuant to an agreement dated June 1, 2007 were approved by disinterested shareholders of the Company subsequent to the year end.

[6] These options were granted over the authorized level of the plan and were approved by disinterested shareholders of the Company subsequent to June 30, 2007. The measurement date and grant date for these awards for stock-based compensation accounting is the date of shareholder approval.

During the year ended June 30, 2007, $3,516,884 (2006 - $3,272,777) in stock-based compensation expense was recorded in the consolidated statements of operations.

The compensation costs reflected in these consolidated financial statements were calculated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2007	2006
Risk free interest rate	4.15%	3.90%
Expected dividend yield	0%	0%
Stock price volatility	85%	88%
Expected life of options	3.33 years	2.79 years

The weighted average fair value of options granted during the year ended June 30, 2007 was $0.91 (2006 - $2.12) per option.

Option pricing models require the input of highly substantive assumptions, including expected term to exercise and stock price volatility. Changes in assumptions can materially impact fair value estimates.

(d) Warrants:

The continuity of share purchase warrants for 2007 is as follows:

Exercise price	Expiry date	June 30, 2006	Issued	Exercised	Expired	June 30, 2007
$ 1.10	May 16, 2007	3,147,125	-	(3,147,125)	-	-
4.75	Jan 19, 2008	2,100,000	-	-	-	2,100,000
		5,247,125	-	(3,147,125)	-	2,100,000

(Expressed in Canadian dollars)

7. Share capital (continued):

(d) Warrants (continued):

The continuity of share purchase warrants for 2006 is as follows:

Exercise price	Expiry date	June 30, 2005	Issued	Exercised	Expired	June 30, 2006
$ 0.30	Aug 13, 2005	477,500	-	(307,500)	(170,000)	-
0.35	Nov 17, 2005	364,150	-	(344,150)	(20,000)	-
1.10	May 16, 2007	3,985,878	-	(838,753)	-	3,147,125
4.75	Jan 19, 2008	-	2,100,000	-	-	2,100,000
		4,827,528	2,100,000	(1,490,403)	(190,000)	5,247,125

(e) Contributed surplus:

	2007	2006
		(Restated - note 3)
Balance, beginning of year:		
As previously reported	$ 3,854,900	$ 156,639
Adjustment related to accounting for stock-based compensation (note 3(b))	177,626	177,626
As restated	4,032,526	334,265
Stock-based compensation	3,516,884	3,272,777
Brokers' warrants issued	-	619,055
Transfer to share capital on exercise of options	(1,667,709)	(193,571)
Balance, end of year	$ 5,881,701	$ 4,032,526

(f) Shareholder rights plan:

The directors of the Company approved the adoption of a shareholder rights plan, dated May 29, 2006 (the Rights Plan). The objective of the Board of Directors in adopting this Plan is to achieve full and fair value for the Company's shareholders in the event of an unsolicited take-over bid for the Company. The rights become exercisable only when a person or party acquires or announces its intention to acquire 20 per cent or more of the outstanding shares of the Company without complying with certain provisions of the Rights Plan. Each right would entitle each holder of common shares (other than the acquiring person or party) to purchase additional common shares of the Company at a 50 per cent discount to the market price at the time.

(Expressed in Canadian dollars)

8. Related party transactions:

In addition to related party transactions disclosed in note 7(c) to these financial statements, during the year ended June 30, 2007, the Company entered into the following transactions with related parties:

(a) Paid or accrued $534,758 (2006 - $171,000) for management fees to a director and companies controlled by former directors of the Company.

(b) Paid or accrued $59,216 (2006 - $90,120) for legal fees to a company controlled by an officer of the Company.

(c) Paid or accrued $112,724 (2006 - $69,440) for accounting fees to a company controlled by an officer of the Company.

(d) The Company paid $20,000 (2006 - $50,000) for consulting fees to a director of the Company. These costs have been included in mineral property exploration expenditures.

(e) The Company paid $239,107 (2006 - nil) for wages and benefits to a director of the Company. A portion of these costs have been included in mineral property exploration expenditures.

(f) The Company recovered $48,380 (2006 - nil) for rent and office expenses from companies having directors and officers in common.

(g) The Company paid nil (2006 - $5,786) for consulting fees to a former director of the Company. These costs have been included in mineral property exploration expenditures.

(h) The Company paid nil (2006 - $42,251) for consulting fees to a former director of the Company. These costs have been included in mineral property exploration expenditures.

9. Income taxes:

Income tax recovery differs from the amounts computed by applying the combined federal and provincial tax rates of 34.1% and 35.2% for the years ended June 30, 2007 and 2006, primarily as a result of tax benefits which have not been recognized and non-deductible stock-based compensation.

The tax effects of temporary differences that give rise to significant components of future income tax assets or liabilities are as follows:

		2007		2006
Future income tax assets:				
Share issue costs	$	360,900	$	485,900
Non-capital loss carryforwards		1,863,800		1,101,500
Mineral properties and capital assets		2,982,200		980,100
Total gross future income tax assets		5,206,900		2,567,500
Less valuation allowance		(5,206,900)		(2,567,500)
Net future income tax assets	$	-	$	-

9. Income taxes (continued):

As at June 30, 2007, the Company has Canadian non-capital losses totaling approximately $5,707,000 and Peruvian tax losses of approximately $315,610. The Canadian non-capital losses expire at various times prior to 2027, and the Peruvian tax losses may be carried forward indefinitely.

10. Financial instruments and geographic disclosures:

(a) Fair values of financial instruments:

For certain of the Company's financial instruments, including cash and cash equivalents, receivables and accounts payable and accrued liabilities, the carrying amounts approximate fair value due to their immediate or short-term maturity. As at June 30, 2007, the fair value of short-term investments are $1,358,454 (2006 - $10,126,950) and their carrying values total $1,349,535 (2006 - $10,095,300).

(b) Foreign currency risk:

The Company conducts part of its business in US dollars and Peruvian New Sol and therefore is affected by variations in exchange rates. The Company does not have foreign currency hedges in place and does not actively manage this risk.

(c) Credit risk:

Credit risk reflects the risk that the Company may be unable to recover contractual receivables. The Company does not have significant receivables and no one account represents a concentration of credit risk. The Company employs established credit approval practices to mitigate this risk.

(d) Geographic disclosures:

Furniture, equipment and leasehold improvements are located in:

	2007	2006
Canada	$ 86,561	$ 99,447
Peru	233,162	124,988
	$ 319,723	$ 224,435

The geographic breakdown of mineral properties is disclosed in note 6.

(Expressed in Canadian dollars)

11. Commitments:

(a) The Company has signed a Vancouver office premise lease for approximately $8,100 per month commencing May 1, 2006, increasing to approximately $10,580 on January 1, 2007 and expiring December 31, 2009. There is also a Peru office lease for US$3,360 per month commencing June 1, 2007, increasing to US$3,528 on June 1, 2010 and expiring May 31, 2011.

(b) On June 1, 2007, the Company entered into a settlement agreement with a company owned by a former director and officer ("former director") of the Company pursuant to which the Company shall pay to the former director the sum of $288,000, of which, $72,000 shall be paid within three months of the date of the settlement agreement and the remaining $216,000 to be paid in 18 equal installments within 24 months of the date of the settlement agreement, unless accelerated upon the mutual agreement of the Company and the company owned by the former director. The Company has accrued for all amounts owing under the settlement agreement in due to related party liabilities as at June 30, 2007.

(c) The Company entered into a technical services agreement dated June 23, 2007, pursuant to which the Company shall pay US$604,152 in connection with a scoping study to be performed on the Constancia property. During the year ended June 30, 2007, the Company paid or accrued US$249,951 pursuant to this agreement.

(d) The Company also has various commitments as described in note 6 related to mineral properties and exploration costs.

12. Asset retirement obligations:

The Company's asset retirement obligation relates to site-restoration and clean-up costs related to its Peruvian mineral properties, Constancia and Amata.

A reconciliation of the provision for asset retirement obligations is as follows:

	2007	2006
Beginning balance - June 30, 2006	$ -	$ -
Liabilities incurred in the current year	188,000	-
Accretion expense	14,000	-
Ending balance - June 30, 2007	$ 202,000	$ -

The provision for asset retirement obligations are based upon the following assumptions:

- The total undiscounted cash flow required to settle the obligation is approximately $235,000;
- Asset retirement obligation payments are expected to occur during fiscal year 2008 and 2009;
- A credit adjusted risk-free rate of 7.65% has been used to discount cash flows.

13. Subsequent events:

In addition to subsequent events disclosed in note 7(c), the following events occurred subsequent to June 30, 2007:

(a) The Company granted incentive stock options to purchase 300,000 common shares at a price of $1.77 per share, 200,000 common shares at a price of $1.72 per share and 100,000 common shares at $1.53 per share to a director, an officer and an employee of the Company.

(b) On July 19, 2007, the Company completed a non-brokered private placement of 4,950,000 units at $1.60 per unit for gross proceeds of $7,920,000. Each 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 an exercise price of $1.95 per share for a period of two years.

(c) The Company invested a total of $7,000,000 in Canadian asset-backed commercial paper (ABCP) with a trust managed by Coventree Capital Group Inc. (Coventree). A total of $2,000,000 of these investments have come due and payable. The matured notes have not been paid to the Company and remain outstanding. Coventree announced on August 13, 2007 that it was experiencing market disruption and as a result, was unable to meet its repayment obligations until its liquidity providers fund such repayments. The Company is currently investigating the implications of these events which appear to be a result of the current lack of liquidity for asset-backed securities rather than credit worthiness of its underlying assets. An impairment loss, if any, will be recognized when determinable.

(d) On September 13, 2007, the Company completed a non-brokered private placement of 3,000,000 units at $1.60 per unit for gross proceeds of $4,800,000. Each 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 an exercise price of $1.95 per share for a period of two years.