

Gold Hawk Resources Inc.

Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2007

The attached interim consolidated financial statements have been prepared by the Management of Gold Hawk Resources Inc. and have not been reviewed by an auditor.

Gold Hawk Resources Inc.
Consolidated Balance Sheets

	June 30, 2007	Dec 31, 2006
	<i>Unaudited</i>	<i>Audited</i>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,715,944	\$ 12,441,295
Restricted Cash (Note 3)	1,465,438	48,589
Marketable securities	-	43,500
Accounts receivable	2,413,664	976,099
Inventory (Note 4)	1,201,281	209,958
Current portion of deferred financing costs	360,700	464,467
Derivative instruments (Note 7)	360,230	406,602
Prepaid expenses	87,309	108,762
	<u>8,604,566</u>	<u>14,699,272</u>
Deferred financing costs	56,550	265,162
Deposits (Note 5)	599,820	667,071
Mineral properties, plant and equipment (Note 6)	37,200,619	32,605,293
	<u>\$ 46,461,555</u>	<u>\$ 48,236,798</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,373,791	\$ 2,259,324
Promissory Note Payable	-	1,748,100
Derivative instruments (Note 7)	1,389,659	342,631
Current portion capital lease obligation (Note 8)	102,974	21,178
Current portion of loan payable (Note 9)	5,992,875	1,019,725
Current portion of asset retirement obligation (Note 10)	486,217	195,962
	<u>10,345,516</u>	<u>5,586,920</u>
Capital lease obligation (Note 8)	83,970	21,178
Loan payable (Note 9)	1,997,625	3,059,175
Asset retirement obligation (Note 10)	11,920,309	12,845,362
	<u>24,347,420</u>	<u>21,512,635</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	41,399,872	40,770,842
Warrants (Note 11)	744,400	967,000
Contributed surplus (Note 12)	1,487,841	983,600
Accumulated other comprehensive income (Note 13)	785,810	811,387
Deficit	(22,303,788)	(16,808,666)
	<u>22,114,135</u>	<u>26,724,163</u>
	<u>\$ 46,461,555</u>	<u>\$ 48,236,798</u>

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

Approved on Behalf of the Board of Directors:

("Signed") Richard Godfrey, Director

("Signed") Gordon Bub, Director

Gold Hawk Resources Inc.

Consolidated Statements of Loss and Deficit and Comprehensive Loss For the Three and Six Months Ended June 30, 2007 and 2006 (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Revenue				
Interest income	\$ 50,235	\$ 39,682	\$ 149,308	\$ 39,682
Expenses				
General and administration expenses (Note 14)	466,648	193,182	941,289	213,826
Professional and consulting fees	63,052	86,710	147,314	141,473
General exploration	30,579	47,870	74,887	60,314
Filing costs and shareholders' information	51,002	8,753	64,544	17,846
Stock-based compensation cost (Note 11)	529,000	420,250	553,170	420,250
Depreciation	3,024	3,277	5,909	3,277
Foreign exchange loss	1,658,095	37,982	1,846,359	19,952
Interest and bank charges	15,454	-	31,573	9,407
Unrealized loss on derivative instruments (Note 7)	1,540,008	-	1,212,647	-
Realized loss on derivative instruments	185,533	-	185,533	-
Gain on disposal of marketable securities	-	-	(11,173)	-
Write down of mineral properties	-	4,824,743	-	4,824,743
Accretion of asset retirement obligation (Note 10)	271,282	-	560,667	-
	4,813,677	5,622,767	5,612,719	5,711,088
Capital taxes	31,711	-	31,711	-
Net loss for the period	\$ (4,795,153)	\$ (5,583,085)	\$ (5,495,122)	\$ (5,671,406)
Deficit at beginning of period	\$ (17,508,635)	\$ (8,431,081)	\$ (16,808,666)	\$ (5,612,785)
Costs related to share issuance	-	(33,097)	-	(2,763,072)
Deficit at end of period	\$ (22,303,788)	\$ (14,047,263)	\$ (22,303,788)	\$ (14,047,263)
Basic and diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.04)	\$ (0.07)
Weighted average number of shares outstanding	149,245,275	113,861,044	148,837,232	80,891,943

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Consolidated Statements of Comprehensive Loss				
Net loss	\$ (4,795,153)	\$ (5,583,085)	\$ (5,495,122)	\$ (5,671,406)
Other comprehensive income (loss):				
Foreign currency translation loss	(17,947)	-	(25,577)	-
Comprehensive loss:	\$ (4,813,100)	\$ (5,583,085)	\$ (5,520,699)	\$ (5,671,406)

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

Gold Hawk Resources Inc.

Consolidated Statements of Cash Flows (unaudited)

For the Three and Six Months Ended June 30, 2007 and 2006

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Operating activities				
Net loss for the year	\$ (4,795,153)	\$ (5,583,085)	\$ (5,495,122)	\$ (5,671,406)
Items not affecting cash:				
Stock-based compensation cost	529,000	420,250	553,170	420,250
Depreciation of fixed assets	3,024	3,277	5,909	3,277
Gain on disposal of marketable securities	-	-	(11,173)	-
Unrealized foreign exchange loss	1,363,316	-	1,548,120	(16,225)
Write-off of mining assets	-	4,824,743	-	4,824,743
Unrealized gain on derivative instruments	1,540,008	-	1,212,647	-
Accretion expense	271,282	-	560,667	-
	(1,088,523)	(334,815)	(1,625,782)	(439,361)
Net changes in non-cash components of working capital	224,145	(294,086)	(2,292,968)	(144,100)
Cash flows from operating activities	(864,378)	(628,901)	(3,918,750)	(583,461)
Financing activities				
Loan Proceeds	2,663,500	-	4,357,600	-
Promissory note from acquisition	-	-	(1,731,900)	-
Deferred Financing Costs	(36,586)	-	(36,586)	-
Capital lease obligation	(18,678)	-	161,302	-
Exercise of Broker warrants and stock options	176,250	-	357,500	-
Issuance of share capital	-	-	-	16,250,000
Share issue expenses	-	(33,097)	-	(1,671,072)
Cash flows from financing activities	2,784,486	(33,097)	3,107,916	14,578,928
Investing activities				
Acquisition of Coricancha mine, net of cash acquired	-	63	-	(9,737,768)
Addition to plant and equipment	(1,183,538)	(573,307)	(2,610,976)	(576,998)
Addition to mining properties	(37,378)	(54,764)	(142,362)	(54,764)
Asset retirement expenditures	(22,392)	-	(42,019)	-
Deferred exploration and development expenditures	(3,628,378)	(269,409)	(4,707,332)	(273,197)
Deposits on Equipment	64,747	-	67,251	-
Proceeds on disposition of marketable securities	-	-	54,673	-
Purchase of call options	-	-	(116,903)	-
Restricted cash on investing activity security	1,095	-	(1,416,849)	-
Cash flows from investing activities	(4,805,844)	(897,417)	(8,914,517)	(10,642,727)
Net change in cash and cash equivalents	(2,885,736)	(1,559,415)	(9,725,351)	3,352,740
Cash and cash equivalents at beginning of period	5,601,680	5,494,659	12,441,295	582,504
Cash and cash equivalents at end of period	\$ 2,715,944	\$ 3,935,244	\$ 2,715,944	\$ 3,935,244
Additional information				
Interest paid	\$ 102,951	-	\$ 175,769	-
Broker warrants recorded as a share issue expense	\$ -	-	\$ -	1,092,000
Conversion of promissory note into share capital	\$ -	-	\$ -	413,895

Cash and cash equivalents consist of cash and cash equivalents

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

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

1. BASIS OF PRESENTATION AND MEASUREMENT UNCERTAINTY

These consolidated financial statements include the accounts of Gold Hawk Resources Inc. (“Gold Hawk” or the “Company”) and its direct and indirect wholly-owned subsidiaries Minas San Juan Ltd. (incorporated in the Commonwealth of the Bahamas), Compañía Minera San Juan (Peru) S.A. (incorporated in Peru) and Larizbeascoa & Zapata S.A.C. (incorporated in Peru). All significant inter-company transactions and balances have been eliminated.

These unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and on a basis consistent with those followed in the most recent annual consolidated financial statements, except as described in note 2. These interim consolidated financial statements do not include all note disclosures required by Canadian GAAP for annual financial statements, and therefore should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2006.

These consolidated financial statements have been prepared in accordance with GAAP applicable to a going concern, which assume that the Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company has incurred losses from inception and is completing development of the Coricancha mine in Peru. The Company’s ability to continue as a going concern is dependent upon its ability to successfully commence commercial production at the Coricancha mine, to obtain debt or equity financing to meet its obligations as they come due, and ultimately to achieve profitable operations in the future.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of asset retirement obligations, future income taxes, recoverability of mineral properties, plant and equipment and the fair values of net assets acquired in business combinations. Actual results could differ from those estimates.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the revised Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1506 “Accounting Changes”, which requires that: (a) a voluntary change in accounting principles can be made if, and only if, the changes result in more reliable and relevant information, (b) changes in accounting policies are accompanied with disclosures of prior period amounts and justification for the change, and (c) for changes in estimates, the nature and amount of the change should be disclosed. The Company has not made any voluntary change in accounting principles since the adoption of the revised standard.

On January 1, 2007, the Company adopted the CICA Handbook Section 1530, “Comprehensive Income”, Section 3251, “Equity”, Section 3855, “Financial Instruments - Recognition and Measurement”, Section 3861, “Financial Instruments - Disclosure and Presentation”, and Section 3865, “Hedges”. These new accounting standards, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Section 1530 establishes standards for reporting and presenting

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

comprehensive income or loss, which is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income calculated in accordance with generally accepted accounting principles such as unrealized gains or losses on available-for-sale investments. Amounts initially recorded to other comprehensive income or loss are reclassified to earnings when the financial instrument is derecognized or impaired.

Under these new standards, financial instruments are classified as one of the following: loans and receivables, held-to-maturity, held-for-trading, available-for-sale and other financial liabilities. Financial instruments will be measured on the balance sheet at amortized cost or fair value depending on the classification. Loans and receivables, held-to-maturity and other financial liabilities are accounted for at amortized cost. Held for trading and available-for-sale financial instruments are recorded at fair value on the balance sheet. Changes in fair value of held-for-trading financial instruments are recognized in earnings while changes in fair value of available-for-sale financial instruments are initially recorded in other comprehensive income or loss.

Effective January 1, 2007, the Company classified its cash equivalents as held-for-trading, which are measured at fair value with changes in fair value recognized in earnings. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities and are accounted for at amortized cost. Derivative instruments, including embedded derivatives, are classified as held-for-trading and recorded on the balance sheet at fair value unless exempted as a contract related to the Company's expected purchase, sale or usage requirements. Changes in the fair value of recognized derivative instruments are recorded in earnings unless the instruments are designated as cash flow hedges. As at June 30, 2007, the Company has not designated any derivative instruments as hedging instruments.

At January 1, 2007, in accordance with the transitional provisions, the adoption of these standards relating to financial instruments resulted in the following change to the Company's financial statements:

- a change in terminology with reference to foreign currency gains and losses relating to self-sustaining foreign operations. Prior to the adoption of these standards, these unrealized gains and losses were classified and reported in the equity section of the balance sheet as a foreign currency translation adjustment. Prior year unrealized gains and losses are now classified and reported in the equity section of the balance sheet as accumulated other comprehensive gain (loss).

These standards have been adopted beginning January 1, 2007.

3. RESTRICTED CASH

As at June 30, 2007, \$1,465,438 (December 31, 2006 \$48,589) was on deposit in an interest bearing account with the Company's lender as cash collateral under the terms of the Company's credit facility, and is to be used to fund future interest payments under the Company's credit facility, as well as to provide security on certain derivative contracts (note 6) undertaken with the lender.

The Company's subsidiary entered into a capital lease for mining equipment totalling US\$161,000 for its Coricancha mine. A compensating balance of \$171,529 was deposited by the Company in an interest bearing GIC as security against the lease payments.

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Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

4. INVENTORY

Inventories are valued at the lower of cost and net realizable value, and consist of :

	June 30, 2007	Dec 31, 2006
Materials and supplies	\$ 680,881	\$ 209,958
Gold on carbon	520,400	-
	\$ 1,201,281	\$ 209,958

5. DEPOSITS

As at June 30, 2007, the Company has paid \$599,820 (December 31, 2006 - \$667,072) on certain mining equipment yet to be delivered by suppliers. The equipment was delivered subsequent to quarter end, in August 2007.

6. MINERAL PROPERTIES, PLANT AND EQUIPMENT

As at June 30, 2007	Cost	Accumulated depreciation	Net book value
Land	\$ 120,805		\$ 120,805
Plant and equipment	9,689,139	(94,006)	9,595,133
Mineral properties and concessions	21,008,146		21,008,146
Deferred exploration and development costs	6,476,535		6,476,535
	\$ 37,294,625	\$ (94,006)	\$ 37,200,619

As at December 31, 2006	Cost	Accumulated depreciation	Net book value
Land	\$ 132,144	\$ -	\$ 132,144
Plant and equipment	7,734,165	(20,556)	7,713,609
Mineral properties and concessions	22,824,277	-	22,824,277
Deferred exploration and development costs	1,935,263	-	1,935,263
	\$ 32,625,849	\$ (20,556)	\$ 32,605,293

Coricancha Mine (Peru)

The Company's wholly-owned Coricancha mine, is located on a paved highway approximately 90 km due east of Lima, the capital city of Peru. The mine includes a 600 tonne per day concentrator and a BIOX circuit for the recovery of gold and silver from the refractory ore. The Company purchased 100% of the Coricancha mine in March 2006 and has since refurbished it and placed it into production. The Company expects to achieve commercial production at the rated capacity of 600 tonnes per day by the fourth quarter of 2007.

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Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

Coricancha (Peru)	Interest (%)	Dec 31, 2006 (a)		Additions		Translation adjustment (a)	June 30, 2007
		\$	\$	\$	\$		
Mineral properties and concessions	100	\$ 22,824,277	\$ 142,362	\$ (1,958,493)			\$ 21,008,146
Deferred exploration costs	100	1,935,263	4,707,332	(166,060)			6,476,535
		\$ 24,759,540	\$ 4,849,694	\$ (2,124,553)			\$ 27,484,681

(a) June 30, 2007 balance has been adjusted to reflect the current rate translation of the Company's self sustaining foreign operation.

For the six months ended June 30, 2007 capitalized interest was \$266,865 (2006 – Nil).

7. FINANCIAL INSTRUMENTS, DERIVATIVES AND RISK MANAGEMENT

The Company is exposed to price risk due to changes in commodity prices related to its production. To mitigate this anticipated risk, the Company uses derivative instruments including forward sales contracts and call options. The Company has not designated these derivative instruments as hedges and, accordingly, changes in fair value are recognized in the statement of operations under the caption "unrealized loss (gain) on derivative instruments".

Information regarding the Company's derivative instruments and estimated fair values as at June 30, 2007 are as follows:

	Maturity	Nominal Volume		Average Price		Fair value at June 30, 2007
		(tonnes)	(lbs)	US\$/tonne	US\$/lb	
Forward Sales Contracts						
Lead	2007	790.2	1,742,081	\$ 1,509	\$ 0.68	(961,251)
Lead	2008	1,125.0	2,480,201	\$ 2,013	\$ 0.91	(632,832)
Zinc	2007	830.4	1,830,437	\$ 3,784	\$ 1.72	390,668
Zinc	2008	1,350.0	2,976,240	\$ 3,054	\$ 1.39	(204,703)
Offsetting Forward Contracts						
Zinc Sale / Purchase	2008	500.0	1,102,312	\$3175 / \$3,140	\$1.44 / \$1.42	18,458
						\$ (1,389,659)
Call Options						
Lead	2007	340.2	750,013	\$ 1,760	\$ 0.80	321,869
Lead	2008	-	-	\$ -	\$ -	-
Zinc	2007	680.4	1,499,761	\$ 4,630	\$ 2.10	4,010
Zinc	2008	450.0	992,080	\$ 4,300	\$ 1.95	34,351
						\$ 360,230
Derrivative instruments						\$ (1,029,429)

The fair value of the derivative instruments has been estimated using market values as at June 30, 2007. The fair value represents the amount that the Company would either (pay) or receive to settle the contracts at June 30, 2007.

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Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

As at June 30, 2007, there is an unrealized mark-to-market loss of \$1,212,647 (December 31, 2006 - \$573,291) on the above outstanding derivative contracts.

Under the terms of its credit facilities, the Company assigned its rights under these derivative contracts to the lender as security for the facility.

8. CAPITAL LEASE OBLIGATIONS

	June 30, 2007	Dec 31, 2006
Total capital lease obligations	\$ 186,944	\$ 42,356
Less: current portion of capital lease obligations	102,974	21,178
	\$ 83,970	\$ 21,178

Capital lease obligation relates to passenger vehicles and mining equipment for the Coricancha Mine.

9. LOAN PAYABLE

	June 30, 2007	Dec 31, 2006
Revolving loan facility (Tranche A)	\$ 7,990,500	\$ 4,078,900
Less: current portion	5,992,875	1,019,725
	\$ 1,997,625	\$ 3,059,175

As at June 30, 2007, \$5,327,000 (US\$5,000,000) (December 31, 2006 US\$3,500,000) was drawn on a US\$5 million revolving loan facility (Tranche A), and \$2,663,500 (US\$2,500,000) (December 31, 2006 Nil) was drawn on a US\$5 million non revolving loan facility (Tranche B). The facilities bear interest at LIBOR + 3.5% and mature on September 7, 2008. The first principal repayment date is on October 1, 2007, at which time, equal monthly principal repayments are required with a final principal repayment due on September 7, 2008. The loans may be repaid at anytime without penalty.

As at June 30, 2007, the Company had US\$2.5 million under its non-revolving credit facility (Tranche B) available on an uncommitted basis until September 7, 2007 for the purpose of mining property acquisitions planned by the Company (subject to lender approval). A standby fee of 1% is charged on any undrawn portion of the available revolving loan facility, and any draw downs are subject to a 1.125% drawdown fee.

The Company has signed a general security agreement with the lenders, and all of the Coricancha Mine assets held by the Company have been pledged as security for the loan facility.

Subsequent to June 30, 2007, the Company arranged a \$3,196,200 (US\$3 million) unsecured bridge loan with one of its lenders (see Note 16). Net proceeds of the bridge loan were used for expenditures relating to ongoing development of the Coricancha Mine and general working capital purposes. The bridge loan was repaid following the closing of a brokered private placement in August 2007 (see Note 16).

10. ASSET RETIREMENT OBLIGATION

The asset retirement obligation consists of mine closure provisions as well as retirement obligations for processing facilities. The Company has recorded the following asset retirement obligations:

Gold Hawk Resources Inc.

Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

	Amount
Balance, December 31, 2006	\$ 13,041,324
Accretion expense	560,667
Cash payments	(42,019)
Effect of translation of foreign currencies	(1,153,446)
Balance, June 30, 2007	\$ 12,406,526
Less: current portion	486,217
	\$ 11,920,309

The estimated future cash flows for the mine closure obligation are expected to be paid in various stages over the life of the mine through 2012 and beyond. The estimated future cash flows have been discounted using a credit-adjusted risk-free rate of 9.0%. As the liability is initially recorded on a discounted basis, it is increased each period until the estimated date of settlement. The resulting expense is referred to as accretion expense and is included in the results from operations.

11. SHARE CAPITAL

(a) Authorized:

The Company's authorized share capital consists of an unlimited number of common shares of no par value.

(b) Issued:

Changes in the Company's share capital during the six months ended June 30, 2007 were as follows:

	Number of shares	Amount
Balance, December 31, 2006	147,921,044	\$ 40,770,842
For cash received from the exercise of stock options	400,000	92,500
For cash received from the exercise of warrants	1,060,000	265,000
Transferred to share capital upon exercise of options and broker warrants		271,530
Balance, June 30, 2007	149,381,044	\$ 41,399,872

(c) Stock option plan

On April 21, 2006, the Company's Board of Directors approved a new stock option plan (The "2006 Plan") and cancelled the previous plans. The maximum number of common shares issuable under the 2006 Plan is 8,000,000 common shares. Stock options granted to employees and consultants vest one-third immediately, one-third after 12 months from the date of grant and one-third after 24 months from the date of grant. Under the 2006 Plan stock options granted have a maximum term of five years.

A summary of the Company's stock options outstanding as at June 30, 2007 and the changes for the six months then ended are as follows:

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Notes to Consolidated Financial Statements (*unaudited*)

For the three and Six months ended June 30, 2007

	Directors and officers	Employees and consultants	Total Number of options	Weighted average exercise price per share
Balance, December 31, 2006	5,080,000	355,000	5,435,000	\$ 0.38
Granted	1,255,000	-	1,255,000	0.67
Exercised	(175,000)	(225,000)	(400,000)	0.23
Expired			-	
Balance, March 31, 2007	6,160,000	130,000	6,290,000	\$ 0.45

The following table summarizes information about common share purchase options outstanding, granted to officers, directors, employees and a consultant of the Company as at June 30, 2007:

Number of stock options outstanding	Number of stock options exercisable	Option Exercise price (\$)	Expiry date (Month-Yr)
75,000	75,000	0.25	July-08
1,230,000	1,230,000	0.40	November-08
175,000	175,000	0.30	May-09
200,000	200,000	0.15	August-10
925,000	925,000	0.48	April-11
500,000	333,334	0.43	April-11
250,000	250,000	0.38	June-11
1,000,000	333,333	0.35	July-11
350,000	116,667	0.39	August-11
170,000	123,333	0.43	November-11
160,000	120,000	0.52	December-11
200,000	66,666	0.54	March-12
1,055,000	1,055,000	0.69	June-12
6,290,000	5,003,333	Weighted	0.45

(d) Stock Based Compensation

During the six months ended June 30, 2007, the Company granted 200,000 stock options to an officer of the Company at \$0.54 valid for 5 years. One third of the options vest immediately upon the date of grant, one third of the options vest 12 months from the date of grant and one third of the options vest 24 months from the date of grant. Total stock compensation costs are \$72,500 and are being amortized over the vesting period, including an amount of \$24,190 charged as an expense for the six months ended June 30, 2007. The fair value of the options granted was estimated using the Black-Scholes model with no expected dividend yield, a 81% expected volatility, a 3.95% risk-free interest rate and an expected life of options of 5 years. The weighted average of the estimated fair value of each option is \$0.36.

During the six months ended June 30, 2007, the Company granted 1,055,000 stock options to directors of the Company at \$0.69 valid for 5 years. Total stock compensation costs are \$479,000 and are charged as an expense for the six months ended June 30, 2007. The fair value of the options granted was estimated

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For the three and Six months ended June 30, 2007

using the Black-Scholes model with no expected dividend yield, a 78% expected volatility, a 4.66% risk-free interest rate and an expected life of options of 5 years. The weighted average of the estimated fair value of each option is \$0.45.

(e) Share Purchase Warrants

The Company's warrants outstanding at June 30, 2007 and the change for the six months then ended are as follows:

	Number of warrants	average price of warrants
Balance, December 31, 2006	7,140,000	\$ 0.31
Exercised and converted to Common shares	(1,060,000)	0.25
Balance, June 30, 2007	6,080,000	\$ 0.33

Upon the exercise of 1,060,000 Broker warrants, \$222,600 previously recorded as warrants in shareholder's equity was transferred to share capital.

Details of outstanding warrants as at June 30, 2007 are as follows:

Number of warrants	Exercise price (\$)	Expiry date
2,340,000	0.34	Dec 31, 2007
2,640,000	0.25	Mar 6, 2008
500,000	0.45	Sep 8, 2008
600,000	0.50	Sep 14, 2008
6,080,000	0.33	

12. CONTRIBUTED SURPLUS

The net change in contributed surplus during the six months ended June 30, 2007 is as follows:

	Amount
Balance, December 31, 2006	\$ 983,600
Stock-based compensation cost recorded on grant of stock options	553,170
Transferred to share capital upon exercise of options	(48,929)
Balance, June 30, 2007	\$ 1,487,841

13. ACCUMULATED OTHER COMPREHENSIVE INCOME

The balance in accumulated other comprehensive income as at June 30, 2007 relates entirely to the unrealized foreign exchange gain on the translation of its self-sustaining foreign operation. At January 1, 2007, an unrealized foreign exchange gain of \$811,387 was reclassified from foreign currency translation adjustment to

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accumulated other comprehensive income upon transition to new accounting standards for financial instruments (see Note 2).

Opening balance on adoption of new accounting standards on January 1, 2007	\$	811,387
Comprehensive loss for the period - currency translation loss		(25,577)
Accumulated Other Comprehensive income on June 30, 2007:	\$	785,810

14. GENERAL AND ADMINISTRATION EXPENSES

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Filing fees and mailings	\$ 13,781	\$ 1,027	\$ 19,165	\$ 5,027
Insurance	37,395	18,838	75,219	23,471
Meals and entertainment	4,535	4,320	6,785	4,320
Miscellaneous	8,914	308	15,596	308
Office expenses	8,261	39,118	34,118	48,564
Rent	30,619	10,310	49,173	12,875
Salaries and benefits	233,313	55,922	453,431	55,922
Security	67,226	36,431	124,814	36,431
Telecommunications	5,798	2,046	10,984	2,046
Travel	56,806	24,862	152,004	24,862
	\$ 466,648	\$ 193,182	\$ 941,289	\$ 213,826

15. RELATED PARTY TRANSACTIONS

Management, salary and consulting fees of \$146,600 (2006 - \$109,955) were charged by directors during the six months ended June 30, 2007. These transactions are in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the parties.

16. CONTINGENCIES AND COMMITMENTS

(a) Lease Commitments

The Company has commitments under various office, vehicle and equipment lease agreements, with minimum future payments as follows:

	Amount
2007	\$ 93,234
2008	190,941
2009	99,357
2010	19,005
2011	-
Total	\$ 402,537

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(b) Other

The Company has signed a ten year electricity contract for power supply to its Coricancha mine and a two year term gold stripping contract.

The Company is obligated to pay a royalty of US\$1 per ounce of gold processed by its Biox® plant.

17. SUBSEQUENT EVENTS

(a) Share Capital

Subsequent to the quarter end, 560,000 Broker's warrants were exercised for proceeds of \$140,000.

Subsequent to the quarter end, on August 16, 2007, the Company closed a brokered private placement for 16,761,100 common shares at a price of \$0.60 per share, for gross proceeds of \$10,056,660. The Company paid the underwriter a cash fee on closing of \$703,966 equal to 7% of the gross proceeds and issued them 1,508,499 broker warrants, equal to 9% of the number of common shares sold pursuant to the private placement. Each broker warrant entitles the underwriter to purchase one common share of the Company at \$0.60 per share until August 16, 2009. Net proceeds of the private placement were also used for expenditures relating to ongoing development of the Coricancha Mine, general working capital purposes, and to repay the outstanding bridge loan from one of the Company's lenders.

(b) Bridge Loan Financing

Subsequent to the quarter end, on July 31, 2007, the Company entered into an agreement with one of its lenders whereby the lender agreed to provide a \$3,196,200 (US\$3 million) unsecured loan facility to the Company as a bridge loan. The funds were advanced against a promissory note from the Company in favour of the lender. The Company paid a cash fee upon funding of equal to 2% of the loan proceeds. Interest on the bridge Loan, during the period that it was outstanding, was at a rate of 12.5% per annum. Net proceeds of the bridge Loan were used for expenditures relating to ongoing development of the Coricancha Mine and general working capital purposes. The bridge loan was subsequently repaid on August 17, 2007 upon completion of the brokered private placement.

(c) Stock Options

Subsequent to the quarter end, in accordance with the employment contracts of two officers, the Company granted them respectively an option to purchase 500,000 common shares of the Company at a price of \$0.64 per common share, and an option to purchase 150,000 common shares of the Company at a price of \$0.60 per common share. An option to purchase 30,000 common shares of the Company at a price of \$0.64 per common share was granted to an employee subsequent to the quarter end.

The options granted subsequent to the quarter end, all expire five years from the date of the grant, and vest one third immediately upon the date of grant, one third 12 months from the date of grant and one third 24 months from the date of grant.

(d) Derivative Instruments

Subsequent to the quarter end, the Company's July 2007 derivative instruments were settled at a realized loss of \$106,113.

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Subsequent to the quarter end, 75 tonnes of the Company's August 2007 lead forward sales, sold forward at an average price of US\$1,617 per tonne, were rolled forward to November 2007 at a new forward sale price of US\$1,522 per tonne.