REDSTAR GOLD CORP.

Consolidated Financial Statements

December 31, 2007

NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

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

REDSTAR GOLD CORP.
Consolidated Balance Sheets
(Prepared by Management)

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
Assets		
Current		
Cash	$ 839,051	$ 40,785
Accounts receivable	6,611	1,143
Due from joint venture partner	104,902	
Advance to contractor	53,435	
Prepaid expenses and advances	46,122	14,090
	1,050,121	56,018
Mineral Properties (note 3)	1,788,794	1,370,745
Equipment, net (note 4)	29,982	17,792
	$ 2,868,897	$ 1,444,555
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 85,300	$ 92,223
Due to related parties (note 6)	6,660	579,052
	91,960	671,275
Shareholders' Equity		
Capital Stock (note 5)	10,842,197	8,393,769
Option Compensation (note 5(c))	612,416	475,788
Share Purchase Warrants (note 5(a))	0	0
Contributed Surplus (note 5(d))	125,894	125,894
Deficit	(8,803,570)	(8,222,171)
	2,776,937	773,280
	$ 2,868,897	$ 1,444,555

Nature of Operations and Going-Concern (note 1)
Commitment (note 10)
Subsequent Events (note 11)

Approved by the Board:

"J. Patrick Nicol"
…………………………………………… Director
J. Patrick Nicol

"Douglas A. Fulcher"
…………………………………………… Director
Douglas A. Fulcher

See notes to consolidated financial statements.

REDSTAR GOLD CORP.

Consolidated Statements of Operations and Deficit
For the Nine Months Ended December 31
(Unaudited – Prepared by Management)

	For the Three Months ended December 31,		For the Nine Months ended December 31,	
	2007	**2006**	**2007**	**2006**
Expenses				
Salaries and benefits	$ 46,316	$ 30,000	$ 121,316	$ 92,262
Stock-based compensation	54,230	0	136,628	84,133
Business promotion	73,992	5,270	137,567	60,938
Rent	16,312	10,111	44,388	27,258
Professional fees	4,629	347	39,069	14,821
Consulting	12,567	9,062	29,216	24,854
Office and miscellaneous	9,587	8,374	24,935	24,844
Insurance	3,300	0	5,466	0
Management fees	4,500	4,500	13,500	13,500
Regulatory fees	2,954	1,526	21,879	3,883
Transfer agent	1,425	1,185	7,816	5,208
Telephone	2,329	994	5,796	3,448
Interest earned	(7,573)	(336)	(21,922)	(1,823)
Expense recoveries	0	0	0	(61)
Amortization	2,132	1,575	4,830	4,289
	226,700	72,608	549,859	357,554
Other Expenses (Income)				
General exploration	0	0	7,600	0
Foreign exchange	1,909	226	3,315	2,329
	1,909	226	10,915	2,329
Net Loss for Period	228,609	72,834	581,399	359,883
Deficit, Beginning of Period	8,574,961	8,000,073	8,222,171	7,713,024
Deficit, End of Period	$ 8,803,570	$ 8,072,907	$ 8,803,570	$ 8,072,907
Loss Per Share	$ 0.00	$ 0.00	$ 0.01	$ 0.01
Weighted Average Number of Common Shares Outstanding	47,889,723	34,020,973	47,889,723	34,020,973

REDSTAR GOLD CORP.
Consolidated Statements of Cash Flows
For the Nine Months Ended December 31
(Unaudited – Prepared by Management)

	For the Three Months Ended December 31, 2007	For the Three Months Ended December 31, 2006	For the Nine Months Ended December 31, 2007	For the Nine Months Ended December 31, 2006
Operating Activities				
Net loss	$ (228,609)	$ (72,833)	$ (581,399)	$ (314,882)
Items not involving cash				
Stock-based compensation	54,230	0	136,628	84,133
Amortization	2,132	1,575	4,831	4,289
	(172,247)	(71,258)	(439,940)	(226,460)
Changes in non-cash working capital				
Accounts receivable	(3,546)	227,944	(5,467)	28,514
Prepaid expenses and advances	(27,448)	1,256	(32,031)	(4,206)
Accounts payable and accrued liabilities	76,398	4,836	(539,226)	412,677
Due to/from related parties	(4,514)	(116,141)	(73,435)	(140,001)
Due to/from joint venturer	(40,750)	0	(124,992)	0
	140	117,895	(775,151)	296,984
Cash Provided by (Used in) Operating Activities	(172,107)	46,637	(1,215,091)	70,524
Investing Activities				
Mineral property exploration and development expenditures	(231,639)	(76,966)	(377,069)	(257,930)
Mineral property acquisition costs	(60,178)	(46,885)	(40,981)	(144,306)
Equipment	(10,293)	(4,363)	(17,020)	(4,363)
Cash Used in Investing Activities	(302,110)	(128,214)	(435,070)	(406,599)
Financing Activities				
Issuance of capital stock for cash	0	0	2,448,427	0
Issuance of capital stock, mineral properties				47,500
Cash Provided by Financing Activities	0	0	2,448,427	47,500
Increase (Decrease) in Cash	(474,217)	(81,577)	798,266	(288,575)
Cash, Beginning of Period	1,313,268	85,262	40,785	292,260
Cash, End of Period	$ 839,051	$ 3,685	$ 839,051	$ 3,685

Supplemental Disclosure with Respect to Cash Flows (note 9)

1. NATURE OF OPERATIONS AND GOING-CONCERN

The Company is an exploration stage company engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development and establishing future profitable production, or realizing proceeds from the disposition of the property interests.

The Company’s ability to continue as a going-concern is dependent on the Company being able to satisfy its liabilities as they become due. These consolidated financial statements have been prepared on a going-concern basis, which assumes the realization of assets and liquidation of liabilities in the normal course of business. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, should the Company be unable to continue as a going-concern.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following policies.

(a) Basis of presentation

The consolidated financial statements as at December 31, 2007 include the accounts of the Company and its wholly-owned integrated subsidiary, Redstar Gold USA Inc. All intercompany balances and transactions have been eliminated.

(b) Mineral properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and deferred exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. All deferred mineral property expenditures are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company’s assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded until the payments are made or received.

(c) Equipment

Equipment is recorded at cost and is amortized using a declining-balance method, at an annual rate of 20% for office equipment and 30% for computer equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Capital stock

Capital stock issued for non-monetary consideration is recorded at fair market value on the dates of issuance pursuant to the agreement to issue shares as determined by the Board of Directors of the Company based on the trading price of the shares on the TSX Venture Exchange.

The proceeds from shares issued under flow-through share financing agreements are credited to capital stock and the tax benefits of the exploration expenditures incurred under these agreements are transferred to the purchaser of the shares. Costs incurred for the issue of shares are deducted from capital stock.

(e) Loss per share

Loss per share is calculated using the weighted average number of common shares outstanding during the year using the treasury stock method for calculating diluted earnings per share. However, diluted loss per share has not been presented as the exercise of options and warrants would reduce the calculated loss per share.

(f) Foreign currency translation

The accounts of the Company's foreign operations have been translated into Canadian dollars. Monetary items are translated at the exchange rate in effect at the balance sheet date; non-monetary items are translated at historical exchange rates; revenues and expenses and exploration and development items, at the average rate of exchange on a quarterly basis. Gains and losses arising from this translation of foreign currency are included in net loss.

(g) Financial instruments

The carrying values of current assets and current liabilities approximate their fair values due to the relative short periods to maturity of these instruments. Management believes that the Company is not exposed to significant interest or credit risk.

(h) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amount of expenses during the reporting period. Significant areas requiring the uses of estimates include recoverability of mineral property interests, assumptions used in the determination of the fair value of stock-based compensation and determination of the valuation allowance for future income tax assets. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(i) Asset retirement obligations

The Company accounts for the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. As at December 31, 2007, the Company did not have any asset retirement obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Stock-based compensation

The Company accounts for stock-based compensation expense of all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock, call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, using the fair value based method. The expense is recorded in the period the stock-based payments are vested or the awards or rights are granted, with a corresponding increase in option compensation. When stock options are exercised, the corresponding fair value previously recorded is transferred from option compensation to capital stock. When stock options are forfeited, cancelled or expired the corresponding fair value is transferred to contributed surplus.

(k) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

3. MINERAL PROPERTIES

Expenditures made on mineral properties by the Company during the period are as follows:

2007	Newman Todd	Nevada General	Pine Nut	Dry Gulch	North Bullfrog	Eagle Basin	Painted Hills	Richmond Summit	Root Spring	Cooks Creek	Total
	(note 3(a))		(note 3(c)(i))	(note 3(c)(ii))	(note 3(c)(iii))	(note 3(c)(iv))	(note 3(c)(v))	(note 3(c)(vi))	(note 3(c)(vii)	(note 3(c)(viii))	
Acquisition costs	$ 0	$ 36,167	$ 0	$ 0	$ 19,828	$ 0	$ 39,887	$ 16,128	$ 20,162	$ 13,037	$ 145,209
Acquisition costs recovered	0	0	0	0	(41,848)	0	(61,907)	0	0	0	(103,755))
	0	36,167	0	0	(22,020)	0	(22,020)	16,128	20,162	13,037	41,454
Deferred exploration											
Expenditures											
Assay	0	7,990	0	0	47,802	0	61,279	1,594	177	682	119,524
Consultants											
- geology	0	29,526	1,185	947	53,449	428	63,078	10,975	6,401	311	166,300
- geophysics	0	0	0	0	0	0	62,941	521	0	0	63,462
Contract labor	10,600		0	0	0	0	0	0	0	0	10,600
Camp and support	74,567	4,154	0	0	37,454	0	48,632	66	58	0	164,931
Equipment rental	14,392	0	0	0	33,349	0	16,869	0	0	0	64,610
Drilling	90,000		0	849	532,095		504,229	0	0	0	1,127,173
Land and tenure	468	0	4,793	30,878	74,800	10,992	59,055	10,992	9,561	0	201,539
Travel and accommodation	25,308	22,774	0	74	25,993	0	31,432	2,745	178	0	108,504
Maps and reports	0	1,851	0	0	282	0		315	245	0	2,693
	215,335	66,295	5,978	32,748	805,224	11,420	847,515	27,208	16,620	993	2,029,336
Exploration costs recovered	0	0	0	0	(805,224)	0	(847,515)	0	0	0	(1,652,739)
	215,335	102,462	5,978	32,748	(22,020)	11,420	(22,020)	43,336	36,782	14,030	418,051
Balance, beginning of year	$ 771,543	$ 220,857	$ 112,504	$ 109,621	$ 83,865	$ 29,786	$ 20,769	$ 21,800	$ 0	$ 0	$ 1,370,745
Balance, end of period	$ 986,878	$323,319	$ 118,482	$ 142,369	$ 61,845	$ 41,206	$ (1,251)	$ 65,136	$ 36,782	$ 14,030	$ 1,788,796

3. MINERAL PROPERTIES (Continued)

(a) Newman Todd Property, Red Lake District, Ontario

The Company has acquired a 100% interest in 13 freehold mineral claims located in the Red Lake District of Ontario by issuing to the vendor 700,000 common shares of which 250,000 common shares were previously issued and 450,000 common shares were issued during the year ended March 31, 2007.

The property is subject to an underlying agreement that requires a cash payment to the original vendors of the property of $20,000 due May 1, 2007 and advance royalty payments of $5,000 annually commencing May 1, 2010 and 1.75% and 2% net smelter royalties.

The property is subject to a commitment to issue additional common shares as follows:

(i) Common shares with a deemed value of $1,000,000 if a mine is placed into production; and

(ii) Common shares with a deemed value of $1,000,000 if production from the property exceeds 250,000 ounces of gold plus bonus common shares with a deemed value of $500,000.

The mineral claims are subject to an additional 1% net smelter royalty provided that the total net smelter royalties payable on any claims within the property do not exceed 2.75%.

(b) Nevada Exploration Partnership, Nevada

During the year ended March 31, 2005, the Company entered into a letter of agreement (as amended) with AngloGold Ashanti North America Inc. (“AngloGold”) for the exclusive right to acquire a copy of AngloGold’s Great Basin database. In order to obtain this right, the Company must spend US $3,000,000 on exploration expenses on Nevada properties (Cdn $961,791 spent to March 31, 2007) and issue to AngloGold 175,000 common shares (100,000 shares previously issued and 75,000 shares issued during the year ended March 31, 2007).

Once the Company has spent US $750,000 on exploration expenses on a property, AngloGold has a one-time right to earn a 60% interest in that property by spending 200% of the expenditures incurred by the Company within three years after electing to back in.

The agreement is for a term of one-year and, with the consent of both parties and the Company issuing 175,000 common shares to AngloGold, can be renewed for a further one-year term. On April 6, 2006, the Company renewed the agreement for a one-year term to March 9, 2007 (175,000 common shares issued to AngloGold on August 11, 2006) and on February 12, 2007 renewed the agreement for a further one-year term to March 9, 2008 (175,000 common shares issued to AngloGold on February 7, 2007).

The Company has spent Cdn $2,788, 354 on exploration expenses to December 31, 2007 on the Nevada properties.

3. MINERAL PROPERTIES (Continued)

(c) Nevada Properties

As a result of the Nevada Exploration Partnership with AngloGold, the Company acquired three properties in Nevada.

(i) Pine Nut Property, Douglas County, Nevada

During 2006, the Company entered into two mining leases and four exploration and option agreements as follows:

(a) The Company entered into a mining lease for a term of 11 years. The advance minimum rent is as follows:

- Upon execution of the agreement - US $20 per acre (paid);
- On or before each of the first to fourth anniversary dates - US $20 per acre (first anniversary payment paid July 7, 2006); and
- On or before the fifth anniversary date and each anniversary date thereafter - US $30 per acre.

Half of all minimum rent paid during the first through fifth years shall be credited against and fully recoupable from production royalty in five equal annual amounts over the five-year period beginning on the commencement of production royalty. Minimum rent shall be adjusted for inflation.

The mineral properties are subject to a 3% net smelter return royalty if the monthly average gold price is less than or equal to $300 per ounce, and a 4% net smelter return royalty if the monthly average gold price is greater than $300 per ounce. The Company retains the right to purchase back 1.5% of net smelter return royalty for US $1,000,000.

(b) The Company entered into a mining lease for a term of 10 years. The advance minimum rent, subject to an adjustment for inflation, is as follows:

- Upon execution of the agreement - US $10,000 (paid);
- Six months after execution of the agreement - US $10,000 (paid);
- On or before each of the first to fourth anniversary dates - US $10,000 (first anniversary payment paid July 14, 2006); and
- On or before the fifth anniversary date and each anniversary date thereafter - US $10,000.

The mineral properties are subjected to a 2% net smelter return royalty.

3. MINERAL PROPERTIES (Continued)

(c) Nevada Properties (Continued)

(i) Pine Nut Property, Douglas County, Nevada (Continued)

(c) Under the agreement, the Company has the right to explore the mineral property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US $6,200 (paid) and issue common shares having a value of US $2,300 in year 1 (issued), US $5,700 and issue common shares having a value of US $2,300 at the time of issuance in year 2, and US $4,500 in years 3, 4 and 5. To purchase the property, the Company must pay US $150,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US $10,000 per year and grant a 2% net smelter return royalty.

(d) Under the agreement, the Company has the right to explore the mineral property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US $11,125 (paid) and issue common shares having a value of US $2,000 in year 1 (issued), US $10,625 and issue common shares having a value of US $2,000 at the time of issuance in year 2, and US $10,000 in years 3, 4 and 5. To purchase the property, the Company must pay US $350,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US $20,000 per year and grant a 2% net smelter return royalty.

(e) Under the agreement, the Company has the right to explore the mineral property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US $6,200 in year 1 (paid), US $5,700 in year 2, and US $4,500 in years 3, 4 and 5. To purchase the property, the Company must pay US $310,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US $10,000 per year and grant a 2% net smelter return royalty.

3. **MINERAL PROPERTIES** (Continued)

(c) Nevada Properties (Continued)

(i) Pine Nut Property, Douglas County, Nevada (Continued)

(f) Under the agreement, the Company has the right to explore the mineral property for a five-year period, and during the period it has the choice of either purchasing the property outright (subject to a 1% net smelter return royalty) or leasing it for a 10-year renewable term (subject to a 2% net smelter return royalty). For the right to explore, the Company must pay US $6,200 in year 1 (paid), US $5,700 in year 2, and US $4,500 in years 3, 4 and 5. To purchase the property, the Company must pay US $150,000, subject to an inflation adjustment, and grant a 1% net smelter return royalty. To lease the property, the Company must make minimum advance royalty payments of US $10,000 per year and grant a 2% net smelter return royalty.

(g) The Company also holds 53 staked claims on the Pine Nut Property.

(ii) Dry Gulch Property, Elko County, Nevada

The Dry Gulch Property consists of 209 staked claims near Elko County, Nevada.

(iii) North Bullfrog Property, Nye County, Nevada

(a) During the year ended March 31, 2007, the Company entered into five mining leases to purchase a 100% interest in mineral claims. The Company will make cash payments and grant a production royalty of 2% to 4% of net smelter returns to each vendor. To maintain the leases, the Company must make minimum advance royalty payments of US $32,300 per annum on each of the first three anniversaries and US $37,700 per annum thereafter. The Company has the right at any time while the agreements are in effect to purchase the production royalty for US $850,000 to US $1,000,000 per 1% and may purchase the entire royalty.

(b) The Company also holds 161 staked claims on the North Bullfrog Property. A further 11 patented claims have been staked expanding the North Bullfrog Property to 172 claims and 5 mining leases.

As a result of the Nevada Exploration Partnership with AngloGold, the Company acquired three additional properties in 2007.

(iv) Eagle Basin Property, Lander County, Nevada

The Eagle Basin Property consists of 72 staked claims near Lander County, Nevada.

(v) Painted Hills Property, Humboldt County, Nevada

The Painted Hills Property consists of 50 staked claims near Humboldt County, Nevada. A further 251 claims have been staked expanding the Painted Hills Property to 301 claims.

(vi) Richmond Summit Property, Eureka County, Nevada

The Richmond Hill Property consists of 72 staked claims near Eureka County, Nevada.

3. MINERAL PROPERTIES (Continued)

(c) Nevada Properties (Continued)

(vii) Root Spring Property, Pershing County, Nevada

The Root Spring Property consists of 62 staked claims 50 miles south of the city of Winnemucca, Nevada.

(viii) Cooks Creek Property, Lander County, Nevada

The Cooks Creek Property consists of 168 staked claims 27 miles south of the town of Battle Mountain, Nevada

(d) Letter of Intent, North Bullfrog and Painted Hills Properties

In March 2007, the Company entered into a binding letter of intent ("LOI") with International Tower Hills Mines Ltd. ("ITH") to enter into a joint venture in the North Bullfrog and Painted Hills projects in Nevada. The terms of the LOI are as follows:

(i) ITH will have the right to earn up to a 70% interest in the properties by making a series of payments and work commitments over four years.

(ii) Consideration for the North Bullfrog Property consists of cash payments totaling US $190,000 and total expenditures of US $4,000,000 over four years.

1. Cash payments are due as follows:

- On signing (received April 18, 2007)	US $20,000;
- On or before September 15, 2008	US $30,000;
- On or before March 15, 2009	US $40,000;
- On or before March 15, 2010	US $50,000; and
- On or before March 15, 2011	US $50,000.

2. Total cumulative expenditures to be incurred are as follows:

- On or before March 15, 2008	US $500,000;
- On or before March 15, 2009	US $1,000,000;
- On or before March 15, 2010	US $2,000,000; and
- On or before March 15, 2011	US $4,000,000.

(iii) Consideration for the Painted Hills Property consists of total payments of US $170,000 and total expenditures of US $2,500,000 over four years.

(a) Cash payments are due as follows:

- On signing (received April 18, 2007)	US $20,000;
- On or before September 15, 2008	US $20,000;
- On or before March 15, 2009	US $30,000;
- On or before March 15, 2010	US $50,000; and
- On or before March 15, 2011	US $50,000.

(b) Total cumulative expenditures to be incurred are as follows:

- On or before March 15, 2008	US $250,000;
- On or before March 15, 2009	US $750,000;

- On or before March 15, 2010 US $1,500,000; and
- On or before March 15, 2011 US $2,500,000.

3.. **MINERAL PROPERTIES** (Continued)

(d) Letter of Intent, North Bullfrog and Painted Hills Properties (Continued)

(iv) ITH will provide the Company with 5,000 shares of its common stock on each anniversary the agreement is in place.

(v) AngloGold maintains a one-time back-in right on the two projects to earn a 60% interest after the first US $750,000 is spent.

(e) Option agreements with Strategic Merchant Bancorp Ltd.

In April 2006, the TSX Venture Exchange approved three option agreements entered into with Strategic Merchant Bancorp Ltd. ("SMB"), a company with two directors in common. SMB can exercise the options to earn a 70% interest in the Pine Nut Property, 70% in the Dry Gulch Property and 65% interest in the North Bullfrog Property. During the year ended March 31, 2007, the Company received common shares of SMB with a market value of $105,000 that was applied to the acquisition costs of the Pine Nut, Dry Gulch and North Bullfrog properties. During 2007, the Company also recovered $161,162 in acquisition costs and $612,306 in exploration expenses from SMB.

In January 2007, SMB withdrew from all three option agreements with the Company.

(f) Title to mineral property interests

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by an undetected defect.

(g) Realization of assets

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the obtaining of permits, the satisfaction of governmental requirements and possible aboriginal claims, the attainment of successful production from the properties or from the proceeds of their disposal.

Mineral exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

(h) Environmental

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral properties, the potential for production on the property may be diminished or negated.

3.. MINERAL PROPERTIES (Continued)

(h) Environmental (Continued)

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

4. EQUIPMENT

Equipment is comprised of office furniture and computer equipment and is recorded at cost, net of accumulated amortization of $35,930 (2006 - $29,524).

5. CAPITAL STOCK

Authorized
100,000,000 common shares without par value

Issued

	Number of Shares	Amount
Balance, March 31, 2007	34,645,973	$ 8,393,769
Private placement for cash, net of issuance costs	13,243,750	2,448,428
Balance, December 31, 2007	47,889,723	$ 10,842,197

In May 2007, the Company completed a brokered private placement and issued 12,500,000 units at a price of $0.20 per unit for gross proceeds of $2,500,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share until May 31, 2009 at a price of $0.30. As consideration for services, the agents received commissions of $26,250 cash, 743,750 units on the same terms as above and 1,250,000 compensation options. Each compensation option entitles the agents to purchase one broker unit until May 31, 2009 at an exercise price of $0.20. Each broker unit consists of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share until May 31, 2009 at a price of $0.30. All securities issued pursuant to the private placement have a four-month hold period that expires on October 12, 2007.

During the year ended March 31, 2007, the Company issued 875,000 common shares valued at $191,250 for acquisition of mineral properties (2006 – 554,752 common shares valued at $134,091).

During the year ended March 31, 2006, the Company completed a private placement for 4,170,000 units at $0.15 per unit, each unit consisting of one common share and one-half of one purchase warrant exercisable at $0.25 to February 1, 2007. In relation to this private placement, 224,000 agent's warrants with the same terms were also issued and finders' fees and finance

5. CAPITAL STOCK (Continued)

charges of $26,880 were paid.

During the year ended March 31, 2006, the Company arranged a private loan for a total of $100,000. The Company agreed to pay bonus common shares of 200,000 at a value of $20,000 as consideration for the loan. The loan had a term of one year bearing interest at a rate of 12% per annum, compounded monthly, resulting in an interest expense of $24,551 including the value of $20,000 for the bonus common shares issued. The loan was repaid during the year as to $40,000 cash, 400,000 common shares with a value of $60,000 and 200,000 share purchase warrants exercisable at $0.25 on or before February 10, 2007. The share purchase warrants have been ascribed a fair value of $24,280 calculated using the Black-Scholes option pricing model.

During the year ended March 31, 2006, the Company issued 1,600,000 common shares valued at $240,000 in settlement of debt with a related party (note 6(a)).

(a) Share purchase warrants

The following summarizes information about the fair value of share purchase warrants:

	2007	2006
Balance, beginning of year	$ 24,280	$ 14,500
Expiry of share purchase warrants	(24,280)	(14,500)
Issuance of share purchase warrants	0	24,280
Balance, end of year	$ 0	$ 24,280

A summary of the changes in the Company's share purchase warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2007	2,085,000	$ 0.25
Issued	6,621,875	$ 0.30
Exercised	0	0.00
Expired	0	0.00
Balance, December 31, 2007	8,706,875	$ 0.29

The Company has outstanding share purchase warrants, which entitle the holders to purchase common shares as follows:

Number of Shares 2007	Exercise Price	Expiry Date
2,085,000	$ 0.25	February 1, 2008 *
6,621,875	$ 0.30	May 30, 2009
8,706,875		

* extended from February 1, 2007

5.. CAPITAL STOCK (Continued)

(a) Share purchase warrants (continued)

In addition, the Company granted Agents Options to acquire 1,250,000 units exercisable at $0.20 per unit. Each unit consists of one common share and one-half of one share purchase warrant exercisable at a price of $0.30 per one whole warrant. The expiry date is May 30, 2009.

(b) Stock options

As at December 31, 2007, the Company had stock options outstanding to directors, employees and consultants for the purchase of up to 5,267,500 common shares exercisable as follows:

Options Outstanding		
Number of Shares	Exercise Price	Expiry Date
680,000	$ 0.12	April 4, 2008
712,500	$ 0.18	September 11, 2008
1,370,000	$ 0.10	October 1, 2009
500,000	$ 0.20	February 25, 2010
905,000	$ 0.18	January 4, 2011
1,100,000	$ 0.25	May 4, 2012
5,267,500		

A summary of the status of the Company's stock options as at September 30, 2007 and changes during the years then ended is as follows:

	2007	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	4,297,500	$ 0.15
Granted	1,100,000	$ 0.25
Exercised	0	$ 0.00
Expired	(130,000)	$ 0.15
Outstanding at end of year	5,267,500	$ 0.17

5.. CAPITAL STOCK (Continued)

(c) Option compensation

The fair value of stock options granted to directors and employees that have vested has been recorded as an expense during the year and included in option compensation.

	2008	2007	2006
Balance, beginning of year	$ 475,788	$ 383,897	$ 265,262
Stock-based compensation	136,628	107,199	127,423
Exercise of options	0	0	(8,788)
Stock options cancelled	0	(15,308)	0
Balance, end of period	$ 612,416	$ 475,788	$ 383,897

The fair value of stock options is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	N/A	3.79% - 3.99%
Expected dividend yield	N/A	0
Expected stock price volatility	N/A	127.22% - 184.16%
Expected option life in years	N/A	1 - 5

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(d) Contributed surplus

	2007	2006
Balance, beginning of year	$ 86,306	$ 71,806
Expiry of share purchase warrants	24,280	14,500
Stock options cancelled	15,308	0
Balance, end of period	$ 125,894	$ 86,306

6. RELATED PARTY TRANSACTIONS

(a) The Company conducts the majority of its exploration activities through an exploration services contractor in which a director is a principal. The Company paid or accrued amounts payable to that contractor of $406,703 (2006 - $786,147) for exploration costs and $223,086 (2006 - $177,469) to reimburse office and administrative costs. These transactions were made in the normal course of operations for consideration at industry standard rates established and accepted by the related parties. As at December 31, 2007, the Company has an advance $53,435 due from that contractor (2006 - $459,181 was due to that contractor).

(b) Management fees of $13,500 (2006 - $13,500) and $27,123 (2006 - $23,547) for rental of shared office premises was paid to a company in which a director is a principal; as at December 31, 2007, the Company owed that company $4,514 (2006 - $12,647).

(c) As at December 31, 2007, the Company owed $2,146 (2006 - $2,146) to a company with two directors in common.

(d) Legal fees in the amount of $26,838 (2006 - $6,243) were paid to a firm in which an officer of the Company is a partner. As at December 31, 2007, the Company owed $3,716 (2006 - $11,013) to that firm.

7. INCOME TAXES

The Company has accumulated losses for tax purposes of approximately $1,748,000 that expire as follows:

2008	$	290,000
2009		113,000
2010		200,000
2014		252,000
2015		178,000
2016		354,000
2027		361,000
	$	1,748,000

Future income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the balance sheet items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes.

7.. INCOME TAXES (Continued)

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2007	2006
	34.12%	34.50%
Income tax benefit computed at Canadian statutory rates	$ 173,721	$ 712,792
Temporary differences not recognized in year	(2,003)	(517,173)
Stock-based compensation	(36,576)	(43,961)
Far value of share purchase warrants	0	(8,377)
Permanent differences not recognized	(894)	(27,654)
Unrecognized tax losses	(134,248)	(115,627)
	$ 0	$ 0

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rate of 34.12%, are as follows:

	2007	2006
Future income tax assets		
Temporary differences in assets	$ 894,096	$ 916,954
Net tax losses carried forward	596,578	543,879
	1,490,674	1,460,833
Valuation allowance	(1,490,674)	(1,460,833)
Future income tax assets, net	$ 0	$ 0

8. SEGMENTED INFORMATION

The Company has one operating segment, mineral exploration and development. All of the Company's assets are located in Canada and the United States of America.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2007	2006
Interest received during the period	$ 21,922	$ 1,823

10. COMMITMENT

During 2007, the Company and others, entered into a lease agreement for the rental of office premises for a six-year period, expiring March 31, 2013. The cost of the entire premises is shared primarily between the Company and four other companies related by a common director. The Company's proportionate share of minimum annual rental payments under this arrangement is approximately $36,000.

11. EVENTS

During the fiscal period ending December 31, 2007, the Company acquired another two exploration properties and expanded two of its holdings on existing properties, all in Nevada.

The Company's seventh property in Nevada is the 100% owned Root Spring property which consists of a block of staked 62 unpatented claims and lies about 50 miles south of the city of Winnemucca, Nevada.

The Company's eighth property in Nevada is the 100% owned Cooks Creek property which consists of a block of a block of staked 168 unpatented claims and lies about 27 miles south of the town of Battle Mountain, Nevada.

A further 251 claims have been staked expanding the Painted Hills property to 301 claims. The Painted Hills property lies 83 miles northwest of Winnemucca, Nevada.

A further 11 patented claims, covering the historic Mayflower Mine, have been staked expanding the North Bullfrog property to 172 claims and 5 mining leases. The North Bullfrog property is located in southwestern Nevada.

12. SUBSEQUENT EVENT

On January 9, 2008, the Company announced the signing of two letter agreements with Gold Fields Netherland Services BV, a subsidiary of Gold Fields Ltd. Under these agreements Gold Fields can earn up to a 70% interest in two properties currently 100% held by the Company and within the Carlin Trend in Nevada. The two properties are the Richmond Summit and Dry Gulch properties. Gold Fields has committed a total of US $1.4 million in exploration expenses in the first year of these agreements.