

**HIGH RIDGE RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2007**

## AUDITORS' REPORT

To the Shareholders of  
High Ridge Resources Inc.

We have audited the consolidated balance sheet of High Ridge Resources Inc. as at December 31, 2007 and the consolidated statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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 December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited financial statements at December 31, 2006 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated March 30, 2007.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

April 18, 2008



**HIGH RIDGE RESOURCES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**

	2007	2006
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 119,553	\$ 320,187
Receivables	14,508	10,841
Mining tax credit receivable (Note 13)	102,374	102,374
Prepaid expenses	<u>32,154</u>	<u>12,976</u>
	268,589	446,378
<b>Equipment</b> (Note 4)	67,494	32,309
<b>Advances on mineral properties</b> (Note 5)	17,728	-
<b>Mineral property interests</b> (Note 5)	2,428,233	1,105,109
<b>Reclamation bonds</b> (Note 5)	<u>25,000</u>	<u>17,000</u>
	<u>\$ 2,807,044</u>	<u>\$ 1,600,796</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 279,589</u>	<u>\$ 89,024</u>
<b>Shareholders' equity</b>		
Share capital (Note 6)	4,218,118	2,045,719
Share subscriptions received in advance (Note 13)	136,500	-
Contributed surplus (Note 6)	587,087	415,555
Deficit	<u>(2,414,250)</u>	<u>(949,502)</u>
	<u>2,527,455</u>	<u>1,511,772</u>
	<u>\$ 2,807,044</u>	<u>\$ 1,600,796</u>

**Nature and continuance of operations** (Note 1)

**Commitment and contingency** (Note 11)

**Subsequent events** (Note 13)

**On behalf of the Board:**

“Gary Anderson” \_\_\_\_\_ Director “David McElhanney” \_\_\_\_\_ Director

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

**HIGH RIDGE RESOURCES INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT**  
**YEAR ENDED DECEMBER 31**

	2007	2006
<b>ADMINISTRATIVE EXPENSES</b>		
Amortization	\$ 17,926	\$ 5,773
Consulting and management	181,327	169,684
Foreign exchange	14,461	(272)
Insurance	12,312	2,838
Investor relations	66,172	49,287
Office and sundry	92,541	17,885
Professional fees	315,446	47,218
Property investigations	26,723	83,872
Regulatory and transfer agent fees	25,685	42,875
Rent	56,696	24,616
Salaries and benefits	163,867	-
Shareholder information	94,319	35,711
Stock-based compensation (Note 6)	279,749	130,926
Telephone	26,587	14,282
Travel and business development	<u>63,202</u>	<u>49,403</u>
	<u>(1,437,013)</u>	<u>(674,098)</u>
<b>OTHER ITEMS</b>		
Interest income	23,785	5,749
Write-off of mineral property (Note 5)	(51,520)	-
Loss on disposal of equipment	<u>-</u>	<u>(227)</u>
	<u>(27,735)</u>	<u>5,522</u>
<b>Loss and comprehensive loss for the year</b>	(1,464,748)	(668,576)
<b>Deficit, beginning of year</b>	<u>(949,502)</u>	<u>(280,926)</u>
<b>Deficit, end of year</b>	<u>\$ (2,414,250)</u>	<u>\$ (949,502)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.09)</u>	<u>\$ (0.06)</u>
<b>Weighted average number of common shares issued and outstanding - basic and diluted</b>	<u>16,195,881</u>	<u>11,571,770</u>

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

**HIGH RIDGE RESOURCES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (1,464,748)	\$ (668,576)
Items not affecting cash:		
Amortization of equipment	17,926	5,773
Stock-based compensation	279,749	130,926
Write-off of mineral property	51,520	-
Loss on disposal of equipment	-	227
Changes in non-cash working capital items:		
(Increase) decrease in receivables	(3,667)	3,402
Increase in mining tax credit receivable	-	(102,374)
Increase in prepaid expenses	(19,178)	(13,443)
Increase (decrease) in accounts payable and accrued liabilities	<u>164,609</u>	<u>(11,451)</u>
Net cash used in operating activities	<u>(973,789)</u>	<u>(655,516)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on issue of capital stock	1,872,218	1,677,909
Share issuance costs	(126,036)	-
Share subscriptions received in advance	<u>136,500</u>	<u>-</u>
Net cash provided by financing activities	<u>1,882,682</u>	<u>1,677,909</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of reclamation bonds	(8,000)	(3,500)
Acquisition of mineral property interests	(413,599)	(66,362)
Payment of deferred exploration expenditures	(617,089)	(621,707)
Advances on mineral properties	(17,728)	-
Proceeds on disposal of equipment	-	1,816
Acquisition of equipment	<u>(53,111)</u>	<u>(36,956)</u>
Net cash used in investing activities	<u>(1,109,527)</u>	<u>(726,709)</u>
<b>Change in cash during the year</b>	(200,634)	295,684
<b>Cash, beginning of the year</b>	<u>320,187</u>	<u>24,503</u>
<b>Cash, end of the year</b>	<u>\$ 119,553</u>	<u>\$ 320,187</u>

**Supplemental disclosure with respect to cash flows (Note 9)**

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

**HIGH RIDGE RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2007

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

High Ridge Resources Inc, (“the Company”) was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange. The Company’s primary business is the acquisition and exploration of mineral interests. The Company is considered to be in the exploration stage.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The Company has not yet determined whether its mineral interests contain economically recoverable resources. The recoverability of amounts shown for mineral interests and their related deferred exploration expenditures is dependent upon the discovery of economically recoverable reserves. The Company does not generate sufficient cash flow from operations to adequately fund its exploration activities, and has therefore relied principally upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company.

These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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	2007	2006
Deficit	\$ (2,414,250)	\$ (949,502)
Working capital	(11,000)	357,354

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**Generally accepted accounting principles**

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. All amounts, unless specifically indicated otherwise, are presented in Canadian dollars.

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Minera High Ridge del Peru, incorporated in Peru. All inter-company transactions and balances have been eliminated upon consolidation. The Company has determined that it has no variable interest entities as at either December 31, 2007 and 2006.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported amounts of revenues earned and expenses incurred during the reporting periods.

**HIGH RIDGE RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Use of estimates (cont'd...)**

The Company's current items involving substantial measurement uncertainty are the carrying costs of mineral interests and their related deferred exploration expenditures, the estimate for future site restoration and abandonment costs, the fair value of financial instruments, asset retirement obligation, useful life of amortization, the determination of the value of stock-based compensation and future income taxes. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future changes in such estimates could be material.

**Equipment and amortization**

Equipment is recorded at cost and is amortized over its estimated useful life on the declining balance method at the following rates:

Computer equipment	30%
Computer software	100%
Office furniture and equipment	20%
Field equipment	20%

**Mineral property interests**

All costs related to the acquisition, exploration and development of mineral property interests are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

Government assistance is recorded as a reduction of the cost of the applicable assets as determined by the terms and conditions of the agreement under which the assistance is provided to the Company.

The amounts shown for mineral property interests do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

**Asset retirement obligations**

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The Company does not have any significant asset retirement obligation as at December 31, 2007.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Stock-based compensation**

The Company uses the fair value-based method for stock-based compensation and therefore all awards to employees and non-employees will be recorded at fair value on the date of the grant and expensed over the period of vesting. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Any consideration paid by the option holders to purchase shares is credited to capital stock.

**Future income taxes**

Future income taxes are recorded using the asset and liability method. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Loss per share**

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. For the years presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted-average number of shares outstanding during the year.

**Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Foreign currency translation**

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those in effect at the time of the transaction. Exchange gains and losses arising on translation are included in the statements of loss and comprehensive loss.

**Financial instruments**

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. The Company did not have any comprehensive income in the year.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading financial instruments, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired.

Cash is classified as held-for-trading. Receivables and mining tax credit receivable are classified as loans and receivables and reclamation bond is classified as held-to-maturity investment. Accounts payable and accrued liabilities are classified as other liabilities.

The adoption of these new sections has not had a significant impact on the Company's financial position, results of operations and cash flows.

**Comparative figures**

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

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

#### *Assessing Going Concern*

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose and entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

#### *Financial Instruments*

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3863, *Financial Instruments – Presentation*, and Section 3865, *Hedges*. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

#### *Capital Disclosures*

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

#### *Goodwill and Intangible Assets*

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

**HIGH RIDGE RESOURCES INC.**  
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**3. RECENT ACCOUNTING PRONOUNCEMENTS (cont'd...)**

*International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

**4. EQUIPMENT**

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	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 37,073	\$ 9,834	\$ 27,239	\$ 15,028	\$ 3,175	\$ 11,853
Computer software	11,577	6,696	4,881	1,814	907	907
Office furniture and equipment	38,644	7,864	30,780	22,125	2,576	19,549
Field equipment	4,784	190	4,594	-	-	-
	<u>\$ 92,078</u>	<u>\$ 24,584</u>	<u>\$ 67,494</u>	<u>\$ 38,967</u>	<u>\$ 6,658</u>	<u>\$ 32,309</u>

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**HIGH RIDGE RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007**

**5. MINERAL PROPERTY INTERESTS**

2007	Chuchi	Newton Hill	Silver Bay	Pacococha	Chanape	Other	Total
<b>Acquisition costs</b>							
Balance as at December 31, 2006	\$ 208,442	\$ 98,048	\$ 26,000	\$ -	\$ -	\$ -	\$ 332,490
Additions:							
Shares issued	45,000	53,000	-	165,000	55,000	-	318,000
Cash payments	50,000	12,000	10,000	134,250	107,400	-	313,650
Other	7,319	2,928	-	-	28,952	60,750	99,949
	<u>102,319</u>	<u>67,928</u>	<u>10,000</u>	<u>299,250</u>	<u>191,352</u>	<u>60,750</u>	<u>731,599</u>
Balance as at December 31, 2007	<u>310,761</u>	<u>165,976</u>	<u>36,000</u>	<u>299,250</u>	<u>191,352</u>	<u>60,750</u>	<u>1,064,089</u>
<b>Exploration costs</b>							
Balance as at December 31, 2006	144,734	516,803	111,082	-	-	-	772,619
Additions							
Assays	-	-	-	-	403	-	403
Camp and field supplies	1,335	-	-	6,127	29,339	-	36,801
Equipment and vehicle rentals	-	-	-	15,547	13,822	-	29,369
Field office and administration	-	-	-	23,208	54,462	-	77,670
Geological and geophysical	20,270	2,604	4,188	22,746	44,731	-	94,539
License and permits	-	-	-	34,794	18,302	-	53,096
Professional fees	-	-	-	155,141	41,341	-	196,482
Reports and maps	598	-	-	14,014	21,914	-	36,526
Transportation and travel	2,673	-	-	24,954	90,532	-	118,159
	<u>24,876</u>	<u>2,604</u>	<u>4,188</u>	<u>296,531</u>	<u>314,846</u>	<u>-</u>	<u>643,045</u>
Balance as at December 31, 2007	<u>169,610</u>	<u>519,407</u>	<u>115,270</u>	<u>296,531</u>	<u>314,846</u>	<u>-</u>	<u>1,415,664</u>
Written-off during the year	-	-	-	-	-	(51,520)	(51,520)
Total, December 31, 2007	\$ 480,371	\$ 685,383	\$ 151,270	\$ 595,781	\$ 506,198	\$ 9,230	\$ 2,428,233

**HIGH RIDGE RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. MINERAL PROPERTY INTERESTS (cont'd...)**

2006	Chuchi	Newton Hill	Silver Bay	Total
<b>Acquisition costs</b>				
Balance as at December 31, 2005	\$ 109,491	\$ 54,048	\$ 18,500	\$ 182,039
Additions:				
Shares issued	60,000	32,000	-	92,000
Cash payments	38,951	12,000	7,500	58,451
	98,951	44,000	7,500	150,451
Balance as at December 31, 2006	208,442	98,048	26,000	332,490
<b>Exploration costs</b>				
Balance as at December 31, 2005	116,367	83,579	37,957	237,903
Additions				
Assays	-	21,568	1,014	22,582
Camp and field supplies	752	59,502	6,250	66,504
Drilling	-	353,732	-	353,732
Field equipment	-	5,924	1,040	6,964
Geological and geophysical	31,745	39,449	41,800	112,994
Labour	-	21,373	24,430	45,803
Reports and maps	1,140	3,244	979	5,363
Transportation	-	11,335	11,813	23,148
Government assistance	(5,270)	(82,903)	(14,201)	(102,374)
	28,367	433,224	73,125	534,716
Balance as at December 31, 2006	144,374	516,803	111,082	772,619
Total, December 31, 2006	\$ 353,176	\$ 614,851	\$ 137,082	\$ 1,105,109

Title to mineral properties involves inherent risks due to difficulties of determining the validity of certain mineral claims as well as the potential for problems arising from the frequently ambiguous conveyancing history, characteristic of many mining properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing, with the exception of the Bella Rubia concessions.

**Chuchi Property**

On October 25, 2004, the Company entered into an option agreement to earn a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia, referred to as the Chuchi Property. The property is subject to a 3% net smelter return royalty ("NSR"). To exercise the option, the Company paid a total of \$125,000 (2006 - \$75,000) and issued aggregate of 400,000 (2006 - 300,000) common shares valued at a total of \$130,000 (2006 - \$85,000) and is required to pay annual advance royalties of \$20,000 from October 26, 2008 ceasing in the year in which commercial production commences.

**5. MINERAL PROPERTIES (cont'd...)**

**Chuchi Property (cont'd...)**

The NSR can be reduced to 1% by paying \$2,000,000 to the optionors. The Company is also required to issue an additional 200,000 common shares upon the commencement of commercial production.

The Company acquired an additional mineral claim by staking.

The Company paid a total of \$15,000 (2006 - \$7,000) for a reclamation bond pursuant to regulatory requirements against potential reclamation obligations relating to exploration work on the Chuchi mineral interest.

**Newton Hill Property**

On July 20, 2004, the Company entered into an option agreement to acquire a 100% interest in certain mineral claims located in the Clinton Mining Division of British Columbia, referred to as the Newton Hill Property. The property is subject to a 2% NSR. To exercise the option, the Company paid a total of \$48,000 (2006 - \$36,000), issued aggregate of 300,000 (2006 - 200,000) common shares valued at a total of \$110,000 (2006 - \$57,000), and is required to:

- pay \$12,000 and issue 100,000 common shares on or before June 26, 2008;
- pay \$60,000 and issue 100,000 common shares on or after June 26, 2009; and
- incur exploration costs of \$750,000 by June 26, 2009.

The NSR can be purchased at any time by the Company for \$1,200,000.

The Company has acquired additional mineral claims by staking.

The Company paid \$10,000 (2006 - \$10,000) for a reclamation bond pursuant to regulatory requirements against potential reclamation obligations relating to exploration work on the Newton Hill mineral interest.

**Silver Bay Property**

The Company holds an option to acquire a 100% interest in certain mineral claims located in the Slocan Mining Division of British Columbia, referred to as the Silver Bay Property. The property is subject to a 2% NSR. To exercise this option, the Company paid a total of \$26,000 (2006 - \$16,000), issued aggregate of 40,000 (2006 - 40,000) common shares valued at a total of \$10,000 (2006 - \$10,000), and is required to:

- pay \$12,000 on or before August 31, 2008;
- pay \$12,000 and issue 60,000 common shares on or before August 31, 2009; and
- incur exploration costs of \$350,000 on or before August 31, 2009.

The NSR can be purchased at any time by the Company for \$1,200,000.

5. **MINERAL PROPERTIES** (cont'd...)

**Pacococha Property**

*Rosicler – El Domo and Pacococha - Germania*

On March 22, 2007, the Company was granted an option to acquire a 100% interest in the Rosicler-El Domo and Pacococha-Germania mining concessions located in Peru, collectively referred to as the Pacococha Property. As consideration for the concessions, the Company paid \$134,250 (US\$125,000) and issued 300,000 common shares valued at \$165,000 and is required to:

- pay US\$475,000 and issue 600,000 common shares during fiscal 2008 (Note 13(e));
- pay US\$375,000 and issue 600,000 common shares during fiscal 2009;
- pay US\$625,000 and issue 600,000 common shares during fiscal 2010;
- pay US\$1,000,000 and issue 600,000 common shares during fiscal 2011; and
- pay US\$3,400,000 and issue 300,000 common shares during fiscal 2012.

The property is subject to a 2.5% NSR which can be purchased by the Company has for US\$1,000,000.

The Company is obligated, pro-rata over the term of the option, to pay US\$300,000 and issue 150,000 common shares as finders' fees in connection with the transaction.

*Bella Rubia*

On June 9, 2007, the Company was granted an option to acquire a 100% interest in certain mining concessions located in the Pacococha mine area in Peru referred to as the Bella Rubia concessions. To exercise the option, the Company is required to pay US\$700,000 in semi-annual payments over five years, commencing on the date of the registering of the documented agreement. As at December 31, 2007, the agreement is not yet registered, pending resolution of title interest (Note 13).

**Chanape Property**

On February 8, 2007, the Company entered into an option to acquire a 100% interest in certain concessions located in Peru, referred to as the Chanape property. To acquire its interest, the Company paid \$107,400 (US\$100,000), issued 100,000 common shares valued at \$55,000 and is required to:

- pay US\$150,000 and issue 200,000 common shares during fiscal 2008;
- pay US\$250,000 and issue 200,000 common shares during fiscal 2009;
- pay US\$350,000 and issue 200,000 common shares during fiscal 2010;
- pay US\$200,000 and issue 200,000 common shares during fiscal 2011; and
- pay US\$950,000 and issue 100,000 common shares during fiscal 2012.

The property is subject to a 2.5% NSR and the Company has the option to purchase a 1.5% NSR for US\$1,000,000.

**Advances on mineral properties**

As at December 31, 2007, the Company has advanced \$17,728 (2006 - \$Nil) related to mineral property projects in Peru.

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**6. SHARE CAPITAL**

		Number of Shares		Capital Stock		Contributed Surplus
Authorized						
Unlimited number of common shares without par value						
Balance, December 31, 2005		1	\$	1	\$	182,543
Escrow shares	i)	4,800,000		480		-
Seed shares	i)	1,312,609		295,337		-
Flow-through shares	iii)	274,428		96,050		-
Tax benefits renounced to flow-through share subscribers	iii)	-		(34,693)		-
Initial public offering	ii)	5,000,000		1,500,000		-
Value assigned to agents' warrants as part of issue costs		-		(118,553)		118,553
Corporate finance fee	ii)	100,000		30,000		-
Share issuance costs		-		(237,515)		-
Warrants exercised		128,900		38,670		-
Private placement	iii)	768,687		307,475		-
Contributed surplus allocated on warrants exercised		-		16,467		(16,467)
Stock-based compensation		-		-		130,926
Shares issued for mineral properties		<u>540,000</u>		<u>152,000</u>		<u>-</u>
Balance, December 31, 2006		12,924,625		2,045,719		415,555
Stock options exercised		342,500		102,750		-
Warrants exercised		1,175,935		419,468		-
Private placement	iii)	3,000,000		1,350,000		-
Share issuance costs		-		(179,636)		-
Agent's units	iii)	119,110		53,600		-
Value assigned to agents' warrants as part of issuance costs	iii)	-		(67,779)		67,779
Contributed surplus allocated on options exercised		-		76,116		(76,116)
Contributed surplus allocated on warrants exercised		-		99,880		(99,880)
Stock-based compensation		-		-		279,749
Shares issued for mineral properties		<u>600,000</u>		<u>318,000</u>		<u>-</u>
Balance, December 31, 2007		18,162,170	\$	4,218,118	\$	587,087

i) Escrow Shares

The Company issued 4,800,000 common shares at a price of \$0.0001 per share for total cash proceeds of \$480, and issued 1,312,609 common shares at \$0.225 per share for proceeds of \$295,337. Of these shares, 5,293,540 were placed in escrow to be released ratably over a 36 month period. As at December 31, 2007, 2,382,093 common shares were in escrow.

ii) Initial Public Offering

On February 24, 2006, the Company completed its initial public offering ("IPO") by issuing 5,000,000 units at \$0.30 per unit, for gross proceeds of \$1,500,000 before share issue costs of \$194,404. Each unit sold was comprised of one share and one-half of one share purchase warrant. One whole warrant entitled the holder to purchase one common share of the Company until February 24, 2007 at \$0.45 per share. The Company also issued to its agents an additional 100,000 units at \$0.30 per unit as corporate finance fees. The agents units have the same terms as the IPO units.

**HIGH RIDGE RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**6. SHARE CAPITAL (cont'd...)**

ii) Initial Public Offering (cont'd...)

The Company's agents were granted non-transferable agent share purchase warrants entitling the agents to purchase up to 20% of the total number of shares sold through the IPO, being 1,000,000 warrants. One whole warrant entitled the holder to purchase one common share of the Company until February 24, 2007 at \$0.30 per share. The Company recorded the fair value of these warrants, being \$118,553, to share issuance costs.

iii) Private Placements

In June, 2006 the Company issued 274,428 flow-through common shares at a price of \$0.35 per share for gross proceeds of \$96,050. Upon renunciation, a charge of \$34,693 was recorded to recognize the future income tax liability.

On June 28, 2006, the Company completed a private placement raising a total of \$307,475 through the issuance of 768,687 units at a price of \$0.40 per unit. Each unit consisted of one common share and one-half of one share purchase warrant. One whole warrant entitled the holder to purchase one additional common share of the Company at a price of \$0.50 until June 28, 2007. A finder's fee of \$4,120 in cash was paid in respect of this private placement.

In May 2007, the Company completed a brokered private placement of 3,000,000 units at \$0.45 per unit, for proceeds of \$1,350,000 before share issue costs of \$179,636. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share expiring November 28, 2008, at a price of \$0.60 per common share.

The Company issued 19,110 Agents' units valued at \$53,600 as part of share issuance costs under the same terms as those to be issued pursuant to the private placement being at \$0.45 per unit. The Company also granted 300,000 Agents' warrants in respect of this private placement. Each Agents' warrant is exercisable at \$0.45 per share for an eighteen-month period. The Company recorded the fair value of these warrants being \$67,779 to share issuance costs.

**Stock options and warrants**

The Company has a 10% rolling incentive stock option plan for the benefit of its directors, officers, employees and consultants, whereby options to purchase common shares of the Company may be granted from time to time, provided that the maximum number of options that are outstanding at any time shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The option may be granted for a maximum of five years and vesting is determined by the Board of Directors.

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**6. SHARE CAPITAL (cont'd...)**

Stock options are summarized as follows:

	Number of Options		Weighted Average Exercise Price
Options outstanding, December 31, 2005	800,000	\$	0.30
Granted	580,000		0.30
Expired	<u>(250,000)</u>		0.30
Options outstanding, December 31, 2006	1,130,000		0.30
Granted	1,066,217		0.41
Exercised	(342,500)		0.30
Expired	<u>(37,500)</u>		0.30
Options outstanding, December 31, 2007	1,816,217	\$	0.37
Options exercisable, December 31, 2007	1,645,000	\$	0.37

The following stock options were outstanding at December 31, 2007:

Exercise price	Number of Options	Expiry Date
0.30	150,000	February 8, 2009
0.30	100,000	February 15, 2009
0.40	200,000	February 22, 2009
0.40	50,000	May 2, 2009
0.40	166,217	December 11, 2009 (subsequently cancelled)
0.30	550,000	March 1, 2011
0.30	200,000	March 1, 2011
0.50	375,000	June 15, 2012
0.50	<u>25,000</u>	July 3, 2012
	1,816,217	

**Stock-based compensation**

During the year ended December 31, 2007, the Company granted 1,066,217 (2006 – 580,000) stock options with a total estimated fair value of \$327,015 (2006 - \$130,926) or \$0.31 (2006 - \$0.23) per option. Vesting periods ranged from date of grant to a period of one year. For the year ended December 31, 2007, the Company recorded \$279,749 (2006 - \$130,926) as stock-based compensation expense.

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**6. SHARE CAPITAL (cont'd...)**

**Stock-based compensation (cont'd...)**

The fair value of stock options and compensatory warrants granted is estimated on the grant or issue date using the Black-Scholes option-pricing model. The weighted average assumptions used in the calculation of fair value are as follows:

	2007	2006
Risk-free interest rate	4.3%	3.9%
Expected life	2.8 years	2 years
Expected stock volatility	103 %	100%
Expected dividend rate	0.00%	0.00%

**Share purchase warrants**

Share purchase warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, December 31, 2005	-	\$ -
Granted/issued	3,934,339	0.42
Expired	(128,900)	0.30
Warrants outstanding, December 31, 2006	3,805,439	0.42
Granted/issued	3,419,110	0.58
Exercised	(1,175,935)	0.36
Expired	(2,629,504)	0.45
Warrants outstanding, December 31, 2007	3,419,110	\$ 0.58

The following warrants expire as follows:

Exercise price	Number of Options	Expiry Date
\$ 0.45	300,000	November 28, 2008
0.45	119,110	November 28, 2008
0.60	<u>3,000,000</u>	November 28, 2008
\$ 0.58	3,419,110	

**7. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash, receivables, advances on mineral properties and accounts payable and accrued liabilities. The carrying values of the financial instruments approximate their fair values, due to the relatively short period to maturity of these instruments. The Company is not subject to significant interest rate risk arising from these instruments.

**Currency risk**

The Company is exposed to financial risk arising from fluctuation of foreign exchange rates and the degree of volatility of those rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risks.

**Receivable risk**

The Company is exposed to credit risk with respect to its receivables and advances on mineral properties.

**Political uncertainty**

In conducting operations in Peru, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions in Peru, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency restrictions, and rates and methods of taxation.

**8. RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2007, the Company entered into transactions with related parties as follows:

- a) paid or accrued consulting fees of \$149,609 (2006 - \$124,943) to directors and companies controlled by directors.
- b) paid or accrued geological consulting fees included in deferred exploration costs of \$Nil (2006 - \$148,191) to a director and companies controlled by directors.

As at December 31, 2007, accounts payable included \$27,135 (2006 - \$Nil) due to a director and companies controlled by directors for geological consulting services and prepaid expenses included \$8,010 (2006 - \$Nil) to a director and companies controlled by directors for travelling expenses.

These transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**HIGH RIDGE RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

For the year ended December 31, 2007, the Company's significant non-cash transactions consisted of:

- a) the accrual in mineral properties of deferred exploration costs incurred of \$25,956.
- b) the issuance of common shares valued at \$318,000 related to mineral property option agreements.
- c) the issuance of common shares valued at \$53,600 for Agents' units for share issuance costs.
- d) the issuance of compensatory Agents' warrants valued at \$67,779 for share issuance costs.
- e) the recognition of a fair value component of \$175,996 in respect of options and warrants exercised.

For the year ended December 31, 2006, the Company's significant non-cash transactions consisted of:

- a) the issuance of common shares valued at \$152,000 related to mineral property option agreements.
- b) the issuance of compensatory Agents' warrants valued at \$118,553 for share issuance costs.
- c) the recognition of a fair value component of \$16,467 in respect of options and warrants exercised.

The Company did not pay cash for interest or income taxes for 2007 or 2006.

**10. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

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	2007	2006
Loss before income taxes	\$ (1,464,748)	\$ (668,576)
Expected income tax (recovery)	\$ (500,000)	\$ (228,000)
Items not deductible for income tax purposes	140,000	68,000
Items deducted for income tax purposes	(25,000)	(81,000)
Recognized benefit of non-capital losses and change in tax rates	<u>385,000</u>	<u>241,000</u>
Future income tax recovery	<u>\$ -</u>	<u>\$ -</u>

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**HIGH RIDGE RESOURCES INC.**  
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**10. INCOME TAXES (cont'd...)**

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2007	2006
Future income tax assets (liabilities):		
Non-capital loss carry forwards	\$ 483,000	\$ 216,000
Equipment	5,000	-
Mineral properties	1,000	(32,000)
Financing costs	<u>66,000</u>	<u>65,000</u>
	555,000	249,000
Valuation allowance	<u>(555,000)</u>	<u>(249,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses of approximately \$1,760,000 available for deduction against future taxable income. These losses, if not utilized, will expire through to 2027. The Company has resource expenditures of approximately \$3,703,000 available for deduction against future taxable income. These losses, if not utilized, will carryforward indefinitely. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements and have been offset by a valuation allowance.

**11. COMMITMENT AND CONTINGENCY**

The Company has entered into office premises lease agreements with basic annual rental payments as follows:

2008	\$ 55,524
2009	42,099
2010	5,826

A claim has been filed against the Company from a former director for \$49,000. The Company is disputing the amount owing. The likelihood of the outcome is not determinable and no liability has been recorded in connection with this lawsuit.

**12. SEGMENTED INFORMATION**

The Company's primary business is the acquisition and exploration of mineral interests. The Company's geographic information is as follows:

	2007	2006
Capital assets:		
Canada	\$ 1,383,697	\$ 1,137,418
Peru	<u>1,112,030</u>	<u>-</u>
	<u>\$ 2,495,727</u>	<u>\$ 1,137,418</u>

**HIGH RIDGE RESOURCES INC.**  
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**13. SUBSEQUENT EVENTS**

Subsequent to December 31, 2007, the Company:

- a) issued 30,000 common shares at a value of \$12,000 as a finder's fee pursuant to mineral property agreements.
- b) issued 8,951,000 units at a price of \$0.30 per unit for gross proceeds of \$2,685,300 (\$136,500 received in 2007). Each unit consists of one common share and one half on one share purchase warrant, each full warrant entitling the holder to purchase one additional common share at a price of \$0.45 per share expiring between August 12, 2009 and October 7, 2009. The Company agreed to pay \$178,224 and issue 490,400 finder's warrants as issuance costs, each warrant entitling the holder to purchase one common share at a price of \$0.30 per share expiring between August 12, 2009 and October 7, 2009.
- c) paid US\$50,000 and issued 100,000 common shares at a value of \$34,000 pursuant to the Chanape property option agreement.
- d) paid US\$200,000 and issued 300,000 common shares at a value of \$105,000 pursuant to the Pacococha property option agreement.
- e) issued 250,000 common shares for proceeds of \$75,000 for options exercised.
- f) was notified that the Supreme Court of Justice in Lima, Peru, ordered that registration of the agreement to the Bella Rubia concession be deferred until resolution of a dispute between the Company and another Canadian public company, who claims that they also have an agreement relating to these claims. The Company has provided a guarantee of US\$50,000 in connection with registration of the property. On March 4, 2008, an action was commenced against the Company in the Supreme Court of British Columbia asserting false claim of ownership. The Company is of the opinion that its agreement is valid and prior to the alleged agreement of the other company.

The Company has been named as a defendant in Peru on several legal claims related to the mineral property. The Company believes the lawsuits are without merit and intends to defend the claims vigorously. The likelihood of the outcome is not determinable and no liability has been recorded in connection with these lawsuits.

- g) received a mining tax credit refund of \$102,374 together with accrued interest.