

**MANTLE RESOURCES INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**NINE MONTHS ENDED MARCH 31, 2007 and 2006**  
**(UNAUDITED – PREPARED BY MANAGEMENT)**

## **MANTLE RESOURCES INC.**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the interim consolidated financial statements have not been reviewed by an auditor.

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

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

May 30, 2007

# MANTLE RESOURCES INC.

CONSOLIDATED BALANCE SHEETS  
AS AT MARCH 31, 2007 AND JUNE 30, 2006  
(UNAUDITED – PREPARED BY MANAGEMENT)

	<b>March 31, 2007</b>	June 30, 2006
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 8,760,699	\$ 4,920,537
Deposits held in trust	269,875	–
Receivables	193,513	228,089
Prepaid expenses	3,176	–
Marketable securities	–	576,873
	<b>9,227,263</b>	<b>5,725,499</b>
<b>Reclamation bond</b>	<b>25,000</b>	<b>25,000</b>
<b>Equipment and leasehold improvements</b>	<b>8,999</b>	<b>10,244</b>
<b>Resource properties (Note 3)</b>	<b>26,511,772</b>	<b>2,659,424</b>
	<b>\$ 35,773,034</b>	<b>\$ 8,420,167</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 446,485	\$ 463,236
<b>Shareholders' equity</b>		
Capital stock (Note 4)	42,282,204	16,507,981
Share subscriptions (Note 4 )	2,564,500	–
Contributed Surplus (Note 4)	2,274,105	1,578,837
Deficit	(11,794,260)	(10,129,887)
	<b>35,326,549</b>	<b>7,956,931</b>
	<b>\$ 35,773,034</b>	<b>\$ 8,420,167</b>

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

# MANTLE RESOURCES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT  
FOR THE NINE MONTHS ENDED MARCH 31, 2007 AND 2006  
(UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
<b>ADMINISTRATION EXPENSES</b>				
Administration	\$ 7,500	\$ 3,000	\$ 22,500	\$ 12,000
Amortization	687	583	2,057	1,603
Consulting (recovery)	(7,414)	57,249	179,647	150,993
Flow through taxes	31,957	–	31,957	–
Interest and bank charges	967	560	2,526	1,163
Investor relations	208,128	–	208,128	–
Management fees	211,124	20,000	256,124	50,000
Office and miscellaneous	15,242	10,683	37,166	27,408
Professional fees	2,390	57,628	72,780	81,789
Regulatory fees	7,280	6,799	11,666	28,720
Rent	4,348	4,487	13,897	13,087
Stock-based compensation	47,201	1,182,744	701,219	1,545,566
Transfer agent fees	3,274	2,950	14,107	10,720
Travel and promotion	43,370	26,492	83,180	51,801
Wages and benefits	131,186	4,826	148,037	21,427
<b>Loss before other items</b>	<b>707,240</b>	<b>1,378,001</b>	<b>1,784,991</b>	<b>1,996,277</b>
<b>OTHER ITEMS</b>				
Interest and other income	64,281	18,722	154,339	20,383
Gain on sale of marketable securities	–	1,897	12,168	2,917
Loss on sale of capital asset	(12,873)	–	(12,873)	–
Write-off of capital assets	(1,485)	–	(1,485)	–
Write-off of resource properties (Note 3)	(3,000)	–	(3,000)	(59,882)
Write-off of marketable securities	(29,677)	–	(28,531)	–
	<b>17,246</b>	<b>20,619</b>	<b>120,618</b>	<b>(36,582)</b>
<b>Loss for the period</b>	<b>689,994</b>	<b>1,357,382</b>	<b>1,664,373</b>	<b>2,032,859</b>
<b>Deficit, beginning of period</b>	<b>11,104,266</b>	<b>8,685,546</b>	<b>10,129,887</b>	<b>8,010,069</b>
<b>Deficit, end of period</b>	<b>\$ 11,794,260</b>	<b>\$ 10,042,928</b>	<b>\$ 11,794,260</b>	<b>\$ 10,042,928</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.06)</b>	<b>\$ (0.05)</b>	<b>\$ (0.12)</b>
<b>Weighted average number of shares outstanding</b>	<b>49,032,198</b>	<b>22,770,306</b>	<b>34,213,221</b>	<b>16,836,695</b>

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

# MANTLE RESOURCES INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED MARCH 31, 2007 AND 2006 (UNAUDITED – PREPARED BY MANAGEMENT)

	Three months ended March 31,		Nine months ended March 31,	
	2007	2006	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Loss for the period	\$ (689,994)	\$(1,357,382)	\$(1,664,373)	\$(2,032,859)
Items not affecting cash:				
Amortization	687	583	2,057	1,603
Gain on sale of marketable securities	–	(1,897)	(12,168)	(2,917)
Loss on sale of asset	12,873	–	12,873	–
Stock-based compensation	47,201	1,182,744	701,219	1,545,566
Write-off of fixed assets	1,485	–	1,485	–
Write-off of resource properties	3,000	–	3,000	59,882
Write-off of marketable securities	29,677	–	28,531	–
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(46,815)	(29,666)	34,576	(59,890)
(Increase) decrease in prepaid expenses	(3,176)	–	(3,176)	3,741
Increase in deposits held in trust	(269,875)	–	(269,875)	–
(Increase) decrease in accounts payable and accrued liabilities	201,493	(966)	(16,750)	(4,568)
Cash used in operating activities	(713,444)	(206,584)	(1,182,601)	(489,442)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds on sale of marketable securities	–	5,572	79,280	9,322
Proceeds on sale of capital assets	17,100	–	17,100	–
Purchase of marketable securities	–	–	(135,640)	–
Purchase of equipment	–	(4,697)	(812)	(4,697)
Cash acquired upon take-over of Ecstall	535,302	–	535,302	–
Other assets	–	(25,000)	–	(25,000)
Resource property (costs) recovery	279,667	(238,764)	(2,065,391)	(1,202,529)
Cash provided by (used in) investing activities	832,069	(262,889)	(1,570,161)	(1,222,904)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Share subscriptions	2,564,500	–	2,564,500	–
Issuance of capital stock, net of issuance costs	(376,000)	5,280,314	4,028,424	8,240,002
Cash provided by financing activities	2,188,500	5,280,314	6,592,924	8,240,002
Increase in cash and cash equivalents during the period	2,307,125	4,810,841	3,840,162	6,527,656
Cash and cash equivalents, beginning of period	6,453,574	2,000,244	4,920,537	283,429
Cash and cash equivalents, end of period	\$ 8,760,699	\$ 6,811,085	\$ 8,760,699	\$ 6,811,085
Cash and cash equivalents				
Cash	\$ 3,381,699	\$ 1,811,085	\$ 3,381,699	\$ 1,811,085
Guaranteed Investment Certificate	\$ 5,379,000	\$ 5,000,000	\$ 5,379,000	\$ 5,000,000

### Supplemental disclosure with respect to cash flows (Note 5)

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

**1. BASIS OF PRESENTATION**

These interim consolidated financial statements have been prepared using Canadian generally accepted accounting principles (Canadian GAAP). The interim consolidated financial statements include normal recurring adjustments, which in management’s opinion, are necessary for a fair presentation of the financial results of the interim period presented.

The disclosures in these statements do not conform in all aspects to the requirements of Canadian GAAP for annual financial statements. These statements follow the same accounting policies and methods of their application as the most recent annual financial statements. These statements should be read in conjunction with the Company’s June 30, 2006 financial statements and notes thereto.

**2. ACQUISITION OF ECSTALL MINING CORPORATION**

On February 23, 2007, the Company acquired approximately 96% of the issued and outstanding shares of Ecstall Mining Corporation (“Ecstall”), a junior exploration company, pursuant to its take-over bid made December 22, 2006, as amended by its Notice of Variation dated January 29, 2007 and Notice of Extension dated February 9, 2007. The conditions of its Offer were satisfied and the Company took up an aggregate of 49.3 million shares of Ecstall which were validly tendered prior to the February 23, 2007 expiry date. Pursuant to the Offer, the Company issued and distributed to those shareholders who have tendered, 0.41 of one share of the Company for each Ecstall share tendered.

The results of Ecstall’s operations have been included in the consolidated financial statements since February 23, 2007.

Subsequent to the quarter ended March 31, 2007, the Company exercised its rights pursuant to compulsory acquisition procedures under the British Columbia Business Corporations Act to acquire, for the same consideration as that paid under the Offer, all of the remaining shares of Ecstall that were not tendered to the Offer.

**3. RESOURCE PROPERTIES**

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

	March 31, 2007	June 30, 2006
DA Property, Northwest Territories		
The Company held a 100% interest, subject to a 5% gross overriding royalty (“GOR”) on diamonds, a 5% net smelter returns (“NSR”) royalty on other minerals, and a 10% net profits interest (“NPI”), in certain mineral claims located in the Northwest Territories.		
During 2005, management decided to discontinue its funding of its interest in the property. Accordingly, the Company’s interest in this property was written-off.	\$ –	\$ 7,757
Written-off	–	(7,757)
	–	–

**MANTLE RESOURCES INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2007

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**3. RESOURCE PROPERTIES (cont'd...)**

	March 31, 2007	June 30, 2006
Armstrong Brook Gold Property, New Brunswick		
<p>The Company entered into an option agreement with Geodex Minerals Ltd. (“Geodex”) to earn a 65% interest in Geodex’s 100%-owned Armstrong Brook gold property, located in the Cape Spencer area near Saint John, New Brunswick.</p> <p>During the year ended June 30, 2006, the Company issued 100,000 common shares to Geodex pursuant to the option agreement and a further 50,000 common shares as a finder’s fee to a third party as per the terms of the option agreement.</p> <p>Management decided not to proceed with this option agreement. The Company introduced Geodex to Global Sortweb.Com Inc. (“Global”) and entered into a finder’s fee agreement as per the following terms:</p> <ul style="list-style-type: none"> <li>• \$25,000 within 7 business days from the date of acceptance for filing of the agreement.</li> <li>• \$10,000 within two months of the acceptance date.</li> </ul> <p>The Company has not collected these amounts yet.</p>		
Accordingly all acquisition and related exploration costs were written-off during the year ended June 30, 2006.	–	65,367
Written-off	–	(65,367)
	–	–

**Akie Property, British Columbia**

The Company entered into an agreement with Ecstall pursuant to which the Company was granted an option entitling it to earn a 65% interest in Ecstall’s Akie property, located in the Omineca Mining Division of British Columbia, subject to the following terms:

- (i) by making the following cash payments to Ecstall:
  - immediately, \$100,000 (paid);
  - on June 21, 2006, \$100,000 (paid);
  - on June 21, 2007, \$125,000 (paid in advance);
  - and on June 21, 2008, \$125,000 (paid in advance)
- (ii) by incurring a minimum of \$4,000,000 on exploration work on the property as follows:
  - by August 31, 2006, \$1,000,000 (incurred);
  - by August 31, 2007, an additional \$1,500,000 (incurred); and
  - by August 31, 2008, an additional \$1,500,000 (incurred).

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**3. RESOURCE PROPERTIES (cont'd...)**

	March 31, 2007	June 30, 2006
Akie Property, British Columbia (cont'd...)		
As per the original agreement, the Company shall be the operator of the Akie property until December 31, 2006 and responsible for managing all work carried out on the Akie property. In return and upon earning its 65% interest, Mantle shall be paid an operator's fee equal to 10 – 15% of the expenditures made on the properties. Ecstall has the right to become the operator of the Akie property commencing January 1, 2007 until Mantle exercises the option.		
Following earn-in by the Company of a 65% interest in the Akie property, further exploration and development will be carried out pursuant to a joint venture agreement, with the initial participating interests in the joint venture to be: Mantle – 65%; and Ecstall – 35%. Under the terms of the joint venture agreement, each of Mantle and Ecstall would be responsible for paying their proportionate share of all expenses respecting the Akie property, with a minimum of \$500,000 to be expended on exploration work on the Akie property during each year after June 1, 2008.		
The Company issued 150,000 shares as a finder's fee to a third party as per the terms of the agreement.		
During the period ended March 31, 2007, the Company acquired 100% interest in the Akie property pursuant to its take-over bid with Ecstall Mining Corporation. (Note 2)	23,538,308	2,649,424
Mt Alcock Property, British Columbia		
During the nine months ended March 31, 2007, the Company entered into a property purchase agreement to acquire, a 100% interest, subject only to a 1% Net Smelter Returns (NSR) royalty, in 18 mineral claims located in the Mt. Alcock area of northeastern British Columbia in consideration of the payment of \$75,000 cash and the issuance of 200,000 common shares (100,000 shares issued upon TSX Venture Exchange ("Exchange") approval and 100,000 shares issued on or prior to nine months after the anniversary of the Exchange acceptance date) of the Company. The Company has an option to purchase the entire NSR from the vendor for the sum of \$1 million cash, subject to Exchange approval.	139,315	–
West Range Property, British Columbia		
The Company entered into an agreement with West Range Exploration Ltd. ("West Range"), pursuant to which the Company has agreed to purchase all of West Range's interest held in its property located in British Columbia by making a payment of \$10,000 to West Range.	10,000	10,000





**4. CAPITAL STOCK**

**(a) Authorized and issued**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
As at June 30, 2006	26,478,864	\$ 16,507,981	\$ 1,578,837
Exercise of options	35,000	12,950	(5,950)
Exercise of warrants	6,572,899	1,543,022	–
Acquisition of property	100,000	55,000	–
Private placement	3,685,000	2,874,300	–
Ecstall take-over bid	19,713,498	21,684,848	–
Share issuance costs	–	(395,897)	–
Stock-based compensation	–	–	701,218
As at March 31, 2007	56,585,261	\$ 42,282,204	\$ 2,274,105

During the period ended March 31, 2007:

- (i) the Company completed a non-brokered private placement on April 10, 2007 of 3,500,000 Units at a price of \$1.15 per Unit. Each Unit consists of one common share and one-half share purchase warrant of the Company. Each whole warrant is exercisable at a price of \$1.75 until April 10, 2009. At March 31, 2007, the Company received \$2,564,500 in share subscriptions.
- (ii) an aggregate of 6,572,899 warrants were exercised at a price ranging from \$0.20 per share to \$0.85 per share and a total of 6,572,899 common shares were issued for total proceeds of \$1,543,022.
- (iii) 35,000 options were exercised at \$0.20 per share and 35,000 common shares were issued for gross proceeds of \$7,000. In addition, a reallocation of \$5,950 from contributed surplus to share capital was recorded on the exercise of these options.
- (iv) 100,000 shares were issued at a deemed value of \$0.55 per share towards the acquisition of the Mt Alcock Property.
- (v) the Company entered into a financing arrangement with Lundin Mining Corp., pursuant to which Lundin Mining purchased units equal to just under a 10 per-cent equity position in the Company. Lundin Mining has subscribed, by way of a non-brokered private placement, for 3,685,000 units of the Company at a price of \$0.78 per unit for gross proceeds of \$2,874,300. Each unit consists of one common share and one common share purchase warrant. Each warrant shall entitle the purchaser to purchase, at any time within 24 months from closing, one common share of the Company at a price of \$0.78.
- (vi) pursuant to the Company's take-over bid made December 22, 2006, as amended by its Notice of Variation dated January 29, 2007 and Notice of Extension dated February 9, 2007, the conditions of the Offer were satisfied and the Company took over Ecstall shares. The Company held approximately 96% of the outstanding shares of Ecstall and issued a total of 19,713,498 shares of the Company at a deemed value of \$21,684,848 (0.41 of the Company's share for each Ecstall share tendered). The Company incurred \$371,537 in share issuance costs in relation to the take-over bid.

**4. CAPITAL STOCK (cont'd...)**

**(b) Stock options**

The Company maintains a 10% rolling stock option plan whereby the number of shares allotted and reserved for future issuances under the plan will be equal to 10% of the issued and outstanding shares of the Company on a “rolling” basis. Under the terms of the plan, all options vest immediately and expire not more than five years from the grant date.

During fiscal 2006, the Company graduated to Tier 1 of the TSX Venture Exchange. The Company had received shareholder approval on the renewal of its stock option plan at the Company’s annual general and special meeting held on November 8, 2006. Accordingly, the expiration of options granted under the new plan may not exceed ten years.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance June 30, 2006	2,602,500	\$ 0.70
Granted	1,050,000	0.73
Cancelled / Expired	(635,000)	(0.91)
Exercised	(35,000)	(0.20)
Balance March 31, 2007	2,982,500	\$ 0.68

Stock options outstanding and exercisable at March 31, 2007 are summarized as follows:

Number of Shares	Exercise Price	Expiry Date	Exercisable
672,500	\$0.20	July 4, 2010	672,500
100,000	\$0.30	August 25, 2010	100,000
100,000	\$0.64	October 13, 2010	100,000
760,000	\$0.81	January 9, 2011	760,000
300,000	\$1.35	February 24, 2011	300,000
600,000	\$0.70	November 14, 2016	600,000
350,000	\$0.70	November 14, 2011	350,000
100,000	\$1.00	December 28, 2008	52,808
2,982,500			2,935,308

During the nine months ended March 31, 2007, under the fair value based method \$701,218 (2006 – \$1,545,566) in compensation expense was recorded in the statements of operations and deficit for stock options granted to directors, officers, employees and consultants of the Company.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**4. CAPITAL STOCK (cont'd...)****(b) Stock options (cont'd...)**

The fair value of share options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model with the following assumptions:

Nine months ended March 31,	2007	2006
Risk free interest rate	3.93%	3.45%
Expected dividend yield	0%	0%
Stock price volatility	178%	247%
Expected life of options	8 years	3 years

The weighted average fair value of options granted during the nine months ended March 31, 2007 is \$0.70 (2006 – \$0.63) per share.

**(c) Warrants**

As at March 31, 2007, the Company had outstanding share purchase warrants and agents' warrants, enabling holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
1,250,000	\$1.00	December 23, 2007
700,000	\$0.90	December 23, 2007
140,924	\$0.85	December 23, 2007
3,685,000	\$0.78	December 4, 2008
1,515,422	\$1.46	June 8, 2007
195,304	\$1.46	June 8, 2007
43,050	\$1.46	June 26, 2007
6,027	\$1.10	June 26, 2007
184,500	\$0.73	January 30, 2008

Warrant transactions and the number of warrants outstanding are as follows:

	Number of Shares	Weighted Average Exercise Price
Balance June 30, 2006	10,668,186	\$ 0.57
Private placement	3,685,000	0.78
Ecstall warrants (0.41 Mantle warrant for each Ecstall warrant)	1,944,303	1.35
Warrants expired	(2,004,363)	(1.28)
Warrants exercised	(6,572,899)	(0.23)
Balance March 31, 2007	7,720,227	\$ 0.97

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Number of warrants currently exercisable	7,720,227	\$	0.97
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

March 31,	Three months ended		Nine months ended	
	2007	2006	2007	2006
Cash paid during the period for interest	\$ –	\$ –	\$ –	\$ –
Cash paid during the period for income tax	\$ 31,957	\$ –	\$ 31,957	\$ –

Significant non-cash transactions for the nine months ended March 31, 2007 included:

- (a) Upon the exercise of stock options, \$5,950 was allocated to contributed surplus (2006 - \$Nil).
- (b) 100,000 common shares issued at a deemed value of \$55,000 in consideration for the acquisition of a resource property (Note 3).
- (c) 19,713,498 (0.41 of the Company's share for each Ecstall share tendered) common shares issued pursuant to its take-over bid with Ecstall (Note 2).

Significant non-cash transactions for the nine months ended March 31, 2006 included:

- (d) 250,000 common shares issued at an aggregate deemed value of \$72,000 for the acquisition of a resource property (Note 3).
- (e) 108,727 common shares issued at a deemed value of \$135,909 for commission on private placement.

**6. TRANSACTIONS WITH RELATED PARTIES**

During the nine months ended March 31, 2007, the Company paid or accrued \$67,500 (2006 – \$50,000) for management fees and \$22,500 (2006 – \$12,000) for administrative fees to a company controlled by a director of the Company.

During the nine months ended March 31, 2007, the Company paid or accrued \$20,419 (2006 - \$10,500) for consulting and geological services fees to a company controlled by a director of the Company.

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

**7. SUBSEQUENT EVENTS**

Subsequent to the period ended March 31, 2007, the Company:

- (a) Completed a non-brokered private placement of 3,500,000 Units at a price of \$1.15 for gross proceeds of \$4,025,000. Each Unit consists of one common share and one-half share purchase warrant of the Company. Each whole warrant entitles the holder, on exercise, to purchase one additional common share of the Company at a price of \$1.75 at any time until the close of business on the day which is two years from the date of issue of the warrant. The securities issued are subject to a four month hold period.

The Company paid a total of \$70,725 as finders' fees on a portion of the private placement.

- (b) 488,312 warrants were exercised at a price of \$0.85 to \$1.00 per share and an aggregate of 488,312 common shares were issued for gross proceeds of \$472,315.

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**7. SUBSEQUENT EVENTS (cont'd...)**

- (c) Pursuant to the Company's definitive agreement with Megastar, \$50,000 was paid and 50,000 shares were issued to Megastar at a deemed value of \$53,500.
- (d) 50,000 options and 1,005,000 options at an exercise price of \$1.21 and \$1.40, respectively were granted to directors, officers, consultants and employees of the Company.