

*Consolidated Financial Statements of*

**CORNERSTONE CAPITAL  
RESOURCES INC.**

*December 31, 2007 and 2006*

# **CORNERSTONE CAPITAL RESOURCES INC.**

## **Table of Contents**

	<u>PAGE</u>
Independent Auditors' Report	1
Consolidated Statements of Loss and Deficit	2
Consolidated Balance Sheets	3
Consolidated Statements of Cash Flows	4
Consolidated Statements of Comprehensive Loss	5
Consolidated Statements of Accumulated Other Comprehensive Loss	5
Notes to the Consolidated Financial Statements	6 - 28

## **Independent Auditors' Report**

To the Shareholders of  
Cornerstone Capital Resources Inc.

We have audited the consolidated balance sheets of Cornerstone Capital Resources Inc. as at December 31, 2007 and 2006 and the consolidated statements of loss and deficit, comprehensive loss, accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
St. John's, Newfoundland and Labrador  
March 10, 2008

# CORNERSTONE CAPITAL RESOURCES INC.

## Consolidated Statements of Loss and Deficit

For the years ended December 31

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>INCOME</b>		
Option payments forfeited by joint venture partners	<b>213,046</b>	-
Investment income	<b>146,117</b>	167,654
Other income	<b>67,980</b>	71,446
	<b>427,143</b>	239,100
<b>EXPENSES</b>		
General and administrative (Note 16)	<b>2,189,342</b>	1,513,671
Stock-based compensation	<b>1,246,273</b>	1,025,530
Mineral property costs abandoned (Note 6)	<b>1,027,369</b>	1,241,971
Foreign exchange loss	<b>153,688</b>	25,794
Amortization	<b>111,445</b>	29,679
Interest and bank charges	<b>6,747</b>	10,943
Unrealized loss on value of marketable securities	-	98,295
	<b>4,734,864</b>	3,945,883
LOSS FOR THE YEAR BEFORE FUTURE INCOME TAXES	<b>(4,307,721)</b>	(3,706,783)
RECOVERY OF FUTURE INCOME TAXES (Note 10)	-	458,420
NET LOSS FOR THE YEAR	<b>(4,307,721)</b>	(3,248,363)
DEFICIT, BEGINNING OF YEAR	<b>(8,114,477)</b>	(4,866,114)
DEFICIT, END OF YEAR	<b>(12,422,198)</b>	(8,114,477)
LOSS PER SHARE - BASIC AND DILUTED	<b>0.08</b>	0.07
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC AND DILUTED	<b>51,877,042</b>	43,420,548

See accompanying notes to the consolidated financial statements

# CORNERSTONE CAPITAL RESOURCES INC.

## Consolidated Balance Sheets

As at December 31

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	3,721,802	5,793,498
Marketable securities, at market value	245,704	710,554
Accounts receivable (Note 5)	644,574	1,802,845
Refundable staking deposits	215,443	36,750
Prepaid expenses	66,678	69,116
	<b>4,894,201</b>	8,412,763
MINERAL PROPERTIES (Note 6 and Note 16)	7,968,640	5,867,591
CAPITAL ASSETS (Note 7)	487,624	228,411
	<b>13,350,465</b>	14,508,765
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	1,187,168	1,461,629
Demand bank loan (Note 8)	-	11,985
	<b>1,187,168</b>	1,473,614
DEFERRED OPTION PAYMENTS (Note 9)	864,206	1,527,295
	<b>2,051,374</b>	3,000,909
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 11)	19,194,986	16,412,851
Warrants (Note 12)	2,030,950	1,093,750
Contributed surplus (Note 13)	3,109,699	2,115,732
Deficit	(12,422,198)	(8,114,477)
Accumulated other comprehensive loss (Note 4)	(614,346)	-
	<b>11,299,091</b>	11,507,856
	<b>13,350,465</b>	14,508,765

DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS (Note 1)

COMMITMENTS (Note 15)

APPROVED BY THE BOARD OF DIRECTORS:

\_\_\_\_\_  
"Glen H. McKay" Director

\_\_\_\_\_  
"John Fleming" Director

See accompanying notes to the consolidated financial statements

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31**

	<u>2007</u>	<u>2006</u>
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	<b>(4,307,721)</b>	(3,248,363)
Items not affecting cash:		
Option payments forfeited by joint venture partners	<b>(213,046)</b>	-
Amortization of capital assets	<b>111,445</b>	29,679
Mineral property costs abandoned	<b>1,027,369</b>	1,241,971
Unrealized loss on value of marketable securities	-	98,295
Fair value of stock-based compensation	<b>1,246,273</b>	1,025,530
Recovery of future income taxes	-	(458,420)
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	<b>1,158,271</b>	(1,448,504)
Decrease (increase) in refundable staking deposits	<b>(178,693)</b>	57,346
Decrease (increase) in prepaid expenses	<b>2,438</b>	(36,974)
Increase (decrease) in accounts payable and accrued liabilities	<b>(274,461)</b>	1,164,725
	<b>(1,428,125)</b>	(1,574,714)
<b>INVESTING ACTIVITIES</b>		
Mineral properties expenditures - net	<b>(3,817,408)</b>	(1,911,646)
Purchase of capital assets	<b>(370,657)</b>	(159,084)
Proceeds from deferred option payments - net	<b>273,364</b>	587,369
	<b>(3,914,701)</b>	(1,483,361)
<b>FINANCING ACTIVITIES</b>		
Repayments of demand bank loan	<b>(11,985)</b>	(3,315)
Proceeds from issuance of warrants	<b>937,200</b>	1,093,750
Proceeds from issuance of share capital - net	<b>2,345,915</b>	6,165,008
	<b>3,271,130</b>	7,255,443
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(2,071,696)</b>	4,197,368
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>5,793,498</b>	1,596,130
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>3,721,802</b>	5,793,498
COMPRISED OF : Bank deposits and cash on hand	<b>693,692</b>	244,561
Bank guaranteed investment certificates	<b>3,028,110</b>	5,548,937
	<b>3,721,802</b>	5,793,498

**SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14)**

See accompanying notes to the consolidated financial statements

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Consolidated Statements of Comprehensive Loss**  
**For the years ended December 31**

	<u>2007</u>	<u>2006</u>
	\$	\$
NET LOSS	(4,307,721)	(3,248,363)
OTHER COMPREHENSIVE LOSS		
Unrealized loss in fair value of marketable securities (net of tax of nil)	(614,346)	-
<b>COMPREHENSIVE LOSS</b>	<b>(4,922,067)</b>	<b>(3,248,363)</b>

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Consolidated Statements of Accumulated Other Comprehensive Loss**  
**As at December 31**

	<u>2007</u>	<u>2006</u>
	\$	\$
ACCUMULATED OTHER COMPREHENSIVE LOSS BEGINNING OF YEAR	-	-
OTHER COMPREHENSIVE LOSS	(614,346)	-
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS     END OF YEAR</b>	<b>(614,346)</b>	<b>-</b>

See accompanying notes to the consolidated financial statements

# **CORNERSTONE CAPITAL RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2007 and 2006**

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### **1. DESCRIPTION OF BUSINESS AND CONTINUING OPERATIONS**

Cornerstone Capital Resources Inc. (“Cornerstone” or the “Company”), through its wholly-owned subsidiaries, Cornerstone Resources Inc., Cornerstone International Inc., Cornerstone Ecuador S.A., La Plata Minerales S.A., Cornerstone Capital Resources Mauritius Inc., Newfound Exploration Private Limited, CCRI Exploration Private Limited and Land Minerals Exploration Private Limited, is engaged in the evaluation, acquisition and exploration of mineral properties in Canada and Ecuador. The Company plans to ultimately develop the properties as joint ventures, bring them into production, option or lease properties to third parties, or sell the properties outright. The Company has not determined whether these properties contain ore reserves that are economically recoverable and the Company is considered to be in the exploration stage.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The success of the Company and the recoverability of exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain financing to find and complete the development of such reserves, the ability of the Company to satisfy obligations as they come due and upon future profitable production from the properties or proceeds from disposition. The amounts shown as deferred exploration costs represent net costs to date less write offs and do not necessarily represent present or future values. At December 31, 2007, the Company had an accumulated deficit of \$12,422,198 (2006 - \$8,114,477).

Although the Company has taken steps to verify 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 may be affected by undetected defects.

If the going concern assumption was not appropriate for these financial statements, adjustments would be necessary in the carrying value of assets and liabilities, the reported net loss and the balance sheet classifications used.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

#### *Basis of consolidation*

These consolidated financial statements reflect the financial position, results of operations and cash flows of Cornerstone Capital Resources Inc. and its wholly owned subsidiaries. All inter-company transactions have been eliminated upon consolidation.

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Cash and cash equivalents*

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

*Refundable staking deposits*

The Company makes staking deposits on its various exploration claims which are refundable when and if the Company incurs sufficient exploration expenditures within a specified time frame and files a related exploration report with the appropriate government authorities. Should the Company not incur the applicable exploration expenditures or post a bond in lieu thereof or fail to submit the related exploration report within the applicable timeframe, the staking fee becomes non-refundable and is added to mineral properties.

*Mineral properties*

The Company is in the exploration stage and defers all expenditures related to its mineral properties until such time as the properties are put into commercial production, sold or abandoned. Under this method, all amounts shown as mineral properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

The carrying value of mineral properties, on a property-by-property basis, is reviewed by management at least annually to determine if they have become impaired. If impairment is deemed to exist, the mineral property will be written down to its net recoverable value. The ultimate recoverability of the amounts capitalized for the mineral properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in its various projects have been based on current conditions. However, it is reasonably possible that changes could occur in the near term which could adversely affect management's estimates and may result in future writedowns of capitalized property carrying values.

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Capital assets*

Capital assets are recorded at cost. Amortization is calculated on a declining balance basis at rates which will reduce original cost to estimated residual value over the estimated useful life of the assets, except for leasehold improvements, which are amortized over the period of the lease.

*Deferred option payments*

The Company records the proceeds from option payments on its properties as a deferred liability. Should the party purchasing the option exercise their option to purchase an interest in the Company's property, the Company will record the option payments as part of the proceeds of disposition from the property in the year that the option is exercised. Should the party purchasing the option not exercise their rights within the agreed upon time frame, the Company will record the option payments previously received as a credit against mineral properties to reduce the balance and the remainder of the balance, if any, to other income in the year that the option rights expire.

*Flow-through shares*

The Company has financed a portion of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to holders of the flow-through shares. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to holders of the flow-through shares.

*Stock-based compensation*

The Company uses the fair value method to measure compensation expense at the date of grant of stock options. The fair value of options is determined using the Black-Scholes option pricing model and is amortized to earnings over the vesting period with an offset to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital.

*Income taxes*

The Company follows the liability method of accounting for income taxes. Future income tax assets and liabilities arise from temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. They are measured using the enacted and substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce future income tax assets to the amount that is more likely than not to be realized.

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Loss per share*

Basic loss per share is computed by dividing the loss for the year by the weighted-average number of shares outstanding during the year. Diluted loss per share is equivalent to basic loss per share as the inclusion of outstanding options and warrants is anti-dilutive.

*Foreign currency translation*

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction date for non-monetary items. Revenue and expenses are translated at the average exchange rates prevailing during the year except for amortization, which is translated at historical exchange rates. Gains and losses on translation are included in the determination of net loss for the year.

*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 the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to valuation of mineral claims and deferred exploration expenditures, the determination of the valuation allowance for income tax assets, the determination of environmental obligations, rates for depletion and amortization, recoverability of accounts receivable and valuation of options and warrants. Actual results could differ from those estimates.

*Asset retirement obligations*

The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk-free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the consolidated statement of loss and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties. Management is unable to estimate the liability, if any, at this time.

# **CORNERSTONE CAPITAL RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2007 and 2006**

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### **3. FUTURE ACCOUNTING CHANGES**

#### *Capital disclosures*

In December 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued a Handbook section entitled, “Capital Disclosures” (section 1535). The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company’s objectives, policies and processes for managing capital. These recommendations are effective for the Company’s interim and annual reporting periods beginning October 1, 2007. The impact of this new standard has not been determined on the Company’s consolidated financial statements.

#### *Financial Instruments – Disclosures and Financial Instruments – Presentation*

In December 2006, the CICA issued Handbook sections entitled “Financial Instruments – Disclosures”, (sections 3862) and “Financial Instruments – Presentation” (section 3863), which will replace “Financial Instruments – Disclosure and Presentation” (section 3861). The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements and is effective for the Company’s interim and annual reporting periods beginning October 1, 2007. The impact of this new standard has not been determined on the Company’s consolidated financial statements.

#### *International Financial Reporting Standards*

In January 2006, the CICA Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards (“IFRS”) by the end of 2011. The impact of the transition of IFRS on the Company’s consolidated financial statements has not yet been determined.

### **4. CHANGE IN ACCOUNTING POLICY**

Effective January 1, 2007, the Company adopted the CICA new accounting standards related to “Comprehensive Income” (section 1530), “Equity” (section 3251), “Financial Instruments – Recognition and Measurement” (section 3855), “Financial Instruments – Disclosure and Presentation” (section 3861) and “Hedges” (section 3865). Under the new standards:

Financial assets are classified as loans and receivables, held to maturity, held for trading or available for sale. Loans and receivables include all loans and receivables and are accounted for at amortized cost. Held to maturity classification is restricted to fixed maturity instruments that the Company intends and is able to hold to maturity and are accounted for at amortized cost. Held for trading instruments are recorded at fair value with realized and unrealized gains and losses reported in net income (loss). The remaining financial assets are classified as available for sale, and are recorded at fair value, with unrealized gains and losses reported in a new category of shareholders’ equity

# **CORNERSTONE CAPITAL RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2007 and 2006**

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### **4. CHANGE IN ACCOUNTING POLICY (Continued)**

(deficiency) entitled “accumulated other comprehensive loss” (AOCL). A decline in value that would be considered other than temporary would result in a realized loss in the statement of loss and deficit.

Financial liabilities are classified as either held for trading or other. Held for trading liabilities are recorded at fair value with realized and unrealized gains and losses reported in net income (loss). Financial liabilities classified as other are accounted for at amortized cost with gains and losses reported in net income in the period that the liability is derecognized.

Derivative instruments, including embedded derivatives, are recorded at fair value unless exempted from derivative treatment as normal purchase and sale. All changes in their fair value are recorded in net income (loss) unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income (loss).

These standards have been applied in accordance with transition provisions, and therefore, comparative amounts for prior periods have not been restated.

As a result of the adoption of the new accounting standards, the Company has implemented the following classifications:

-Cash and cash equivalents are classified as “Financial Assets Held for Trading”. These financial assets are marked-to-market through net income (loss) at each period end.

-Marketable Securities are classified as “Available-for-Sale-Securities”. These financial assets are marked-to-market through comprehensive income at each period end. As all the marketable securities are shares of publicly traded companies, the market value is equivalent to the share price on the Toronto Stock (Venture) Exchange at the balance sheet date.

-Accounts receivable and refundable staking deposits are classified as “Loans and Receivables”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost, due to the short term nature of financial assets.

-Accounts payable, bank loan and deferred option payments are classified as “Other Financial Liabilities”. After their initial fair value measurement, they are measured at amortized cost using the effective interest rate method. For the Company, the measured amount generally corresponds to cost, due to the short term nature of financial liabilities.

The Company has determined that it does not have derivatives or embedded derivatives.

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

### 5. ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
	\$	\$
Government of Newfoundland and Labrador - Mineral Incentive Program - JEA Grants (Note 6)	-	283,105
Joint venture partners	<b>389,693</b>	1,390,514
Other	<b>254,881</b>	129,226
	<b>644,574</b>	1,802,845

### 6. MINERAL PROPERTIES

As at December 31, 2007, the Company has been issued 120 (2006 – 63) licenses by the Government of Newfoundland and Labrador which consist of 7,037 (2006 – 4,965) mineral exploration claims covering various areas of Newfoundland and Labrador. The Government of New Brunswick has issued 7 (2006 – 2) licenses to the Company which cover 672 (2006 – 151) claims in the Dorchester area of New Brunswick. The Company also holds 30 (2006 – 15) mineral exploration claims in Ecuador.

A summary of mineral properties is as follows:

Geographical Area	Number of Claims	Balance, Beginning of Year	2007			Balance, End of Year
			Additions	JV Recoveries and Government Grants	Properties Abandoned	
		\$	\$	\$	\$	\$
Island of						
Newfoundland	<b>3,910</b>	<b>2,198,979</b>	<b>1,145,784</b>	<b>(226,673)</b>	<b>(185,851)</b>	<b>2,932,239</b>
Labrador	<b>3,127</b>	<b>1,090,801</b>	<b>947,335</b>	<b>(2,996)</b>	<b>(14,190)</b>	<b>2,020,950</b>
New Brunswick	<b>672</b>	<b>15,173</b>	<b>292,739</b>	<b>(143,134)</b>	<b>(1,520)</b>	<b>163,258</b>
Ecuador	<b>30</b>	<b>2,318,480</b>	<b>6,373,287</b>	<b>(5,839,574)</b>	<b>-</b>	<b>2,852,193</b>
India	<b>-</b>	<b>244,158</b>	<b>581,650</b>	<b>-</b>	<b>(825,808)</b>	<b>-</b>
	<b>7,739</b>	<b>5,867,591</b>	<b>9,340,795</b>	<b>(6,212,377)</b>	<b>(1,027,369)</b>	<b>7,968,640</b>

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
**December 31, 2007 and 2006**

**6. MINERAL PROPERTIES (Continued)**

A summary of mineral properties is as follows:

Geographical Area	Number of Claims	Balance, Beginning of Year	2006			Balance, End of Year
			Additions	JV Recoveries and Government Grants	Properties Abandoned	
		\$	\$	\$	\$	\$
Island of						
Newfoundland	3,558	3,257,122	1,510,239	(1,326,907)	(1,241,475)	2,198,979
Labrador	1,407	706,194	385,103	-	(496)	1,090,801
New Brunswick	151	-	27,279	(12,106)	-	15,173
Ecuador	15	1,255,152	5,397,235	(4,333,907)	-	2,318,480
India	-	-	244,158	-	-	244,158
	5,131	5,218,468	7,564,014	(5,672,920)	(1,241,971)	5,867,591

During the year, the Company applied for grants under the Newfoundland and Labrador Mineral Incentive Program (JEA) totaling \$49,553 (2006 – \$283,105), and the New Brunswick Junior Mining Assistance Program totalling \$24,000 (2006 - \$nil), both of which have been recorded as accounts payable at year end. These grants are recorded as either a reduction in the carrying value of the related mineral property or as account payable depending on the terms of the relevant joint venture agreement. During the year, \$152,898 of prior year grants were recorded as a reduction in the carrying value of mineral properties (2006 - \$138,826).

Refer to Note 9 for further information on mineral properties and related joint venture agreements.

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 7. CAPITAL ASSETS

	2007			
	Rate	Cost	Accumulated Amortization	Net Book Value
		\$	\$	\$
Leasehold improvements	3 years	20,964	6,166	14,798
Equipment	20%	183,739	54,349	129,390
Computers	30%	239,691	125,486	114,205
Vehicles	10%	248,243	19,012	229,231
		<b>692,637</b>	<b>205,013</b>	<b>487,624</b>

  

	2006			
	Rate	Cost	Accumulated Amortization	Net Book Value
		\$	\$	\$
Leasehold improvements	3 years	4,648	4,648	-
Equipment	20%	86,263	33,527	52,736
Computers	30%	191,938	53,475	138,463
Vehicles	10%	39,131	1,919	37,212
		<b>321,980</b>	<b>93,569</b>	<b>228,411</b>

### 8. DEMAND BANK LOAN

Non-revolving demand loan at a chartered bank prime lending rate with interest payable monthly in arrears. The outstanding balance of the loan was repaid in full during the year.

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 9. DEFERRED OPTION PAYMENTS

	<u>2007</u>	<u>2006</u>
	\$	\$
Noel Paul's Brook, Newfoundland	-	35,000
Cape Ray, Newfoundland	-	38,775
Ecuador Projects	<b>611,369</b>	1,393,520
Long Lake, Newfoundland	<b>10,000</b>	10,000
Garland, Labrador	<b>150,000</b>	50,000
Bobby's Pond, Newfoundland	<b>16,250</b>	-
Aillik, Labrador	<b>50,000</b>	-
Dorchester, New Brunswick	<b>26,587</b>	-
	<hr/> <b>864,206</b>	<hr/> 1,527,295

In February 2003, the Company finalized a joint venture agreement with Inmet Mining Corporation ("Inmet") in relation to the Company's Noel Paul's Brook property. During 2007, Inmet gave notice that they would not be renewing the agreement. The Company is working to attract a new joint venture partner for this project.

In March 2003, the Company finalized a joint venture agreement with Thundermin Resources Inc. ("Thundermin") in relation to the Company's Cape Ray property. During 2007, Thundermin gave notice that they would not be renewing the agreement. The Company is working to attract a new joint venture partner for this project.

In November 2005, the Company, through its wholly owned subsidiary, Cornerstone Ecuador S. A., acquired the right from Sultana Del Condor Minera S.A. ("Sultana") to earn up to a 70% interest in the La Plata polymetallic volcanogenic massive sulphide ("VMS") project located 60 km west of Quito, Ecuador. The agreement with Sultana gives the Company the right to acquire up to a 70% interest in the project by incurring expenditures of US\$3,000,000, making cash payments of US\$1,000,000, issuing Company shares to the value of US\$1,000,000, producing a bankable feasibility report and arranging mine financing, all over an eight year period. Requirements to maintain the agreement through the first year included cash payments of US\$200,000, US\$200,000 in shares and expenditures of US\$1,000,000. The agreement also provides that during the first phase, an affiliate of Sultana will be the project manager with the Company being the operator. At the same time, the Company announced an agreement with Coastport Capital Inc. ("Coastport"), whereby Coastport has an option to earn the Company's interest by funding the Company's commitments under its agreement with Sultana, thus providing full funding for the La Plata project. By meeting all of the Company's obligations to Sultana through to mine financing, Coastport may acquire 100% of the Company's interest by issuing Coastport shares to the Company representing 10% of its fully diluted share capitalization and by granting the Company a 1% NSR in the project. On October 15, 2007, the Company was advised by Coastport that it had decided not to exercise its option to earn an interest in the La Plata project in Ecuador. Coastport funded a Phase 1 and 2 drilling program for a total cost of approximately US\$3,000,000. The total amount of \$1,012,174 which had been previously received from Coastport has been removed from deferred option payments and credited against deferred mineral

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 9. DEFERRED OPTION PAYMENTS (Continued)

properties to the extent that such costs had been deferred, with the excess being treated as revenue for the period. On December 31, 2007, the Company exercised its option to earn a 51% interest in this project from its Ecuadorian partner.

On January 20, 2006, the Company announced that Cornerstone Ecuador S.A. signed an earn-in/option agreement with Coastport covering the Company's Shyri Gold Properties in southern Ecuador. The Company has outlined numerous target areas on the properties with potential for both high and low sulfidation gold deposits. Implemented in its entirety, the agreement would see Coastport provide US\$8,000,000 to fund exploration programs on the properties and make option payments to the Company of US\$490,000 in cash and US\$490,000 in shares, over a period of four years or less. Additionally, Coastport earns its 100% interest in the property by issuing shares to the Company equal to 40% of Coastport's fully diluted share capital and granting the Company a 1% NSR. Coastport will have the right, under certain circumstances, to purchase the Company's 1% NSR at fair market value. The Company is the operator until Coastport earns its interest. The agreement contemplated exploration expenditures of US\$1,500,000 in the first year to December 31, 2006. As at December 31, 2007, the Company has received US \$310,000 and 911,421 shares of Coastport for this agreement. This has been recorded as deferred option payments. As at December 31, 2007 both Coastport and the Company are in compliance with the agreements. On December 31, 2007, the Company exercised its option to earn a 100% interest in this property from its Ecuadorian partner, Sierra Minera "Sierramin" S.A.

On March 1, 2006 the Company signed an option agreement with Cogitore Resources Inc. ("Cogitore"), (formerly Woodruff Capital Management Inc.) for the Company's Long Lake VMS property. The agreement grants Cogitore the right to earn a 51% interest in the property by spending \$1,500,000 on exploration over four years. The first year's \$125,000 expenditure is a firm commitment and includes costs associated with completion of a diamond drilling program designed to test a combined base metal in till geochemical anomaly and conductive airborne geophysical anomaly. The agreement also calls for Cogitore to make cash payments totaling \$100,000 over four years including \$10,000 paid on signing of the agreement, which has been received and recorded as a deferred option payment. The Company will be the operator during the earn in period. On Cogitore earning a 51% interest, a joint venture will be formed whereby both parties will have the right to maintain their respective interests by funding their respective share of exploration costs. Either party may dilute its interest, based on exploration expenditures, or if a party's interest falls to 15% or less, its interest will convert to a 2% NSR. As at December 31, 2007, Cogitore was in compliance with the agreement.

On March 24, 2006, the Company signed an earn-in/joint venture agreement with Celtic Minerals Ltd. ("Celtic") (CME-TSXV) for the Company's Garland nickel property, located 30 km southeast of the Voisey's Bay mine. The agreement gives Celtic the right to earn a 51% interest in the property by spending \$3,000,000 on exploration over four years. The first year's \$500,000 expenditure was a firm commitment and included costs associated with completion of an airborne gravity gradiometry survey,

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 9. DEFERRED OPTION PAYMENTS (Continued)

as previously agreed between Inco Limited and the Company. The agreement also calls for Celtic to make cash payments totaling \$450,000 to the Company over four years. Celtic will be operator during the earn-in period. On Celtic earning a 51% interest, a joint venture will be formed whereby both parties will have the right to maintain their respective interests by funding their respective shares of exploration costs. Either party may dilute its interest, based on exploration expenditures, and if a party's interest falls to 10% or less, its interest will convert to a 2% NSR. As at December 31, 2007, Celtic was in compliance with the agreement.

On February 26, 2007, the Company signed a Letter of Agreement with Mountain Lake Resources Inc. ("Mountain Lake") to conclude a joint venture agreement for exploration of the Company's 100% owned Bobby's Pond property in Central Newfoundland, which comprises 62 claims (15.5 sq km). The joint venture agreement will grant Mountain Lake the right to earn a 51% interest in the property by spending \$2,750,000 on exploration over five years. The first year's \$150,000 expenditure is a firm commitment and includes completion of a diamond drilling program. The agreement also calls for Mountain Lake to issue 200,000 common shares to the Company over five years, including 25,000 to be issued on signing of the Letter of Agreement. Mountain Lake will be operator of the joint venture during the earn-in period. On Mountain Lake earning a 51% interest, a joint venture will be formed whereby both parties will have the right to maintain their respective interests by funding their respective share of exploration costs. Under certain conditions Mountain Lake may increase its interest by up to 75%. Either party may dilute its interest, based on exploration expenditures. If either party's interest falls to 10% or less, its interest will convert to a 2% net smelter royalty. As at December 31, 2007, Mountain Lake was in compliance with the agreement.

On April 17, 2007, the Company announced it had signed a definitive joint venture agreement with Cash Minerals Ltd. ("Cash Minerals") on the Company's Aillik uranium property in the Central Mineral Belt (CMB), Labrador, comprising 162 claims (40.5 km<sup>2</sup>). The joint venture agreement will give Cash Minerals the right to earn a 51% interest in the Aillik property by spending \$3,000,000 on exploration and paying the Company a total of \$300,000 cash and issuing 300,000 stock warrants to the Company over a four-year period. Cash Minerals will be the operator during the earn-in period. As at December 31, 2007, Cash Minerals was in compliance with the agreement.

On May 1, 2007 the Company and Thundermin Resources Inc. ("Thundermin") (collectively, the Little Deer Joint Venture or "LDJV") signed a letter of intent ("LOI") with Weyburn Investments Ltd. ("Weyburn") which gives the LDJV an option to acquire a 100% interest in the past-producing Little Deer copper deposit and adjacent property (the "Weyburn Property") located 10 km north of Springdale in north-central Newfoundland. The Weyburn property consists of 78 claims comprising the Little Deer and Duck Pond mineral licenses, which cover the past-producing Little Deer copper deposit and potential southwest extensions near Duck Pond, plus four additional mineral licenses located east of the Little Deer License. In addition to the Weyburn Property, the LDJV also holds the Company's 232 claim mineral license which essentially surrounds the Little Deer and Duck Pond licenses on three sides and covers a gap that exists between these two licenses (collectively the "LDJV Property"). Under the terms of the LOI with Weyburn, the LDJV has an option to acquire a 100% interest in the

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 9. DEFERRED OPTION PAYMENTS (Continued)

Weyburn Property by making the following option payments in cash and/or shares of equal value in each of Thundermin and the Company, at each of Thundermin's and the Company's respective election: \$170,000 upon the execution and delivery of the agreement (the "First Payment"); \$115,000 on or before the 2nd anniversary of the agreement (the "Second Payment"); \$200,000 on or before the 3rd anniversary of the agreement (the "Third Payment") (should the LDJV make the second payment, then the Third Payment becomes a commitment of the LDJV); and an amount on or before the 4th anniversary of the agreement (the "Buyout Amount") depending on the size of the mineral resource defined on the Weyburn Property (the "Buyout Mineral Resource"). The Buyout Amount will commence at \$1,500,000 for a deposit of < 4,500,000 tonnes ("t") and range up to \$5,000,000 for a deposit of 10,000,000 t. The LDJV will pay to Weyburn an additional \$250,000 for each additional 500,000 t of Buyout Mineral Resource in excess of 10,000,000 t. All tonnes not paid for as at the date the Buyout Amount is determined will be paid for on the basis of tonnes mined and milled in the future. The LDJV has agreed to spend a minimum of \$850,000 on the Weyburn Property on or before the second anniversary of the Agreement, a minimum of \$500,000 of which will be spent on or before the first anniversary of the Agreement. All additional expenditures on the Weyburn Property above \$850,000 are at the LDJV's sole option and discretion. Subject to the LDJV making the Second Payment, the making of any option payments beyond what is due to Weyburn upon the execution and delivery of the agreement, including the payment of the Buyout Amount, is at the LDJV's sole option and discretion. The LDJV will be responsible for the payment of a 2% net smelter returns royalty ("NSR") payable to a third party on the Little Deer License, 50% of which can be repurchased for \$1,000,000, and the payment of a 3% NSR to third parties on the Duck Pond license. Should the LDJV place into production an orebody discovered on mineral licenses 11043M, 11184M, 11187M or 11237M, the LDJV is to pay a 1.5% NSR royalty to Weyburn, 50% of which can be repurchased by the LDJV for \$1,000,000. The LDJV will be a 50/50 joint venture between Thundermin and the Company with Thundermin as operator. Once the LDJV has acquired sufficient exploration drill data to prepare a Mineral Resource Report, Thundermin, at its sole discretion and cost, has the right to carry out a detailed study to determine the economic viability of putting the resources that are the subject of the Mineral Resource Report into commercial production (the "Feasibility Study"). By unilaterally electing to bear the cost of the Feasibility Study, Thundermin will earn an additional 15% undivided interest in the LDJV. Thundermin shall have the further right to increase its undivided interest in the LDJV by an additional 10% by arranging 100% of the necessary bank financing required to place the mineral resource that was the subject of the Feasibility Study into commercial production. The LDJV does not have any option payments either to or by the Company.

On August 29, 2007, the Company announced a Joint Venture/Earn-in Agreement with Phelps Dodge Corporation of Canada, Limited ("Phelps Dodge"), a wholly owned subsidiary of Freeport-McMoRan Copper & Gold Inc., to explore for sediment-hosted, stratiform copper (SSC) deposits in the Maritimes Sedimentary Basin of southeastern New Brunswick. The Earn-in Agreement will be structured in two phases during the four year earn-in period. During Phase I (Year 1), the work will consist of mapping and prospecting focused on defining drill targets. In this first phase, Phelps Dodge will make cash payments to the Company of US\$25,000 and the two companies will jointly fund a US\$175,000 exploration program to which Phelps Dodge will contribute US\$100,000 (57%) and the Company US\$75,000 (43%). On completion of Phase I, Phelps Dodge may elect to enter into Phase II, whereby it can earn a 51% interest in the property by spending US\$3,000,000 on exploration and making cash

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 9. DEFERRED OPTION PAYMENTS (Continued)

payments to the Company totaling US\$225,000 over three years. Upon earn-in, the Company may elect to participate at 49% or give Phelps Dodge the option, under certain conditions, to increase its interest to 75%. As at December 31, 2007, Phelps Dodge was in compliance with the agreement.

### 10. INCOME TAXES

#### (a) Future income taxes

Temporary differences which give rise to future income tax assets and liabilities as at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
	\$	\$
Future income tax asset:		
Tax loss carryforwards	<b>2,004,047</b>	1,706,976
Financing costs, marketable securities and other	<b>413,765</b>	226,898
Less valuation allowance	<b>(1,380,741)</b>	(595,387)
	<b>1,037,071</b>	1,338,487
Future income tax liabilities:		
Mineral properties	<b>1,028,853</b>	1,323,614
Capital assets	<b>8,218</b>	14,873
	<b>1,037,071</b>	1,338,487
Future income tax liability	-	-

#### (b) Income tax rate

The income tax recovery reflects an effective tax rate which differs from the combined Federal and Provincial rate as follows:

	<u>2007</u>	<u>2006</u>
	%	%
Income tax recovery at combined statutory rate	<b>(36.12)</b>	(36.12)
Stock-based compensation not deductible for tax purposes	<b>10.45</b>	10.04
Value of tax benefits not recognized for accounting purposes	<b>26.10</b>	26.51
Future tax benefits not previously recognized	-	(12.37)
Other	<b>(0.43)</b>	(0.43)
Effective tax rate	<b>0.00</b>	(12.37)

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 10. INCOME TAXES (Continued)

#### *(c) Non-capital losses*

The Company has Canadian non-capital losses amounting to \$6,910,508 which are available to reduce future taxable income. These non-capital losses expire as follows:

	\$
2008	<b>208,736</b>
2009	<b>355,974</b>
2010	<b>834,178</b>
2014	<b>1,244,976</b>
2015	<b>916,386</b>
2026	<b>1,502,896</b>
2027	<b>1,847,362</b>
	<b><u>6,910,508</u></b>

The Company also has available Canadian exploration expenses and Canadian development expenses of \$2,831,157 and \$429,696 respectively, which may be deducted in determining taxable income of future years.

The Company has taken a valuation allowance against the income tax benefits related to the non-capital losses, Canadian exploration expenses and Canadian development expenses.

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

### 11. SHARE CAPITAL

#### *Authorized*

An unlimited number of common shares with no par value

An unlimited number of first preferred and second preferred shares

#### *Issued and outstanding*

	2007		2006	
	Number	\$	Number	\$
Common shares				
Balance, beginning of year	50,009,236	16,412,851	32,937,955	9,801,778
Issued during the year:				
Private placements	5,857,500	2,284,425	4,088,000	1,563,450
Mineral property acquisitions	218,350	183,915	408,630	203,848
Warrants exercised	-	-	9,823,312	3,878,899
Stock options exercised	787,333	300,033	2,751,339	913,230
Fair value of warrants exercised	-	-	-	196,466
Fair value of options exercised	-	252,306	-	504,169
Cash received in advance for share issuance	-	-	-	50,000
Other share issuance	100,000	-	-	-
Share issuance costs	-	(238,544)	-	(240,569)
Tax amount of renounced expenditures	-	-	-	(458,420)
Balance, end of year	56,972,419	19,194,986	50,009,236	16,412,851

- (a) On October 17, 2007, the Company completed a non-brokered private placement of 5,500,000 units at a price of \$0.55 per unit. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.80 for two years following the closing. These warrants are callable by the Company, if the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange equals or exceeds \$1.10 for a period of 20 consecutive trading days. A finder's fee of 6.5% was payable in units to dealers who assisted in the placement. Of the total proceeds of \$3,025,000 ( net of finders' fee of \$196,625), \$937,200 was allocated to warrants.
- (b) On May 25, 2006 the Company closed a non-brokered private placement of 4,088,000 units (including 88,000 units as finders fees) at a price of \$0.65 per unit consisting of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.80 for one year following the closing and at a price of \$1.10 for the second year following the closing. A finders fee of 8% was payable in cash or shares as well as a 10% broker warrant. Of the total proceeds of \$2,657,200, \$1,093,750 was allocated to warrants.

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 11. SHARE CAPITAL (Continued)

- (c) The first and second preferred shares which have been authorized may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series. No first or second preferred shares have ever been issued.

### 12. STOCK OPTIONS AND WARRANTS

#### *Stock options*

The Company has a stock option plan under which options to purchase common shares in the Company may be granted to directors, officers, key employees and consultants of the Company and Cornerstone Resources Inc. The maximum number of options which may be granted to directors, officers, key employees and consultants of the Company and Cornerstone Resources Inc., under the stock option plan is 10,082,517. The vesting period for options is set by the Company at the time the options are granted and shall not exceed eighteen months. The exercise price for options is set by the Company at an amount equal to the TSX Venture Exchange trading price on the day preceding the date the options are granted, less any applicable discount as permitted by TSX Venture Exchange policies as decided by the Company. The exercise period for options is set by the Company at the time the options are granted and shall not exceed five years. Details of the Company's stock option plan are as follows:

	2007		2006	
	Number	Weighted-Average Exercise Price \$	Number	Weighted-Average Exercise Price \$
Balance, beginning of year	5,700,334	0.44	5,035,388	0.34
Issued during the year:				
To company consultants	625,000	0.65	750,000	0.52
To employees, officers and directors	3,870,000	0.65	3,070,667	0.49
Forfeited during the year	(165,000)	0.49	(404,382)	0.43
Exercised during the year	(787,333)	0.38	(2,751,339)	0.33
Balance, end of year	9,243,001	0.54	5,700,334	0.44

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

### 12. STOCK OPTIONS AND WARRANTS (Continued)

The following table summarizes information about stock options outstanding and exercisable.

Exercise Price Range \$	Total Options Outstanding			Total Exercisable Options		
	Number of Outstanding Options	Remaining Contractual Life	Weighted Average Strike Price \$	Number of Exercisable Options	Remaining Contractual Life	Weighted Average Strike Price \$
0.25 - 0.39	1,434,000	1.78	0.34	1,434,000	1.78	0.34
0.40 - 0.54	3,279,001	3.21	0.49	3,245,667	3.21	0.49
0.55 - 0.69	4,205,000	4.32	0.64	1,476,649	4.30	0.64
0.70 - 0.84	325,000	4.80	0.75	108,331	4.80	0.75
	9,243,001	3.55	0.54	6,264,647	3.16	0.50

The fair value of the options that were issued to individuals in respect of property acquisitions has been capitalized as a part of the cost of the mineral properties acquired. The fair value of the options that were issued to Company consultants, employees, officers and directors has been expensed as stock-based compensation.

The weighted average fair value of the stock options granted was estimated on the dates of the grants to be \$0.65 (2006-\$0.49) using the Black Scholes option-pricing model and the following assumptions:

Risk-free interest rate	3.97% - 4.71%
Expected life	2-5 years
Estimated volatility in the market price of common shares	72.87% - 86.21%
Dividend yield	Nil

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

### 12. STOCK OPTIONS AND WARRANTS (Continued)

#### *Warrants*

Warrants have been issued by the Company in the course of issuing shares. Details on activity in respect to warrants issued and outstanding are as follows:

	2007			2006		
	Number	\$	Weighted-Average Price \$	Number	\$	Weighted-Average Price \$
Balance, beginning of year	<b>4,375,000</b>	<b>1,093,750</b>	<b>0.80</b>	10,064,821	201,296	0.40
Expired during the year	-	-	-	(241,509)	(4,830)	0.40
Exercised during the year	-	-	-	(9,823,312)	(196,466)	0.40
Granted in connection with private placements	<b>5,857,500</b>	<b>937,200</b>	<b>0.80</b>	4,375,000	1,093,750	0.80
Balance, end of year	<b>10,232,500</b>	<b>2,030,950</b>	<b>0.80</b>	4,375,000	1,093,750	0.80

There were 5,857,500 warrants issued in connection with the October 17, 2007 financing with an exercise price of \$0.80 for two years following closing. These warrants are callable by the Company, if the volume weighted average trading price of the Company's common shares on the TSX Venture Exchange equals or exceeds \$1.10 for a period of 20 consecutive trading days. Each warrant was fair valued at \$0.16 using the Black-Scholes option pricing model.

There were 4,375,000 warrants issued in connection with the May 25, 2006 financing with an exercise price of \$0.80 for one year following closing and \$1.10 for the second year following closing. Each warrant was fair valued at \$0.25 using the Black-Scholes option pricing model.

**CORNERSTONE CAPITAL RESOURCES INC.**  
**Notes to the Consolidated Financial Statements**  
December 31, 2007 and 2006

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**13. CONTRIBUTED SURPLUS**

Contributed surplus consists of the following amounts:

	<u>2007</u>	<u>2006</u>
	\$	\$
Balance, beginning of year	2,115,732	1,584,633
Fair value of options capitalized as part of the cost of mineral properties acquired	-	4,908
Fair value of options expensed as stock based compensation	1,246,273	1,025,530
Fair value of warrants expired	-	4,830
Fair value of options exercised	(252,306)	(504,169)
<b>Balance, end of year</b>	<b>3,109,699</b>	<b>2,115,732</b>

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

	<u>2007</u>	<u>2006</u>
	\$	\$
Non-cash financing activities		
Fair value of warrants exercised	-	196,466
Fair value of options exercised	252,306	504,169
Receipt of marketable securities as consideration for deferred option payments	149,496	788,999
	<b>401,802</b>	1,489,634
Non-cash investing activities		
Acquisition of mineral properties for share consideration	(183,915)	(203,848)
Issue of stock options as consideration for acquisition of interest in mineral properties	-	(4,908)
Forfeiture of deferred option payments	1,085,949	229,308
	<b>902,034</b>	20,552
Income taxes paid	-	-
Interest paid	596	1,027

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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### 15. COMMITMENTS

- (a) The Company has acquired various properties from third party license holders. The terms of these agreements provide for initial cash payments by the Company and the initial issuance of shares in the Company. To retain the interest in these properties the Company is obligated to make additional cash payments and to issue additional shares in the event that a joint venture agreement is signed in respect of the particular property. The agreements also provide for the payment of a NSR to the third parties in the event that a property reaches the commercial production stage.

A summary of the additional cash and additional shares to be issued by the Company, assuming that an interest in all of the properties is to be maintained, is as follows:

	<u>Cash</u>	<u>Shares</u>
	\$	#
2008	65,000	115,000
2009	127,500	120,000
2010	130,000	30,000
2011	40,000	40,000
	<u>362,500</u>	<u>305,000</u>

- (b) Minimum annual lease payments on vehicle and equipment leases during the next two years are as follows:

	\$
2008	18,945
2009	15,413

# CORNERSTONE CAPITAL RESOURCES INC.

## Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

### 16. RELATED PARTY TRANSACTIONS

The following represents a summary of transactions with parties under common influence and shareholders:

	2007		
	Expensed during the year	Capitalized in mineral properties	Total
	\$	\$	\$
Professional and administrative fees	440,117	27,275	467,392
Office and warehouse rent	56,508	-	56,508
	<b>496,625</b>	<b>27,275</b>	<b>523,900</b>

  

	2006		
	Expensed during the year	Capitalized in mineral properties	Total
	\$	\$	\$
Professional and administrative fees	288,963	145,684	434,647
Office and warehouse rent	19,752	29,628	49,380
	<b>308,715</b>	<b>175,312</b>	<b>484,027</b>

Resource Concepts Inc., which is controlled by Director John Fleming, P. Geo, who serves as the Company's Chairman, billed a total of \$53,625 for geological consulting and management services. Director W. John Clarke is the Company's legal counsel. He provides legal services in the amount of \$53,060 relating to various agreements and ongoing business matters. Sealan Capital Corporation Inc., controlled by Director Glen H. McKay, who serves as the Company's President and CEO, billed a total of \$234,515, including management and property related consulting \$153,600, accounting and clerical services \$24,407 and office services and property leasing \$56,508. D.R. Loveys & Associates Inc., controlled by Director David Loveys, the Company's Vice President Finance, CFO and Corporate Secretary, billed a total of \$182,700 for accounting and management consulting services. These transactions are considered to be in the normal course of business and are measured at exchange amounts being the amounts established and agreed to by the related parties. The amounts capitalized in mineral properties represent direct costs associated with the respective properties. Amounts expensed are included in General and Administrative expenses.

# **CORNERSTONE CAPITAL RESOURCES INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2007 and 2006**

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### **17. FINANCIAL INSTRUMENTS**

#### *Fair value*

The carrying values of the Company's financial instruments approximate fair value due to the short-term nature of these instruments. Deferred option payments approximate fair value as payments recorded are either cash or shares.

#### *Foreign exchange risk*

The Company undertakes certain transactions in foreign currencies and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments or hedges to reduce the exposure to foreign exchange risk.

#### *Commodity price risk*

The recoverability of the Company's mineral properties is partially related to the market price of gold and base metals. The Company does not hedge this exposure to fluctuations in commodity prices.

#### *Credit risk*

The Company has credit risk associated with the accounts receivable for the option agreements with joint venture partners. This risk is mitigated however by the fact that the joint venture partners cannot earn in until all the required payments have been made to the Company.

### **18. SUBSEQUENT EVENT**

On February 29, 2008, the Company completed a private placement with Newmont Mining Corporation of Canada Limited (Newmont) for total proceeds of US\$1,000,000 million. The financing consisted of a non-brokered private placement of 1,204,840 units. Each unit was priced at \$0.83 per unit and consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$1.00 for two years following the closing. Newmont purchased all the available units as part of a definitive Earn-in Joint Venture option agreement with respect to the formation of a regional exploration alliance to explore for gold in southern Ecuador. The proceeds of the private placement will be used by Cornerstone to fund the first phase of work under the alliance agreement.