



**Management's Discussion & Analysis of  
Financial Conditions & Results of Operations**

**To June 30, 2007**

## **CORNERSTONE CAPITAL RESOURCES INC.**

### **Consolidated Results To June 30, 2007**

#### **Management's Discussion & Analysis of Financial Conditions & Results of Operations**

*The following discussion and analysis, dated August 27, 2007, should be read in conjunction with the Consolidated Financial Statements and related notes. All dollar amounts are stated in Canadian dollars, unless otherwise noted.*

*This discussion includes certain statements that may be deemed "forward-looking statements". All statements in this discussion, other than statements of historical facts, that address exploration drilling, exploration activities and events or developments that Cornerstone Capital Resources Inc. (the "Company" or "Cornerstone") expects are forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include market prices, exploration and exploration successes, continued availability of capital and financing and general economic, market or business conditions. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.*

#### **Description of Business**

Cornerstone Capital Resources Inc. was formed in July 1999 and began trading on the now TSX Venture Exchange on November 29, 1999 under the trading symbol "CTP". The symbol was changed to "CGP" after shareholders approved a one for three share consolidation during January of 2003. Cornerstone Resources Inc. (CRI), Cornerstone International Inc. (CII), Cornerstone Ecuador S.A., La Plata Minerales S.A., Cornerstone Capital Resources Mauritius Inc., Newfoundland Exploration Private Limited, CCRI Exploration Private Limited and Land Minerals Exploration Private Limited are wholly owned subsidiaries involved in mineral exploration and development. The Company's properties, all located in Canada and Ecuador, have potential for economic deposits of base and precious metals and industrial minerals.

#### **Results of Operations**

***The six-month period ending June 30, 2007 compared with the six-month period ending June 30, 2006.***

At January 1, 2007, exploration properties held by the Company totalled 5,131 claims. During the first half of 2007, a number of property claims were dropped and additional claims were staked and acquired, leaving the Company with a total of 6,613 claims in Canada and 15 claims in Ecuador at the end of June 2007.

During the six-month period ending June 30, 2007 the Company had a net loss of \$1,676,119 - \$0.03 per share (compared to a net loss of \$1,258,066 - \$0.03 share for the same period in 2006). Expenses incurred during the six-month period ending June 30, 2007 were \$1,790,143 compared to \$1,314,698 for the same period in 2006. The increase of \$475,445 during the period was due to a number of

factors, the most notable of which are:

*1. General and administrative* expenses increased by \$202,652, due to a reduction in administrative costs being directly related to mineral properties, therefore more general and administration was expensed in the period. There was also a general increase in business activities such as conferences and analyst presentations.

*2. Stock-based compensation* increased by \$190,549 due primarily to higher share price relative to options issued in the prior year.

*3. Foreign exchange loss* increased by \$71,771 during the first half of 2007 as a result of significant activities in foreign currencies this year over the same period last year. Such gains and losses were not recorded by the Company prior to mid 2006.

*4. Amortization* increased by \$11,889 due to additional requirements for capital equipment this year.

*5. Interest and bank charges* decreased by \$1,416, due to efficiencies in cash management and treasury activities in the current year compared to the first half of 2006.

Revenue for the period was \$114,024 compared to \$56,632 in 2006, an increase of \$57,392. This is mainly attributable to an increase in investment income during the first half of 2007 due to significantly higher cash balances invested during the first half of 2007 compared to the first half of 2006.

***The three-month period ending June 30, 2007 compared with the three-month period ending June 30, 2006.***

During the three-month period ending June 30, 2007 the Company had a net loss of \$1,163,968 - \$0.02 per share (compared to a net loss of \$831,660 - \$0.02 share for the same period in 2006). Expenses incurred during the three-month period ending June 30, 2007 were \$1,213,650 compared to \$852,715 for the same period in 2006. The increase of \$360,935 during the period was due to a number of factors, the most notable of which are:

*1. General and administrative* expenses increased by \$179,859, due to a reduction in administrative costs being directly related to mineral properties, therefore more general and administration was expensed in the period. There was also a general increase in business activities for this quarter compared to last year, such as conferences and analyst presentations.

*2. Stock-based compensation* increased by \$136,451 due to the higher share price relative to options issued in the comparative period in 2006.

*3. Foreign exchange loss* increased by \$38,875 during the second quarter of 2007 compared to the same period last year due to significantly more activities in foreign currencies this quarter over the same period last year.

*4. Amortization* increased by \$6,531 due to an increased level of capital equipment this quarter over the same period last year.

*5. Interest and bank charges* decreased by \$781, due to efficiencies in cash management and treasury activities in the current quarter compared to the same quarter 2006.

Revenue for the period was \$49,682 compared to \$21,055 in 2006, an increase of \$28,627. This is due to an increase in investment income in 2007 over 2006 due to significantly higher cash balances invested during all three months of the current quarter compared to the same months in 2006. Other

income is also higher during the current quarter due to the receipt of administrative fees charged to a joint venture partner. These fees were charged retroactively to January 2006 during the second quarter of last year.

### **Mineral properties**

Total capitalized expenditures on mineral properties as at June 30, 2007 amounted to \$6,944,666 compared to \$5,767,482 as at June 30, 2006. Net mineral property expenditures of \$966,935 were incurred during the six month period ending June 30, 2007 compared to \$544,106 during the same period in 2006. Included in the net mineral property expenditures are recoveries from Joint Venture Partners of \$3,637,590 compared to \$717,269 for the same period in 2006. Expenditure recoveries from JV partners are significantly higher for the first half of 2007 over the corresponding period in 2006 due to the magnitude of the joint venture projects undertaken by the Company in late 2006 and 2007. Most significant of these were the two large projects in Ecuador undertaken with joint venture partner Coastport Capital. The following schedule details mineral property expenditures and recoveries by property:

#### **Consolidated Schedule of Mineral Properties (Unaudited)**

<b>Property</b>	<b>Gross Expenditures</b>	<b>Government Grants</b>	<b>Recoveries</b>	<b>Net Total June 30, 2007</b>	<b>Net Total June 30, 2006</b>	<b>Net Total Dec 31, 2006</b>
			<b>from Joint Venture Partners</b>			
		\$	\$	\$	\$	\$
Aucoin	235,437	23,193	-	<b>212,244</b>	167,855	203,407
Burin	211,649	-	-	<b>211,649</b>	-	-
Cape Ray	1,658,354	83,810	1,473,142	<b>101,402</b>	126,652	133,433
Codroy Valley	492,124	-	389,830	<b>102,294</b>	160,027	77,751
Deer Lake Uranium	52,901	-	-	<b>52,901</b>	-	6,301
Ecuador	10,306,548	-	7,878,016	<b>2,428,532</b>	1,467,270	2,318,479
El Strato	1,097,989	166,841	637,376	<b>293,772</b>	329,912	363,647
Green Bay gold	501,144	90,040	294,599	<b>116,505</b>	131,450	107,450
India	825,808	-	-	<b>825,808</b>	-	244,158
Island Pond	215,205	34,162	120,323	<b>60,720</b>	60,721	60,721
Konrad	1,153,779	-	800,115	<b>353,664</b>	365,626	350,189
Labrador - other	160,511	-	-	<b>160,511</b>	-	157,281
Long Harbour	152,510	-	-	<b>152,510</b>	116,441	146,373
Noel Paul's Brook	525,491	102,795	395,357	<b>27,339</b>	121,010	62,338
Paul's Pond	32,243	-	-	<b>32,243</b>	28,773	32,076
Porterville	97,983	-	-	<b>97,983</b>	77,057	94,654
Princess	-	-	-	-	838,248	-
Red Cliff	1,378,491	76,370	655,267	<b>646,854</b>	639,404	644,872
True Grit	280,190	118,800	17,794	<b>143,596</b>	231,187	132,429
West Princess	-	-	-	-	346,115	-
Dorchester	75,895	-	47,196	<b>28,699</b>	-	-
Little Deer	116,099	-	-	<b>116,099</b>	-	-
Other Properties	914,548	-	135,207	<b>779,341</b>	559,734	732,032
	<b>20,484,899</b>	<b>696,011</b>	<b>12,844,222</b>	<b>6,944,666</b>	<b>5,767,482</b>	<b>5,867,591</b>

## **Financial Conditions, Liquidity and Capital Resources**

As at June 30, 2007 the Company had cash and cash-equivalents of \$3,746,362 compared to \$6,826,657 at June 30, 2006. The Company received net cash proceeds of \$123,661 from the issue of common shares during the six-month period ending June 30, 2007 compared to \$6,903,331 during the same period in 2006. The 2006 amount included \$1,563,450 proceeds from a private placement and \$3,878,899 from exercise of warrants which were called by the Company.

As at June 30, 2007 the net treasury position (current assets less prepaid expenses less current liabilities) of the Company was \$4,592,071 compared to \$8,160,093 for the same period in 2006.

A very significant source of funding for the Company's exploration programs are its earn-in / joint venture agreements with several mining industry partners. These partners are funding the exploration of individual properties, or groups of properties, in exchange for direct ownership in the properties, should all vesting conditions be met. Annual cash payments to the Company are often a component of these agreements. For the first half of 2007, these annual cash payments from JV partners related to new and existing joint venture agreements were \$150,000 (compared to \$146,295 for the same period in 2006).

The Company anticipates that it will continue to access grant funding under the Newfoundland and Labrador Mineral Incentive Program, Junior Exploration Assistance Program (JEA). Under JEA, eligible property expenditures may be subject to reimbursement of up to 50% of approved costs, to a maximum of \$100,000 per program on the island of Newfoundland and \$150,000 per program in Labrador. Subsequent to June 30, 2007 the Company was also successful in obtaining funding from the New Brunswick Junior Mining Assistance Program. This program provides assistance for approved costs up to a maximum of \$50,000 per project.

Management has estimated that the Company will have adequate funds from existing working capital to meet its corporate administrative and property obligations for the coming year. If the Company is to advance or develop its mineral properties further, it may be necessary to obtain additional financing, and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future.

## **Outstanding Share Data**

As at June 30, 2007 the Company had 50,686,586 common shares outstanding. The Company had 9,411,334 options outstanding at June 30, 2007, at various exercise prices as shown in the following chart, and 4,375,000 warrants issued in connection with the May 25, 2006 financing, exercisable at \$1.10 until May 25, 2008.

### **STOCK OPTIONS**

<b>Exercise Price Range</b> \$	<b>Number of Outstanding Options</b>	<b>Weighted Average Remaining Contractual Life of Outstanding Options (years)</b>	<b>Weighted Average Outstanding Exercise Price</b> \$	<b>Number of Exercisable Options</b>	<b>Weighted Average Outstanding Exercise Price</b> \$
0.25 - 0.39	1,745,667	2.23	0.34	1,745,667	0.34
0.40 - 0.54	3,445,667	3.71	0.49	2,383,759	0.49
0.55 - 0.69	4,220,000	4.82	0.64	1,406,650	0.64
	9,411,334	3.94	0.53	5,536,076	0.48

## **Financial Instruments**

The Company has estimated fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms. The carrying value of financial instruments is considered to approximate fair value, unless otherwise indicated.

## **Related Party Transactions**

The following represents a summary of transactions with parties under common influence and shareholders for the six-month period ending June 30, 2007. Resource Concepts Inc., which is controlled by Director John Fleming, P. Geo, who serves as Cornerstone's Chairman, billed a total of \$32,025 for geological consulting and management services. Director W. John Clarke is Cornerstone's legal counsel and is a partner of the legal firm Clarke & Fry. This firm provided legal and management consulting services in the amount of \$39,010 relating to various agreements and ongoing business matters. Sealan Capital Corporation Inc., controlled by Director Glen H. McKay, who serves as Cornerstone's President and CEO, billed a total of \$136,518, including management and property related consulting \$84,700, accounting and clerical services \$23,563 and office services and property leasing \$28,255. D.R. Loveys & Associates Inc., controlled by Director David Loveys, Cornerstone's Vice President Finance, CFO and Corporate Secretary, billed a total of \$81,200 for accounting and management consulting services. These transactions are considered to be in the normal course of business. The portions of these amounts capitalized in mineral properties represent direct costs associated with the respective properties, a summary of which follows:

	<b><u>Expensed during the period</u></b>	<b><u>Capitalized in Mineral Properties</u></b>	<b><u>Six months ended June 30, 2007 Total</u></b>	<b><u>Six months ended June 30, 2006 Total</u></b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Professional & Administrative	233,573	26,925	260,498	202,712
Office and warehouse rent	28,255	-	28,255	24,690
	<u>261,828</u>	<u>26,925</u>	<u>288,753</u>	<u>227,402</u>

## **Acquisition and Abandonment of Mineral Properties**

See Note 4 to the June 30, 2007 Consolidated Financial Statements for details of Mineral Properties.

The Company's strategy is grass roots project generation followed by project level or joint venture ("JV") based exploration financing. All properties which are under consideration for acquisition must initially pass through Company generated evaluation criteria. Properties which are considered worthy are then acquired, provided a reasonable agreement can be reached with the owner or the property is available for staking. This process results in a relatively large number of projects being acquired annually with the expectation that many of these will advance to the stage where partner financing can be attracted. In cases where the project does not develop to the stage that management perceives it to be likely to attract such financing or if subsequent work by the Company indicates that further in house

work will not yield favourable results, the property is abandoned and written down.

### **Commitments**

a. The Company has acquired various properties from third party license holders. The terms of these agreements often provide for initial cash payments by the Company and the initial issuance of shares or options 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 Company. The agreements also provide for the payment of net smelter return royalties 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>	
	\$CDN	\$US	#	\$US Equivalent
2007	-	125,000	-	125,000
2008	15,000	50,000	15,000	50,000
2009	77,500	50,000	20,000	50,000
2010	130,000	-	30,000	-
2011	40,000	-	40,000	-
	\$ 262,500	\$ 225,000	105,000	\$ 225,000

A portion of these cash and share payments will be reimbursed to the Company by Coastport Capital Inc. under the La Plata and Shyri Agreements. These amounts are as follows: Cash - \$US 225,000, \$US Equivalent Shares – 225,000.

b. Minimum annual lease payments on vehicle and equipment leases during the next three years are as follows:

	\$
2007	10,118
2008	19,113
2009	15,549

### **Off-Balance Sheet Arrangements**

At June 30, 2007 the Company had no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

### **Property Agreements and Exploration**

Details of JV property agreements are disclosed by press release at the time of formation. Updates

concerning the results of ongoing exploration programs are also updated by press release. Press releases issued by the Company, including those issued during the six months ended June 30, 2007, are archived at the Company website [www.cornerstoneresources.com](http://www.cornerstoneresources.com). Regulatory filings are also available through [www.sedar.com](http://www.sedar.com).

### **Exploration Outlook**

The Company will continue to leverage the value of its properties during 2007. Joint venture funding agreements are in place for several of the Company's properties that ensure a substantial amount of exploration work. The Company will also undertake work on some wholly owned projects. Discussions with potential partners are currently underway with respect to several wholly owned properties. New property acquisitions are ongoing.

### **Investor Relations Activities**

The Company continues to accomplish its goals aimed at broadening its investor base through strategic marketing and on-going investor communications.

During the first half of 2007, Company representatives participated in several core investment and technical conferences such as the 2007 Vancouver Resource Investment Conference, the Mineral Exploration Round-Up 2007, the Orlando World Money Show, the 2007 New York Triple Gold Investment Conference, the 2007 PDAC Convention in Toronto, the Natural Resources Summit of Americas in the Bahamas, the Latin American Mining Congress in Miami, the Hard Assets Conference in New York, the Stanberry Research & Associates Conference in Long Beach, California, the Vancouver Cambridge Conference, and Expo Labrador. The Company has also retained the services of Renmark Financial Communications Inc. to implement a market awareness program. Renmark's goal is to strengthen the Company's profile in the financial community as well as enhance the visibility of the Company's project portfolio. Renmark also facilitated several presentations to brokers in Montreal and Ottawa.

### **Risks and Uncertainties**

The Company is principally involved in mineral exploration which is an inherently high-risk activity. Exploration is also capital intensive and the Company has no sources of funding other than joint venture financing arrangements with other mining and exploration companies and equity financing. Only the skills of management and staff in mineral exploration and exploration financing serve to mitigate these risks. The ability of the Company to continue operations into the future is dependant upon continuing to obtain favourable results from its exploration activities, which will affect its ability to attract joint venture partners and to raise financing. The participation of joint venture partners is very important to the future success of the Company.

Cornerstone has a simple business model, one which is as low risk as possible in such a high risk business as mineral exploration: to generate diversified exploration projects at low cost to the Company, to attract JV partners to finance further exploration and to be the operator on the majority of these projects which allows the Company to transfer personnel and administration costs to the JV, thereby maintaining a lower burn rate. The more projects that can be generated and the longer the company can obtain financing the better its chances for achieving success. The Company has implemented this business model. It has a solid foundation technically, corporately and financially to

go forward and be positioned for future success.

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. Exploration activity is also dependent on the laws of local governments, which may change from time to time, and may have an effect on the Company's exploration programs.

### **Selected Annual Information**

The following information has been derived for the three most recently completed annual financial statements

as at December 31,	<u>2006</u>	<u>2005</u>	<u>2004</u>
	\$	\$	\$
Net loss	(3,248,363)	(1,685,857)	(1,471,110)
Loss per share - basic and diluted	(0.07)	(0.06)	(0.07)
Total assets	14,508,765	7,414,033	5,493,205
Cash dividends per share	-	-	-
Long term liabilities	-	-	-

### **Summary of Quarterly Results**

The following information has been derived for the eight most recently completed quarters:

	<u>June</u> <u>30, 2007</u>	<u>March</u> <u>31, 2007</u>	<u>December</u> <u>31, 2006</u>	<u>September</u> <u>30, 2006</u>
	\$	\$	\$	\$
Net loss	(1,163,968)	(512,151)	(1,532,674)	(457,623)
Loss per share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.01)
	<u>June</u> <u>30, 2006</u>	<u>March</u> <u>31, 2006</u>	<u>December</u> <u>31, 2005</u>	<u>September</u> <u>30, 2005</u>
	\$	\$	\$	\$
Net loss	(831,660)	(426,406)	(988,930)	(241,558)
Loss per share - basic and diluted	(0.02)	(0.01)	(0.03)	(0.01)

### **Significant Events**

#### **Joint Ventures, Appointments, Strategic Alliances and Financings;**

As of June 30, 2007 the Company had seven joint venture agreements in place and is operator on three of these projects.

On January 29, 2007, the Company signed a Letter of Intent with Cash Minerals Ltd. ("Cash Minerals") and on April 17, 2007 entered into a joint venture agreement on Cornerstone's 100% wholly owned Aillik uranium property in the Central Mineral Belt (CMB), Labrador. Cornerstone staked the Aillik claims in November 2006 after the land was opened for staking following implementation of the Nunatsiavut land claims agreement. The Aillik property comprises 162 claims (40.5 km<sup>2</sup>) adjoining Aurora Energy Resources' holdings in the CMB, an emerging uranium district. The CMB contains several uranium deposits and prospects including the Otter Lake prospect, which lies immediately west of the Aillik claims, and the Jacques Lake prospect to the north. The Joint Venture agreement to be concluded as per the Letter of Intent will give Cash Minerals the right to earn a 51% interest in the Aillik property by spending \$3 million on exploration and paying Cornerstone a total of \$300,000 cash and issuing 300,000 stock warrants to Cornerstone over a four-year period. Cash Minerals will be the operator during the earn-in period.

On February 26, 2007, the Company announced the signing of a Letter Agreement, and subsequently announced the signing of a Joint Venture Agreement with Mountain Lake Resources Inc. ("Mountain Lake") for exploration of Cornerstone's 100% owned Bobby's Pond property in Central Newfoundland, which comprises 62 claims (15.5 sq km). The joint venture agreement grants Mountain Lake the right to earn a 51% interest in the property by spending \$2.75 million 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 Cornerstone over five years, including 25,000 to be issued on signing of the Letter agreement. With an active exploration program already underway on its Bobby's Pond Mining Lease, 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% NSR.

On May 1, 2007 the Company and Thundermin Resources Inc. ("Thundermin") (collectively, the "LDJV") have 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 (1950 ha) comprising the Little Deer and Duck Pond Mineral Licenses (10215M and 10214M), 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 Cornerstone's 232 claim Mineral License 12196M (5,800 ha) 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"). The LDJV has commenced an aggressive exploration program on the Little Deer property. This work will consist of diamond drilling, borehole geophysical and geological mapping surveys and grid reconstruction. Under the terms of the LOI with Weyburn, the LDJV has an option to acquire a 100% interest in the Weyburn Property by making the following option payments in cash and/or shares of equal value in each of Thundermin and Cornerstone, at each of Thundermin's and Cornerstone's respective election: CDN \$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 shall 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.

In January 2007 Cornerstone Capital Resources Mauritius Inc. was incorporated in the Republic of Mauritius. In addition, three Companies, all subsidiaries of Cornerstone Capital Mauritius Inc., were incorporated in India in January 2007, for possible future exploration activities:

Newfound Exploration Private Limited  
CCRI Exploration Private Limited  
Land Minerals Exploration Private Limited

During the period the Company was pursuing potential exploration projects in India. It is currently assessing its future plans for activity in this country.

### **Management's Responsibility for Financial Statements**

The Board of Directors carries out its responsibility for the consolidated financial statements primarily through the audit committee which is composed of independent, non-executive directors who meet periodically with management and independent auditors to review financial reporting and internal

control matters.

*Internal Control over Financial Reporting* - Management is responsible for the establishment and maintenance of a system of internal controls over financial reporting. This system has been designed to provide reasonable assurance that assets are safeguarded and that the financial reporting is accurate and reliable. The consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles (GAAP) and in accordance with accounting policies set out in the notes to the consolidated financial statements for the quarter ended June 30, 2007.

In compliance with Form 52-109F1 of Multilateral Instrument 52-109, management must disclose in its MD&A any material weakness found to exist within its system of internal control over financial reporting. Management has identified a material weakness during the year in lack of segregation of duties. The management group of the Company is small and full segregation of all duties has not been possible throughout the year. This is a typical issue for smaller companies, and while the Company has experienced significant growth during 2006 and 2007 to date, and has added additional staff during the year which strengthens the segregation of duties, there still exists a lack of such segregation of duties. Management believes, however, that the risks associated with the lack of segregation of duties during part of the year have been mitigated by the implementation of other controls. The Audit Committee has direct oversight responsibilities for the review and approval of the quarterly and annual financial disclosures, the Company retains the external auditor to perform quarterly reviews of the financial statements, and the Company has qualified senior accounting personnel engaged on a full time basis to manage the Company's financial disclosures.

*Evaluation and Effectiveness of Disclosure Controls and Procedures* - The Company has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of June 30, 2007 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual filings.

### **Other**

On May 24<sup>th</sup>, 2005, the Company announced that its company information will be made available via Standard & Poor's Market Access Program, an information distribution service that enables subscribing publicly traded companies to have their company information disseminated to users of Standard & Poor's Advisor Insight. The company information to be made available through this program includes share price, volume, dividends, shares outstanding, company financial position, and earnings. Standard & Poor's Advisor Insight is an Internet-based research engine used by more than 100,000 investment advisors. A public version of the site is available at [www.advisorinsight.com](http://www.advisorinsight.com).

In addition, information about companies in Standard & Poor's Market Access Program will be available via S&P's Stock Guide database, which is distributed electronically to virtually all major quote vendors. As part of the program, a full description of Cornerstone will also be published in the Daily News section of Standard Corporation Records, a recognized securities manual for secondary trading in approximately 37 states under the Blue Sky Laws. The trading symbol in the over the counter market in the USA is "CTNXF".

The Company is also listed on the Frankfurt and Berlin Stock Exchanges under the stock symbol GWN.

Financial Statements and press releases issued by the Company, including those issued during the quarter ended June 30, 2007, and other information concerning the Company are archived at the Company website [www.cornerstoneresources.com](http://www.cornerstoneresources.com). Regulatory filings are also available through [www.sedar.com](http://www.sedar.com).