

Terraco Gold Corp.

CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

Management's Comments on Unaudited Financial Statements

The accompanying unaudited interim consolidated financial statements of Terraco Gold Corp. for the nine months ended April 30, 2007 have been prepared by management and approved by the Audit Committee. These statements have not been reviewed by the Corporation's external auditors.

TERRACO GOLD CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

	April 30 2007	July 31 2006
ASSETS		
Current assets		
Cash	\$ 4,953,244	\$ 393,819
Accounts receivable	21,469	16,127
Prepaid expenses	<u>9,039</u>	<u>15,319</u>
	4,983,752	425,265
Deferred share issuance costs	1,362	-
Reclamation bonds and deposits	44,019	44,019
Mineral properties and deferred exploration costs (Schedule and Note 2)	1,121,520	641,897
Property and equipment	<u>2,212</u>	<u>1,391</u>
	<u>\$ 6,152,865</u>	<u>\$ 1,112,572</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	<u>\$ 158,304</u>	<u>\$ 86,025</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	7,266,234	5,751,240
Share subscriptions (Note 3 and 9[a])	3,800,000	-
Contributed surplus (Note 5)	746,733	370,817
Deficit	<u>(5,818,406)</u>	<u>(5,095,510)</u>
	<u>5,994,561</u>	<u>1,026,547</u>
	<u>\$ 6,152,865</u>	<u>\$ 1,112,572</u>
Subsequent events (Note 9)		

APPROVED BY THE BOARD

Signed: "Todd Hilditch" , Director

Signed: "Terry Lashman" , Director

See Accompanying Notes

TERRACO GOLD CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Unaudited – Prepared by Management)

	Three months ended		Nine months ended	
	April 30		April 30	
	2007	2006	2007	2006
EXPENSES				
General and administrative (Note 6)	\$ 131,512	54,744	720,670	294,921
Amortization	150	144	448	433
Mineral property abandoned	298	1,676,418	1,778	1,676,418
Interest	-	2,730	-	10,442
	<u>131,960</u>	<u>1,734,036</u>	<u>722,896</u>	<u>1,982,214</u>
NET LOSS	(131,960)	(1,734,036)	(722,896)	(1,982,214)
DEFICIT, BEGINNING OF PERIOD	<u>(5,686,446)</u>	<u>(2,456,124)</u>	<u>(5,095,510)</u>	<u>(2,207,946)</u>
DEFICIT, END OF PERIOD	<u>\$ (5,818,406)</u>	<u>(4,190,160)</u>	<u>(5,818,406)</u>	<u>(4,190,160)</u>
NET LOSS PER SHARE, BASIC AND DILUTED				
	<u>\$ (0.00)</u>	<u>(0.07)</u>	<u>(0.02)</u>	<u>(0.09)</u>
WEIGHTED AVERAGE NUMBER OF SHARES				
	<u>35,495,632</u>	<u>23,549,266</u>	<u>32,825,861</u>	<u>22,239,254</u>

See Accompanying Notes

TERRACO GOLD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Three months ended		Nine months ended	
	April 30		April 30	
	2007	2006	2007	2006
OPERATING ACTIVITIES				
Net loss from continuing operations	\$ (131,960)	(1,734,036)	(722,896)	(1,982,214)
Items not affecting cash				
Stock-based compensation	20,852	-	403,293	109,308
Mineral property abandoned	-	1,676,418	-	1,676,418
Amortization	149	144	448	433
	(110,959)	(57,474)	(319,155)	(196,055)
Changes in non-cash working				
Capital balances	83,243	(6,194)	73,216	35,752
	\$ (27,716)	(63,668)	(245,939)	(160,303)
FINANCING ACTIVITIES				
Proceeds on issuance of shares	\$ 191,760	-	1,427,616	-
Share subscriptions	3,800,000	-	3,800,000	-
Deferred share issuance costs	(1,362)	-	(1,362)	-
Share issuance costs	-	-	-	(2,121)
	3,990,399	-	5,226,254	(2,121)
INVESTING ACTIVITIES				
Mineral property expenditures	\$ (172,222)	(53,029)	(419,622)	(527,989)
Disposal (acquisition) of property and equipment	-	-	(1,268)	-
	(172,222)	(53,029)	(420,890)	(527,989)
INCREASE (DECREASE) IN CASH	3,790,461	(116,697)	4,559,425	(690,413)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,162,783	136,310	393,819	710,026
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 4,953,244	19,613	4,953,244	19,613
CASH AND CASH EQUIVALENTS CONSIST OF:				
CASH			\$ 3,953,244	19,613
GUARANTEED INVESTMENT CERTIFICATES AND CERTIFICATE OF DEPOSIT			1,000,000	-
			\$ 4,953,244	19,613

See Accompanying Notes

TERRACO GOLD CORP.

CONSOLIDATED SCHEDULES OF MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

(Unaudited – Prepared by Management)

	April 30 2007	Current Period	July 31 2006
Moonlight Project			
Property acquisition costs and option payments	\$ 104,212	\$ 84,879	\$ 19,333
Property maintenance	98,199	91,867	6,332
Engineering and consulting	111,713	43,168	68,545
Assays, surveys and analysis	94,898	92,049	2,849
Drilling	6,030	6,030	-
Communications, field supplies and expenses	<u>906</u>	<u>126</u>	<u>781</u>
	<u>415,958</u>	<u>318,119</u>	<u>97,840</u>
Bonanza Project			
Property acquisition costs and option payments	115,059	26,045	89,014
Property maintenance costs	86,191	3,810	82,381
Engineering and consulting	153,447	30,572	122,875
Assays, surveys and analysis	143,996	3,760	140,206
Equipment rental	225	-	225
Drilling	193,936	93,281	100,655
Communications, field supplies and expenses	<u>12,738</u>	<u>4,037</u>	<u>8,701</u>
	<u>705,562</u>	<u>161,505</u>	<u>544,057</u>
Eagleville Project			
Property acquisition costs and option payments	277,676	-	277,676
Property maintenance costs	83,972	-	83,972
Engineering and consulting	147,268	-	147,268
Assays, surveys and analysis	68,455	-	68,455
Equipment rental	19,894	-	19,894
Communications, field supplies and expenses	15,818	-	15,818
Drilling	<u>204,088</u>	<u>-</u>	<u>204,088</u>
	817,171	-	817,171
Less: Mineral properties abandoned	<u>(817,171)</u>	<u>-</u>	<u>(817,171)</u>
	-	-	-
Tuscarora Project			
Property acquisition costs and option payments	987,065	-	987,065
Property maintenance costs	117,653	-	117,653
Engineering and consulting	206,466	727	205,739
Assays, surveys and analysis	144,523	144	144,379
Equipment rental and facilities	31,938	-	31,938
Communications, field supplies and expenses	15,336	907	14,429
Drilling	<u>209,130</u>	<u>-</u>	<u>209,130</u>
	1,712,111	1,778	1,710,333
Less: Mineral properties abandoned	<u>(1,712,111)</u>	<u>(1,778)</u>	<u>(1,710,333)</u>
	-	-	-
Total mineral properties and deferred costs	<u>\$ 1,121,520</u>	<u>\$ 479,624</u>	<u>\$ 641,897</u>

See Accompanying Notes

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

1. BASIS OF PRESENTATION

The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Corporation's annual financial statements for the year ended July 31, 2006.

The disclosures in the unaudited consolidated financial statements do not conform in all material respects to the requirements of generally accepted accounting principles for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the July 31, 2006 annual consolidated financial statements.

2. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

(a) Moonlight Project, Pershing County, Nevada

Pursuant to an Exploration and Option Agreement (the "Exploration Agreement") effective March 20, 2006, the Corporation acquired 64 unpatented mining claims with an option to joint venture on the Moonlight Property located in Pershing County, Nevada. The Corporation has maintained all of its obligations under its terms of the Exploration Agreement to date, including the issuance of 125,000 common shares on the first anniversary of the Exploration Agreement. Subsequent to April 30, 2007, the Corporation acquired 100% of the Moonlight property by entering into a Purchase Agreement which replaces the Exploration Agreement. **(See note 9[b]).**

During the period, the Corporation made a required bond payment for the amount of estimated future costs of reclaiming land disturbed in the exploration process of US\$6,997. The bond will be released upon reclamation being completed by the Corporation. This bond is held by the Corporation as a fixed term certificate of deposit.

(b) Bonanza Project, La Paz County, Arizona

Pursuant to an Assignment Agreement effective January 27, 2005, the Corporation acquired rights and obligations under an option to lease agreement relating to the property consisting of 9 patented and 14 unpatented lode mining claims. In order to exercise the option and enter into a lease for the Bonanza claims, the Corporation agreed to enter into a mining and lease agreement with the lessor. To acquire an additional 26 unpatented claims contiguous to the Bonanza claims the Corporation entered into a Purchase and Sale Agreement effective January 27, 2005. During the period, the Corporation maintained 13 of the 26 claims. The Corporation has maintained all of its obligations under its terms of these agreements to date.

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

2. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONT'D)

(c) Eagleville Project, Mineral County, Nevada

Pursuant to a lease agreement (the "Lease Agreement") effective July 17, 2003 (as amended June 17, 2005), the Corporation leased an area consisting of 105 unpatented mining claims for a period of 20 years. The Corporation maintained all of its obligations under its terms of the Lease Agreement.

During the year ended July 31, 2006, the Corporation elected not to proceed with its option to lease the Eagleville property and wrote off all costs incurred totaling \$817,171. The Corporation has no further obligations with respect to payments, share issuances or drilling and exploration expenditures under the Lease Agreement, except for those set forth in the Lease Agreement relating to obligations after termination, which include reclamation of disturbed areas to their original state, which has been completed.

(d) Tuscarora Project, Elko County, Nevada

Pursuant to a purchase agreement (the "Purchase Agreement") effective August 27, 2003 (as amended July 13, 2004 and May 20, 2005), the Corporation acquired certain mining property consisting of 220 unpatented mining claims, an additional 17 mining claims leased from third parties and 560 acres of private land under lease. The Corporation maintained all of its obligations under its terms of the Purchase Agreement.

During the year ended July 31, 2006, the Corporation elected not to proceed with its option to acquire the Tuscarora property and wrote off all costs incurred totaling \$1,710,333. The property was re-conveyed to the vendor. The Corporation has completed the required reclamation.

3. SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares
Unlimited number of non-voting preferred shares

(b) Issued - common shares

	Number	Stated Value
Balance, beginning of period	29,330,777	\$ 5,751,240
Warrants exercised	6,945,432	1,376,895
Pursuant to Exploration Agreement (Note 2[b])	125,000	60,000
Compensation options exercised	250,482	50,721
Reclassification on exercise of options	-	27,378
Balance, end of period	<u>36,651,691</u>	<u>\$ 7,266,234</u>

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

3. SHARE CAPITAL (CONT'D)

On May 9, 2007, the Corporation closed a non-brokered private placement of 8,000,000 units at a price of \$0.50 per share per unit, for total gross proceeds of \$4,000,000. As of April 30, 2007, the Corporation had received a total of \$3,800,000 in share subscriptions and had incurred \$1,362 of costs related to this issuance. **(See note 9[a]).**

(c) Options

i) Directors, officers and employees

The Corporation has a stock option plan under which directors, officers, employees and consultants of the Corporation are eligible to receive stock options. The aggregate number of shares to be issued upon the exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Corporation at the time of granting the options. The maximum number of common shares optioned to any one optionee shall not exceed 5% of outstanding common shares of the Corporation. The Board of Directors shall determine the terms and provisions of the options granted at the time of grant. The exercise price of each option shall not be less than the market price of the option on the date of the grant less the discount permitted by the TSX Venture Exchange.

The following is a summary of the status of the Corporation's stock option plan as of April 30, 2007 and changes during the period then ending:

	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	1,190,000	\$ 0.16
Granted	500,000	0.50
Exercised	-	-
Expired	-	-
	<hr/>	<hr/>
Outstanding and exercisable, April 30, 2007	<u>1,690,000</u>	<u>\$ 0.26</u>

Of the 1,190,000 options outstanding, 250,000 expire on March 8, 2009 at an exercise price of \$0.15 and the remaining 940,000 options outstanding expire on September 23, 2009 at an exercise price of \$0.20. On January 26, 2007, 500,000 stock options were granted to directors, officers and employees at a price of \$0.50 per share, with an expiry date of January 27, 2012.

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007

(Unaudited – Prepared by Management)

3. SHARE CAPITAL (CONT'D)

(ii) Consultants

	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	100,000	\$ 0.20
Granted	1,200,000	0.50
Exercised	-	-
Expired	-	-
	-	-
Outstanding and exercisable, April 30, 2007	<u>1,300,000</u>	<u>\$ 0.48</u>

The 100,000 stock options outstanding expire on May 16, 2008 at an exercise price of \$0.20, which were subsequently exercised. In August 2006, the Corporation entered into three financial advisory services agreements, a consulting agreement and an investor relations agreement. Pursuant to these agreements, 1,150,000 stock options were granted at a price of \$0.50 per share, with expiry dates of August 4 to August 24, 2011. On January 26, 2007, 50,000 stock options were granted at a price of \$0.50 per share, with an expiry date of January 27, 2012.

(d) Warrants

The following table summarizes information about the Corporation's warrants as at April 30, 2007:

	Number of Warrants	Weighted Average Exercise Price
Outstanding at beginning of period	8,380,436	\$ 0.19
Granted	-	-
Exercised	(6,945,432)	0.20
Forfeited/expired	(4)	0.26
	-	-
Outstanding at April 30, 2007	<u>1,435,000</u>	<u>\$ 0.15</u>

All of the warrants outstanding are exercisable and expire May 10, 2007 at a price of \$0.15. The weighted average remaining contractual life of the warrants is 0.03 years.

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
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4. STOCK-BASED COMPENSATION

Fair value measurement

The fair value of the options granted during the period has been calculated at \$0.26 (2006 - \$0.11) per option. For the period ended April 30, 2007, compensation expense of \$403,294 (2006 - \$109,308) has been recorded as a general and administrative expense with a corresponding increase in contributed surplus. As 200,000 of the 1,150,000 stock options vest in May 2007 and August 2007 in equal increments, these stock options will be recorded at these periods. Therefore, as at April 30, 2007, the 950,000 remaining stock options that do not have vesting terms were recorded using the fair value method.

The fair value of the options was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Expected life (years)	5	4
Risk-free interest rate (%)	4.10	3.54
Expected volatility (%)	89	93
Expected dividend yield (%)	-	-

5. CONTRIBUTED SURPLUS

Balance, beginning of year	\$ 370,817
Additions	
Stock-based compensation	403,294
Reductions	
Compensation options exercised	<u>(27,378)</u>
Balance, end of period	<u>\$ 746,733</u>

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

6. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

	Three months ended		Nine months ended	
	2007	2006	2007	2006
Accounting and audit	\$ 2,950	\$ -	\$ 2,278	\$ 5,273
Consulting	28,655	25,345	94,753	104,594
Foreign exchange	23,809	(1,413)	24,399	(737)
Insurance	3,595	1,773	11,006	5,439
Investor relations	12,590	-	32,575	5,972
Legal	2,305	5,016	19,159	11,020
Office and sundry	3,327	8,882	34,682	23,966
Property investigation	3,388	3,215	14,315	3,238
Reclamation	-	-	17,664	489
Salaries	10,855	-	12,655	-
Shareholder information	711	1,841	5,194	6,584
Stock-based compensation	20,853	-	403,294	109,308
Telephone	2,820	2,052	7,746	5,229
Transfer agent and filing fees	9,138	7,998	23,034	13,396
Travel	6,516	35	17,879	1,150
	<u>\$131,512</u>	<u>\$ 54,744</u>	<u>\$720,670</u>	<u>\$ 294,921</u>

7. RELATED PARTY TRANSACTIONS

During the period, the Corporation paid administration and consulting fees of \$86,775 (2006 - \$80,681) to officers and companies controlled by directors of the Corporation.

In addition, during the period the Corporation paid a corporation controlled by the Vice President, Exploration fees of \$66,936 (2006 - \$63,957). The majority of these fees are capitalized to engineering and consulting directly to the projects.

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

8. COMPARATIVE FIGURES

Certain of the 2006 comparative figures have been reclassified to conform with current presentation.

TERRACO GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended April 30, 2007
(Unaudited – Prepared by Management)

9. SUBSEQUENT EVENTS

- (a) The Corporation closed a non-brokered private placement May 9, 2007 of 8,000,000 units at a price of \$0.50 per unit, for total gross proceeds of \$4,000,000. Each unit is comprised of one common share of the Corporation and one-half of one non-transferable share purchase warrant. Each warrant entitles the holder to purchase one additional share for a period of 24 months up to expiry of May 9, 2009 at a price of \$0.75 per share during the first 12 months and \$1.00 thereafter. The expiry date of the warrants may be accelerated, at the sole option of the Corporation, to 21 business days following the date on which the Corporation gives notice that the Corporation's common shares have closed for 20 consecutive trading days at a price of \$1.50 or greater. There was no finder's fee payable in connection with this private placement. All securities issued under this private placement are subject to a four-month hold period expiring on September 10, 2007.
- (b) On June 20, 2007, the Corporation entered into a Purchase Agreement for the purchase of 100% of the Moonlight property for US\$1,000,000. The Purchase Agreement replaces the Exploration Agreement, thereby terminating the share issuances and work commitments.