

NEWPORT EXPLORATION LTD.

FINANCIAL STATEMENTS

JULY 31, 2007

AUDITORS' REPORT

To the Shareholders of
Newport Exploration Ltd.

We have audited the balance sheets of Newport Exploration Ltd. as at July 31, 2007 and 2006 and the statements of operations and deficit 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 July 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

November 14, 2007

A Member of SC INTERNATIONAL

NEWPORT EXPLORATION LTD.
BALANCE SHEETS
AS AT JULY 31

	2007	2006
ASSETS		
Current		
Cash	\$ 3,709,681	\$ 2,710
Short-term deposits	4,261,847	739,723
Marketable securities (Note 3)	6,609	6,609
Receivables	54,249	79,799
Prepays	<u>-</u>	<u>731</u>
	8,032,386	829,572
Equipment (Note 4)	10,889	30,774
Exploration advances (Note 5)	28,645	24,391
Mineral properties (Note 5)	<u>1,418,928</u>	<u>944,930</u>
	<u>\$ 9,490,848</u>	<u>\$ 1,829,667</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	\$ 234,852	\$ 43,964
Asset retirement obligation (Note 6)	<u>4,540</u>	<u>17,368</u>
	<u>239,392</u>	<u>61,332</u>
Shareholders' equity		
Capital stock (Note 8)	42,193,096	34,383,271
Contributed surplus (Note 8)	973,346	181,596
Deficit	<u>(33,914,986)</u>	<u>(32,796,532)</u>
	<u>9,251,456</u>	<u>1,768,335</u>
	<u>\$ 9,490,848</u>	<u>\$ 1,829,667</u>

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Subsequent event (Note 16)

On behalf of the Board:

 Director

 Director

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED JULY 31

	2007	2006
EXPENSES		
Administrative services	\$ 13,750	\$ 19,750
Amortization	23,897	25,365
Automobile	-	14,808
Consulting	192,378	171,838
Director's fees	20,000	18,333
Foreign exchange	4,868	(12,836)
Management fees	93,500	88,500
Office and miscellaneous	8,508	16,801
Professional fees	86,471	43,837
Property investigation	22,500	38,086
Regulatory fees	15,610	14,770
Rent and telephone	52,000	49,216
Stock-based compensation (Note 9)	709,219	-
Travel and related costs	<u>7,965</u>	<u>7,837</u>
Loss before other items	<u>(1,250,666)</u>	<u>(496,305)</u>
OTHER ITEMS		
Interest income	66,181	26,038
Petroleum royalty (Note 7)	66,031	105,715
Write-down of marketable securities (Note 3)	<u>-</u>	<u>(3,909)</u>
	<u>132,212</u>	<u>127,844</u>
Loss for the year	(1,118,454)	(368,461)
Deficit, beginning of year	<u>(32,796,532)</u>	<u>(32,428,071)</u>
Deficit, end of year	<u>\$ (33,914,986)</u>	<u>\$ (32,796,532)</u>
Basic and diluted loss per common share	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding	<u>28,443,463</u>	<u>14,952,395</u>

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

NEWPORT EXPLORATION LTD.
STATEMENTS OF CASH FLOWS
YEAR ENDED JULY 31

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (1,118,454)	\$ (368,461)
Items not affecting cash:		
Amortization	23,897	25,365
Stock-based compensation	709,219	-
Write-down of marketable securities	-	3,909
Changes in non-cash working capital items:		
(Increase) decrease in receivables	25,550	(29,355)
Decrease in prepaids	731	26,406
Increase in accounts payable and accrued liabilities	<u>10,248</u>	<u>19,779</u>
Net cash used in operating activities	<u>(348,809)</u>	<u>(322,357)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Short-term deposits	(3,522,124)	796,439
Acquisition of equipment	(4,012)	-
Mineral properties acquisition	(90,000)	(60,000)
Deferred exploration costs	(71,061)	(449,091)
Exploration advances	<u>(4,254)</u>	<u>(15,127)</u>
Net cash provided by (used in) investing activities	<u>(3,691,451)</u>	<u>272,221</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital stock issued	8,208,450	-
Share issue costs	<u>(461,219)</u>	<u>-</u>
Net cash provided by financing activities	<u>7,747,231</u>	<u>-</u>
Increase (decrease) in cash during the year	3,706,971	(50,136)
Cash, beginning of year	<u>2,710</u>	<u>52,846</u>
Cash, end of year	<u>\$ 3,709,681</u>	<u>\$ 2,710</u>

Supplemental disclosure with respect to cash flows (Note 11)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Newport Exploration Ltd. (the "Company") is a Canadian company incorporated under the Business Corporations Act of British Columbia. The Company is primarily engaged in the acquisition and exploration of mineral properties. To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

2. SIGNIFICANT ACCOUNTING POLICIES

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant estimates include: Stock based compensation, asset retirement obligations, and mineral properties. Actual results could differ from these estimates.

Short-term deposits

Short-term deposits consist of highly liquid investments with an original maturity greater than three months.

Marketable securities

Marketable securities are recorded at the lower of cost or fair market value.

Realized gains and losses on sale of securities are determined based on the specific cost basis.

Equipment

Equipment is carried at cost. Amortization is recorded at the following annual rates:

Computer equipment	30% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	straight-line over lease term

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

Mineral properties

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

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

Asset retirement obligations

Asset retirement obligations ("ARO") relate to expected reclamation and closure activities. An ARO is recognized initially at fair value with a corresponding increase in related assets. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit adjusted risk free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

Royalty income

Royalty income is recognized upon sale by the licensee of royalty-bearing products, when realization is considered probable, and collection is reasonably assured.

Foreign currency translation

The monetary assets and liabilities of the Company denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates approximating those on the transaction date. Exchange gains or losses arising on translation are included in the statement of operations.

Stock-based compensation

The Company uses the fair value method of accounting for all stock-based compensation. The Company estimates the fair value at the date of grant using the Black-Scholes option pricing model and recognizes the amount over the period of vesting. Any consideration paid by the option holders to purchase shares is credited to capital stock.

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

Income taxes

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

Loss per share

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

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

Comparative figures

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

Recent accounting pronouncements

The Canadian Institute of Chartered Accountants issued the following standards effective for the fiscal years beginning on or after October 1, 2006: Accounting Standards Section 1530 "Comprehensive Income", Accounting Standards Section 3855 "Financial Instruments – Recognition and Measurement" Accounting Standard Section 3861 "Financial Instruments – Presentation and Disclosure" and Accounting Standards Section 3865 – "Hedges". These sections require certain financial instruments and hedge transactions to be recorded at fair value. The standards also introduce the concept of comprehensive income and accumulated other comprehensive income.

The Company will adopt these standards effective August 1, 2007 on a prospective basis without retroactive restatement of prior periods. Under the new standard, financial instruments designated as "held for trading" and "available for sale" will be carried at their fair value while financial instruments designated as "loans and receivables", "financial liabilities" and those classified as "held to maturity" will be carried at their amortized cost. All derivatives will be carried on the consolidated balance sheet at their fair value. Mark-to-market adjustments on these instruments will be included in net income. Transaction costs incurred to acquire financial instruments will be included in the underlying balance.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

3. MARKETABLE SECURITIES

Marketable securities are comprised of shares in publicly traded companies:

	2007	2006
Market value	\$ 8,196	\$ 6,609

During the year ended July 31, 2007, marketable securities were written-down by \$Nil (2006 - \$3,909).

4. EQUIPMENT

	2007			2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 41,079	\$ 33,442	\$ 7,637	\$ 37,067	\$ 31,704	\$ 5,363
Furniture and fixtures	21,758	18,506	3,252	21,758	17,317	4,441
Leasehold improvements	105,816	105,816	-	105,816	84,846	20,970
	\$ 168,653	\$ 157,764	\$ 10,889	\$ 164,641	\$ 133,867	\$ 30,774

5. MINERAL PROPERTIES

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

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

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

	Mulga Tank Nickel Project, Australia 2007	Mulga Tank Nickel Project, Australia 2006
Acquisition costs		
Balance, beginning of year	\$ 198,000	\$ 78,000
Acquisition costs	<u>296,854</u>	<u>120,000</u>
Balance, end of year	<u>494,854</u>	<u>198,000</u>
Deferred exploration costs		
Balance, beginning of year	<u>746,930</u>	<u>464,086</u>
Additions:		
Accommodation	4,104	-
Asset retirement obligation	(12,828)	17,368
Claim cost	6,386	1,140
Consulting	39,152	31,645
Drilling	51,766	115,827
Field administration	14,248	44,149
Field equipment	6,127	-
Field supplies	6,079	10,698
Project management fees	32,202	17,821
Technical consulting	12,863	33,632
Transportation	5,197	-
Travel	<u>11,848</u>	<u>10,564</u>
	<u>177,144</u>	<u>282,844</u>
Balance, end of year	<u>924,074</u>	<u>746,930</u>
Total	<u>\$ 1,418,928</u>	<u>\$ 944,930</u>

Mulga Tank Nickel Project, Australia

The Company holds the right to acquire an 80% interest in an exploration license and a 75% interest in an application exploration license, collectively known as the Mulga Tank Nickel Project ("Mulga Tank") located in Western Australia. As at July 31, 2007, the Company has paid or accrued \$271,729 and issued 900,000 common shares with a value of \$223,125.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

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

To acquire its interest, the Company is required to:

- i) On or before June 1, 2008, pay \$150,000, issue 600,000 common shares and incur additional expenditures of \$750,000.

- ii) On or before June 1, 2009, incur additional expenditures of \$1,000,000.

Upon completion of a feasibility study, the Company will be required to pay \$240,000 and issue 750,000 common shares. Upon commencement of commercial production, the Company will be required to issue an additional 1,000,000 common shares.

As at July 31, 2007, the Company had advanced \$28,645 (2006 - \$24,391) for future exploration work.

6. ASSET RETIREMENT OBLIGATION

The Company estimates its asset retirement obligation at the Mulga Tank property based on its understanding of its requirements to reclaim the currently disturbed areas. At July 31, 2007 the Company's total cost of reclamation for this disturbance was estimated to be approximately \$4,540 (2006 - \$17,368). The asset retirement obligation is considered to be present value.

The asset retirement obligation accrual required management to make significant estimates and assumptions. Actual results could differ from these estimates.

7. PETROLEUM ROYALTY

Under the terms of an agreement over the sale of CVL Resources (Barbados) Ltd. (formerly a wholly owned subsidiary of the Company), the Company retained a 2.5% royalty for any hydrocarbons discovered on certain petroleum exploration permits in Australia. Included in receivables at July 31, 2007 is \$19,168 (2006 - \$58,456) for the Company's royalty.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

8. CAPITAL STOCK

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
As at July 31, 2005	14,677,874	\$ 34,323,271	\$ 181,596
Acquisition of mineral property	<u>300,000</u>	<u>60,000</u>	<u>-</u>
As at July 31, 2006	14,977,874	34,383,271	181,596
Acquisition of mineral property	450,000	145,125	-
Private placements	36,100,000	7,835,000	-
Compensation options	-	(197,102)	197,102
Exercise of warrants	975,000	146,250	-
Exercise of options	1,420,000	227,200	-
Reclassification on the exercise of stock options	-	114,571	(114,571)
Share issue costs	-	(461,219)	-
Stock-based compensation	<u>-</u>	<u>-</u>	<u>709,219</u>
As at July 31, 2007	<u>53,922,874</u>	<u>\$ 42,193,096</u>	<u>\$ 973,346</u>

During the year ended July 31, 2007, the Company:

- a) completed a non-brokered private placement of 20,000,000 units at a price of \$0.11 per unit for total proceeds of \$2,200,000. Each unit consisted of one common share and one share purchase warrant. Each share purchase warrant to acquire one additional common share at an exercise price of \$0.15 per share until December 16, 2008.
- b) completed a brokered private placement of 16,100,000 units issued at \$0.35 per unit for total proceeds of \$5,635,000. Each unit consisted of one common share and one share purchase warrant to acquire one additional common share at \$0.50 per share until July 24, 2009. Agent compensation includes a commission of \$366,275 and 1,046,500 compensation options valued at \$197,102 which entitle the Agent to purchase one unit at \$0.35 per unit which consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable on the same terms as the private placement.
- c) issued 1,420,000 common shares on exercise of options for proceeds of \$227,200.
- d) issued 975,000 common shares on exercise of warrants for proceeds of \$146,250.
- e) issued 450,000 common shares on the acquisition of a mineral property valued at \$145,125.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

8. CAPITAL STOCK (cont'd...)

During the year ended July 31, 2006, the Company:

- a) issued 300,000 common shares on the acquisition of a mineral property valued at \$60,000.

9. STOCK OPTIONS AND WARRANTS

Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, minimum price or a discounted price, of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

At July 31, 2007, the Company had outstanding stock options, enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
45,000	\$ 0.16	October 12, 2008
3,615,000	0.30	March 5, 2010

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

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2005 and 2006	1,450,000	\$ 0.16
Options granted	3,660,000	0.30
Options exercised	(1,420,000)	0.16
Options expired	<u>(30,000)</u>	0.16
Balance, July 31, 2007	3,660,000	\$ 0.30
Number of options currently exercisable	3,660,000	\$ 0.30

Stock-based compensation

During the year ended July 31, 2007, the Company granted 3,660,000 (2006 – Nil) stock options resulting in stock-based compensation expense of \$709,219 (2006 - \$Nil) using the Black-Scholes option pricing model which was also recorded as contributed surplus on the balance sheet. The weighted average fair value of the stock options granted was \$0.19 (2006 - \$Nil) per share.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

9. STOCK OPTIONS AND WARRANTS (cont'd...)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of stock options granted:

	2007
Risk-free interest rate	3.87%
Expected life of options	3 years
Annualized volatility	103.6%
Dividend rate	0%

Warrants

At July 31, 2007, the Company had outstanding share purchase warrants enabling the holders to acquire further common shares as follows:

Number of Shares	Exercise Price	Expiry Date
19,025,000	\$ 0.15	December 16, 2008
16,100,000	0.50	July 24, 2009

As at July 31, 2007, 1,046,500 compensation options were outstanding. Each option is exercisable into one unit for a two year period at \$0.35 per unit. Each unit consists of one common and one share purchase warrant exercisable at \$0.50 per share until July 24, 2009.

Warrant transactions are summarized as follows:

	Number of Warrants	Exercise Price
Balance, July 31, 2005	5,841,400	\$ 0.45
Warrants cancelled/expired	<u>(5,841,400)</u>	0.45
Balance, July 31, 2006	-	-
Warrants issued	36,100,000	0.31
Warrants exercised	<u>(975,000)</u>	0.15
Balance, July 31, 2007	<u>35,125,000</u>	\$ 0.31

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

- a) Paid or accrued consulting fees of \$158,000 (2006 - \$140,000) to companies controlled by two directors.
- b) Paid or accrued management fees of \$93,500 (2006 - \$88,500) to companies controlled by a director.
- c) Paid or accrued rent of \$52,000 (2006 - \$48,000) to a company controlled by a director.
- d) Paid or accrued automobile costs of \$Nil (2006 - \$14,808) under a vehicle operating lease for use by directors and officers.
- e) Paid or accrued directors fees of \$20,000 (2006-\$18,333) to a director of the Company.
- f) Paid or accrued professional fees and share issue costs of \$21,901 (2006-\$Nil) to a legal firm where an officer of the Company is a partner.

Included in accounts payable and accrued liabilities is \$23,920 (2006-\$Nil) owed to a director and a legal firm where an officer of the Company is a partner.

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

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2007	2006
Cash paid during the year for interest	\$ -	\$ -
Cash paid during the year for income taxes	\$ -	\$ -

The Company entered into the following significant non-cash transactions for the year ended July 31, 2007:

- a) issued 450,000 common shares at a value of \$145,125 for the acquisition of a mineral property (Note 5).
- b) accrued \$180,640 for mineral properties in accounts payable and accrued liabilities as at July 31, 2007.
- c) reduced estimated accrual of asset retirement obligations by \$12,828 with a corresponding recovery of mineral property expenditures.

The Company entered into the following significant non-cash transactions for the year ended July 31, 2006:

- a) issued 300,000 common shares at a value of \$60,000 for the acquisition of a mineral property (Note 5).
- b) accrued of \$17,368 for asset retirement obligations with a corresponding increase to mineral properties.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, short-term deposits, marketable securities, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

Currency Risk

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

13. INCOME TAXES

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

	2007	2006
Loss before income taxes	\$ (1,118,454)	\$ (368,461)
Expected tax recovery	\$ (390,933)	\$ (136,164)
Other	260,870	1,940
Unrecognized benefits of non-capital losses	<u>130,063</u>	<u>134,224</u>
Total income taxes	\$ -	\$ -

b) Details of future income tax assets are as follows:

	2007	2006
Future tax assets:		
Equipment	\$ 75,000	\$ 78,000
Resource deductions	321,000	291,000
Share issuance costs	121,000	16,000
Non-capital loss carryforwards	<u>838,000</u>	<u>1,027,000</u>
	1,355,000	1,412,000
Valuation allowance	<u>(1,355,000)</u>	<u>(1,412,000)</u>
Net future tax assets	\$ -	\$ -

The Company has non-capital losses of approximately \$2,750,000 which may be carried forward and applied against taxable income in future years. These losses, if unutilized, will expire through to 2027. Subject to certain restrictions, the Company has further resource development and exploration expenditures totalling approximately \$2,470,000 available to reduce taxable income of future years. The future income tax benefits of these losses, resource deductions and other tax assets have not been reflected in these financial statements and have been offset by a valuation allowance.

NEWPORT EXPLORATION LTD.
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2007

14. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

	2007	2006
Capital assets		
Canada	\$ 10,889	\$ 30,774
Australia	<u>1,418,928</u>	<u>944,930</u>
	<u>\$ 1,429,817</u>	<u>\$ 975,704</u>

15. COMMITMENT

The Company has an obligation under an operating lease for its premises with a company controlled by a director. The annual lease commitments under this lease are as follows:

2008	\$ 62,000
2009	<u>44,000</u>
	<u>\$ 106,000</u>

16. SUBSEQUENT EVENT

Subsequent to July 31, 2007, the Company issued 1,000,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$150,000.

NEWPORT EXPLORATION LTD.

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended July 31, 2007

The following discussion and analysis of financial results, prepared as of November 20, 2007, should be read in conjunction with the audited financial statements of Newport Exploration Ltd. ("Newport" or the "Company") for the year ended July 31, 2007, together with the related notes thereto. The audited financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are expressed in Canadian dollars unless otherwise indicated.

The discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered reasonable by the Company's management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made.

Additional information on the Company is available for viewing on SEDAR at www.sedar.com.

Description of Business

Newport Exploration Ltd. is a mineral exploration company engaged in the acquisition and exploration of mineral properties in Western Australia. The Company's head office is in Vancouver, British Columbia. The Company has a nickel-uranium exploration property in Western Australia where it holds an option to acquire an 80% interest in an exploration licence and a 75% interest in an application exploration licence. The Company is a reporting issuer in British Columbia, Alberta and Saskatchewan and trades on the TSX Venture Exchange under the symbol NWX.

Overview

In July 2007, the Company completed a brokered Private Placement which raised gross proceeds of \$5,635,000 to be used, in part, for further exploration of the Company's Mulga Tank nickel-uranium prospects in Western Australia aimed at the evaluation of the potential for uranium anomalism.

The drilling program at Mulga Tank commenced, but a combination of limited availability of suitable drilling equipment and difficult ground conditions resulted in the program being reduced in scope. The first traverse of five holes was sited across the central portion of the main, northern conductive zone as identified from the Tempest airborne geological survey. Due to drilling problems which occurred as a result of encountering running sands and indurated siltstone other holes were sited on seven other traverses across both anomalous zones. No radioactive material has been returned from any of the holes.

At this time it is apparent that the future of the Mulga Tank project is in the nickel exploration potential in the peridotite/dunite as identified in two vertical diamond holes drilled in 2005 by the Company. Currently, the Company is reviewing its options on how to proceed on this basis.

Results of Operations

During the year ended July 31, 2007, the Company incurred a loss of \$1,118,454 compared to a loss of \$368,461 for the year ended July 31, 2006. The significant changes during fiscal 2007 compared to fiscal 2006 are as follows:

Consulting fees increased to \$192,378 during the year ended July 31, 2007 from the \$171,838 incurred during the year ended July 31, 2006. This increase was a result of the monthly contract for consulting fees to a director that increased from \$10,000 to \$12,000 per month in January 2007.

During the year ended July 31, 2007 the Company incurred management fees of \$93,500 to a director as compared to \$88,500 during the year ended July 31, 2006. The increase was due to an increase in the monthly management fee to \$8,000 per month from \$7,500 per month in January 2007.

During the year ended July 31, 2007 the Company incurred property investigation expense of \$22,500, which represents a decrease from the \$38,086 incurred during the year ended July 31, 2006. This decrease was due to the Company's efforts in trying to identify additional properties of merit in the previous year.

During the year ended July 31, 2007 the Company incurred professional fees of \$86,471, which was increased from the \$43,837 incurred during the year ended July 31, 2006 as a result of the legal costs incurred in Australia in connection with stamp duty imposed by the Australia government on the Mulga Tank property.

Stock-based compensation expense of \$709,219 was recorded during the year ended July 31, 2007 which increased from the \$Nil incurred during the year ended July 31, 2006. This was an expense with respect to the granting of stock options in 2007. There were no options granted by the Company during the year ended July 31, 2006.

The Company earned \$66,031 in a petroleum royalty during the year ended July 31, 2007, which decreased from \$105,715 during the year ended July 31, 2006. This was a result of the Company's retained 2.5% royalty on certain exploration permits in Australia. The royalty income decreased in the current year as a result of lower production out of the two producing zones.

Interest income of \$66,181 was earned during the year ended July 31, 2007 on cash and short-term investments. This compares to interest income of \$26,038 earned during the year ended July 31, 2006. The increase during fiscal 2007 was a result of the completion of the two private placement financings during the current year.

Fourth Quarter Results

The Company recorded a loss for the three month period ended July 31, 2007 of \$92,047 or \$0.01 per common share compared to a loss of \$95,484 or \$0.01 per common share for the comparative period ended July 31, 2006. The loss for the three months included administrative expenses of \$119,893 (2006 - \$137,010). The administrative expenses were higher in the quarter ended July 31, 2006, than in the current comparative quarter due to higher property investigating costs.

During the fourth quarter the Company completed a brokered private placement of 16,100,000 units issued at \$0.35 per unit for total proceeds of \$5,635,000. Each unit consisted of one common share and one share purchase warrant to acquire one additional common share at \$0.50 per share until July 24, 2009. Agent compensation included a commission of \$366,275 and

1,046,500 compensation options valued at \$197,102 which entitle the Agent to purchase one unit which consists of one common share of the Company and one share purchase warrant. Each share purchase warrant is exercisable on the same terms as the private placement. The Company also commenced on a drill program on the Mulga Tank project.

The Company also earned \$5,039 (2006-\$47,389) during the fourth quarter of fiscal 2007, as a result of the 2.5% royalty on the production on certain petroleum permits in Australia. Additionally, the Company earned \$22,806 (2006-\$6,991) in interest income.

Exploration Expenditures

During the year ended July 31, 2007, the Company incurred exploration expenditures of \$177,144 (2006 - \$282,844). These expenditures for both 2007 and 2006 were incurred on the Company's Mulga Tank project. Additionally, the Company paid or accrued \$296,854 (2006 - \$120,000) for acquisition costs in connection with option agreement on the Mulga Tank project.

Liquidity and Capital Resources

The Company's working capital position at July 31, 2007 was \$7,792,994 as compared to a working capital position of \$785,608 at July 31, 2006. The increase in working capital is primarily a result of the completion of the two private placements for total gross proceeds of \$7,835,000. The Company also received \$373,450 from the exercise of stock options and share purchase warrants during the current year. At July 31, 2007, the Company held in cash and short-term deposits \$7,971,528 (2006-\$742,433).

As at July 31, 2007, the Company had current assets of \$8,032,386, total assets of \$9,490,848 and total liabilities of \$239,392. There is no long-term debt. There are no known trends in the Company's liquidity or capital resources. Accounts payable and accrued liabilities increased significantly as a result of the drill program undertaken on the Mulga Tank project during July 2007.

The principal assets of the Company are its mineral exploration properties, amounting to \$1,418,928 as at July 31, 2007.

The Company has sufficient funds on hand to fund its operating expenses and budgeted exploration programs on the Company's property in Australia for fiscal 2008.

At July 31, 2007, the Company had a cash position (including short-term deposits) of \$7,971,528 which is invested in highly liquid, fully guaranteed, bank sponsored instruments. The Company is not exposed to financial instruments involving the US residential property markets or mortgages.

The Company has financed its operations to date primarily through the issuance of common shares and exercise of stock options and share purchase warrants. The Company continues to seek capital through various means including the issuance of equity and/or debt.

The Company has not paid any dividends on its common shares. The Company has no present intention of paying dividends on its common shares, as it anticipates that all available funds will be invested to finance the growth of its business.

The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

Commitments and Contractual Obligations

The Company has work commitments on the Mulga Tank project pursuant to its underlying agreements. Newport has fulfilled its obligations in accordance with the amended commitment schedule. The work and acquisition commitments outlined below are contingent on successful exploration results being obtained.

	Expiry Date	Exploration Expenditures	Acquisition Costs	Share Issuances	
Year 1	Sept 1, 2005	\$ 250,000	\$ 60,000	300,000	(completed)
Year 2	Sept 1, 2006	500,000	90,000	450,000	(completed)
Year 3	June 1, 2008	750,000	150,000	600,000	
Year 4	June 1, 2009	1,000,000			

Annual Financial Information

Year Ended	July 31, 2007	July 31, 2006	July 31, 2005
Financial Results			
Exploration expenditures	\$ 177,144	\$ 282,844	\$ 459,174
Loss for the year	1,118,454	368,461	480,211
Loss per share – basic and diluted	(0.04)	(0.02)	(0.03)
Financial Position			
Working capital position	\$ 7,792,944	\$ 785,608	\$ 1,469,307
Mineral properties	1,418,928	944,930	542,086
Total assets	9,490,848	1,829,667	2,284,596
Share capital	42,193,096	34,383,271	34,323,271
Deficit	(33,914,986)	(32,796,532)	(32,428,071)

Quarterly Financial Information

	Three Months Ended July 31, 2007	Three Months Ended April 30, 2007	Three Months Ended Jan 31, 2007	Three Months Ended Oct 31, 2006
Total assets	\$ 9,490,848	\$ 4,034,074	\$ 3,927,780	\$ 1,735,552
Mineral properties and deferred costs	1,418,928	1,108,992	1,071,189	969,339
Working capital	7,792,994	2,826,054	2,663,218	666,047
Loss for the period	(92,047)	(792,712)	(132,016)	(101,679)
Loss per share – basic and diluted	(0.01)	(0.02)	(0.01)	(0.01)

	Three Months Ended Jul 31, 2006	Three Months Ended Apr 30, 2006	Three Months Ended Jan 31, 2006	Three Months Ended Oct 31, 2005
Total assets	\$ 1,829,667	\$ 1,880,057	\$ 1,944,902	\$ 2,069,386
Mineral properties and deferred costs	944,930	904,861	878,374	862,050
Working capital	785,608	912,561	996,756	1,120,379
Loss for the period	(95,484)	(65,813)	(113,640)	(93,542)
Loss per share – basic and diluted	(0.01)	(0.01)	(0.01)	(0.01)

Fiscal 2007

During the fourth quarter the Company completed a brokered private placement of 16,100,000 units issued at \$0.35 per unit for total proceeds of \$5,635,000. Each unit consisted of one common share and one share purchase warrant to acquire one additional common share at \$0.50 per share until July 24, 2009. The Company also commenced on a drill program on the Mulga Tank project.

During the third quarter of fiscal 2007, the Company received \$208,000 from the exercised of 1,300,000 stock options and \$48,750 from the exercise of 325,000 share purchase warrants. Additionally, the Company granted 3,615,000 stock options resulting in the recording of \$706,477 in stock-based compensation expense.

During the second quarter of fiscal 2007, the Company raised \$2.2 million pursuant to a non-brokered private placement financing. Also, 120,000 common shares were issued for the exercise of options for proceeds of \$19,200. The Company also made a payment of \$45,000 and issued 225,000 common shares in connection with the option agreement on the Mulga Tank property. Additionally, the Company advanced \$60,000 for upcoming exploration expenditures on the Mulga Tank project.

During the first quarter of fiscal 2007, administrative expenses remained constant with the previous quarter. The Company incurred \$24,409 in exploration costs during this quarter.

Fiscal 2006

During the fourth quarter, professional fees were higher than in the previous quarter as a result of the year-end audit accrued. The Company also earned \$60,663 during the fourth quarter as a result of the 2.5% royalty from production of the petroleum permits in Australia.

During the third quarter, the Company received \$45,052 on the 2.5% held royalty held on certain oil and gas permits held in Australia. A total of \$26,487 was spent during the quarter on Mulga Tank.

During the second quarter, the Company's administrative expenses remained consistent with the previous quarter.

During the first quarter of the fiscal 2006, management fees and consulting increased as a result of new contracts with two directors during this quarter. During this quarter, the Company incurred \$60,000 in acquisition costs and \$199,964 in deferred exploration costs on the Mulga

Tank project. The Company also commenced paying director's fees to a director totaling \$5,000 per quarter. The Company spent \$16,324 on the Mulga Tank project during the quarter.

Related Party Transactions

During the year ended July 31, 2007, the Company paid or accrued \$134,000 (2006 - \$116,000) to Buccaneer Management Inc., a company controlled by Ian Rozier, the President, and paid or accrued \$24,000 (2006 - \$24,000) to 676421 B.C. Ltd., a company controlled by David Cohen a director, for consulting fees. Also during the year, the Company paid or accrued \$93,500 (2006 - \$88,500) for management fees to Prospect Point Consulting and Tabo Investments Ltd., companies controlled by Barbara Dunfield, the Chief Financial Officer of Newport. Additionally, the Company paid or accrued \$52,000 (2006 - \$48,000) for rent charged by 641485 B.C. Ltd., a company controlled by Mr. Rozier. During the year, the Company also paid or accrued \$21,901 (2006 - \$Nil) for professional fees or share issue costs to Lang Michener, a legal firm where David Cowan is a partner. Lastly, the Company paid or accrued \$20,000 (2006 - \$18,333) for director's fees to Douglas B. Hyndman ("Hyndman").

Included in accounts payable and accrued liabilities is \$23,920 (2006-\$Nil) owed to Hyndman and to Lang Michener.

Critical Accounting Estimates

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Royalty income

Royalty income is recognized upon sale by the licensee of royalty-bearing products, when realization is considered probable, and collection is reasonable assured.

New Accounting Policies

The Canadian Institute of Chartered Accountants issued the following standards effective for the fiscal years beginning on or after October 1, 2006: Accounting Standards Section 1530 "Comprehensive Income", Accounting Standards Section 3855 "Financial Instruments – Recognition and Measurement" Accounting Standard Section 3861 "Financial Instruments – Presentation and Disclosure" and Accounting Standards Section 3865 – "Hedges". These sections require certain financial instruments and hedge transactions to be recorded at fair value. The standards also introduce the concept of comprehensive income and accumulated other comprehensive income.

The Company will adopt these standards effective August 1, 2007 on a prospective basis without retroactive restatement of prior periods. Under the new standard, financial instruments designated as "held for trading" and "available for sale" will be carried at their fair value while financial instruments designated as "loans and receivables", "financial liabilities" and those classified as "held to maturity" will be carried at their amortized cost. All derivatives will be carried on the consolidated balance sheet at their fair value. Mark-to-market adjustments on these instruments will be included in net income. Transaction costs incurred to acquire financial instruments will be included in the underlying balance.

Disclosure Controls and Procedures

The Company's system of disclosure controls and procedures includes our Disclosure Policy, our Code of Conduct and Business Ethics and the effectiveness of our Audit Committee. The Company has established procedures that allow the identification of matters warranting consideration of disclosure by the Audit Committee, as well as procedures for the verification of individual transactions and information that would be incorporated in annual and interim filings, including Financial Statements, Management's Discussion and Analysis, and other related documents.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in an Issuer's Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted as of July 31, 2007 under the supervision of management, including the President and the Chief Financial Officer. The evaluation included review of documentation, enquiries of Company staff and other procedures considered by Management to be appropriate under the circumstances.

As a result of their evaluation, the President and Chief Financial Officer are of the opinion that the design and operation of the system of disclosure controls was effective as at July 31, 2007.

The President and Chief Financial Officer are also required to file certifications of our annual filings under Multilateral Instrument 52-109. These certifications may be accessed at www.sedar.com.

Risk, Uncertainties and Outlook

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, the Company's property has no known commercial ore deposit. Other risks facing the Company include competition for mineral properties, environmental and insurance risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of additional financing.

Subsequent Event

Subsequent to July 31, 2007, the Company issued 1,000,000 common shares pursuant to the exercise of share purchase warrants for total proceeds of \$150,000.

Share Capital

As at November 20, 2007, the Company had 54,922,874 common shares outstanding and the following outstanding warrants and options:

Outstanding Options:

Number of Options	Exercise Price	Expiry Date
45,000	\$0.16	October 12, 2008
3,615,000	\$0.30	March 5, 2010

Outstanding Warrants:

Number of Warrants	Exercise Price	Expiry Date
18,025,000	\$0.15	December 16, 2008
17,146,500	\$0.50	July 24, 2009

Disclaimer

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure document provided by the Company, which can be accessed www.sedar.com. No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

Cautionary Statement on Forward-Looking Information

Certain statements contained in this document constitute "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirements for obtaining permits and licenses for the Company's operations in the jurisdictions in which it operates.