

**SUPERIOR MINING INTERNATIONAL CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**JANUARY 31, 2007**

## **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the six month period ended January 31, 2007.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

|   | January 31,<br>2007 | July 31,<br>2006   |
|---|---------------------|--------------------|
| <b>ASSETS</b>                               |                     |                    |
| <b>Current</b>                              |                     |                    |
| Cash and cash equivalents                   | \$ 1,427,245        | \$ 1,658,957       |
| Restricted cash                             | -                   | 36,163             |
| Due from joint venture partner              | 2,596               | 17,724             |
| Receivables                                 | 74,959              | 327,431            |
| Prepaid expenses                            | 5,168               | 22,766             |
| Subscriptions receivable                    | -                   | 550,000            |
| Loan receivable                             | <u>101,000</u>      | <u>-</u>           |
|   | 1,610,968           | 2,613,041          |
| <b>Mineral properties</b> (Note 3)          | 236,385             | 4,528,880          |
| <b>Reclamation bonds</b>                    | -                   | 9,323              |
| <b>Long-term investment</b> (Note 4)        | <u>2,482,028</u>    | <u>-</u>           |
|   | \$ 4,329,381        | \$ 7,151,244       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                     |                    |
| <b>Current</b>                              |                     |                    |
| Accounts payable and accrued liabilities    | \$ 43,869           | \$ 443,996         |
| Current portion of long-term debt (Note 5)  | -                   | 99,888             |
| Due to joint venture partner                | <u>3,581</u>        | <u>-</u>           |
|   | 47,450              | 543,884            |
| <b>Long-term debt</b> (Note 5)              | -                   | 298,064            |
| <b>Provision for reclamation</b> (Note 10)  | -                   | 81,620             |
| <b>Future income tax payable</b> (Note 11)  | <u>-</u>            | <u>1,483,086</u>   |
|   | 47,450              | 2,406,654          |
| <b>Shareholders' equity</b>                 |                     |                    |
| Capital stock (Note 6)                      | 13,150,271          | 13,150,271         |
| Contributed surplus (Note 6)                | 1,262,173           | 1,262,173          |
| Deficit                                     | <u>(10,130,513)</u> | <u>(9,667,854)</u> |
|   | 4,281,931           | 4,744,590          |
|   | \$ 4,329,381        | \$ 7,151,244       |

**Nature and continuance of operations** (Note 1)

**On behalf of the Board:**

\_\_\_\_\_  
*"John Proust"* Director      \_\_\_\_\_  
*"Cyrus Driver"* Director

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
(Unaudited)

|   | Three months<br>Ended<br>January 31,<br>2007 | Three months<br>Ended<br>January 31,<br>2006 | Six months<br>Ended<br>January 31,<br>2007 | Six months<br>Ended<br>January 31,<br>2006 |
|---|--|--|--|--|
| <b>REVENUE</b>                                    | \$ 161,915                                   | \$ -   | \$ 665,830                                 | \$ -                                       |
| <b>DIRECT COSTS</b>                               |  |  |  |  |
| Operating expenses                                | (78,118)                                     | -  | (543,720)                                  | -  |
| Depreciation and amortization                     | 280  | -  | (6,376)                                    | -  |
|   | <u>84,077</u>                                | <u>-</u>                                     | <u>115,734</u>                             | <u>-</u>                                   |
| <b>EXPENSES</b>                                   |  |  |  |  |
| Administration                                    | (5,361)                                      | 7,746  | 788  | 15,572                                     |
| Amortization                                      | -  | 156  | -  | 544  |
| Bank charges and interest                         | 466  | 3,124  | 1,700                                      | 6,009                                      |
| Consulting  | 49,533                                       | 88,095                                       | 132,861                                    | 195,181                                    |
| Filing and transfer agent fees                    | 3,070  | 1,617  | 5,919                                      | 2,754                                      |
| Foreign exchange                                  | 188,387                                      | (15,612)                                     | 49,522                                     | 56,276                                     |
| Interest  | 126  | -  | 3,660                                      | -  |
| Exploration                                       | -  | -  | 5,591                                      | -  |
| Property investigation                            | -  | -  | 12,532                                     | -  |
| Management fees                                   | (13,636)                                     | -  | 38,020                                     | -  |
| Salaries  | (13,051)                                     | -  | 5,976                                      | -  |
| Office, telephone and printing                    | 22,420                                       | 19,740                                       | 48,455                                     | 39,201                                     |
| Professional fees                                 | 147,256                                      | 44,707                                       | 216,739                                    | 80,607                                     |
| Travel  | 43,536                                       | 50,585                                       | 96,545                                     | 64,610                                     |
|   | <u>422,746</u>                               | <u>200,158</u>                               | <u>618,308</u>                             | <u>460,754</u>                             |
| <b>Loss before other items</b>                    | <u>(338,669)</u>                             | <u>(200,158)</u>                             | <u>(502,574)</u>                           | <u>(460,754)</u>                           |
| <b>OTHER ITEMS</b>                                |  |  |  |  |
| Interest income                                   | 19,556                                       | 4,256  | 39,915                                     | 8,710                                      |
| Equipment written-off                             | -  | (6,368)                                      | -  | (6,368)                                    |
| Mineral properties and other assets written off   | -  | (1,308,814)                                  | -  | (1,308,814)                                |
|   | <u>19,556</u>                                | <u>(1,310,926)</u>                           | <u>39,915</u>                              | <u>(1,306,472)</u>                         |
| <b>Loss for the period</b>                        | (319,113)                                    | (1,511,084)                                  | (462,659)                                  | (1,767,226)                                |
| <b>Deficit, beginning of period</b>               | <u>(9,811,400)</u>                           | <u>(6,714,107)</u>                           | <u>(9,667,854)</u>                         | <u>(6,457,965)</u>                         |
| <b>Deficit, end of period</b>                     | <u>\$ (10,130,513)</u>                       | <u>\$ (8,225,191)</u>                        | <u>\$ (10,130,513)</u>                     | <u>\$ (8,225,191)</u>                      |
| <b>Basic and diluted loss per share</b>           | \$ (0.01)                                    | \$ (0.02)                                    | \$ (0.02)                                  | \$ (0.02)                                  |
| <b>Weighted average common shares outstanding</b> | 30,587,995                                   | 14,587,995                                   | 30,587,995                                 | 14,470,278                                 |

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

|  | Three months<br>Ended<br>January 31,<br>2007 | Three months<br>Ended<br>January 31,<br>2006 | Six months<br>Ended<br>January 31,<br>2007 | Six months<br>Ended<br>January 31,<br>2006 |
|--|--|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                            |  |  |  |  |
| Loss for the period  | \$ (319,113)                                 | \$ (1,511,084)                               | \$ (462,659)                               | \$ (1,767,226)                             |
| Items not affecting cash   |  |  |  |  |
| Depreciation and Amortization  | (280)  | 156  | 6,376                                      | 544  |
| Mineral properties and other assets written-off                        | -  | 1,308,814                                    | -  | 1,308,814                                  |
| Equipment written-off  | -  | 6,368  | -  | 6,368                                      |
| Net change in non-cash working capital                                 | <u>224,084</u>                               | <u>58,644</u>                                | <u>11,650</u>                              | <u>(432,297)</u>                           |
| Net cash used in operating activities                                  | <u>(95,309)</u>                              | <u>(137,102)</u>                             | <u>(444,633)</u>                           | <u>(883,797)</u>                           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                            |  |  |  |  |
| Acquisition of equipment   | -  | (2,700)                                      | -  | (4,234)                                    |
| Advances from joint venture partner                                    | (35,499)                                     | -  | 18,709                                     | (1,070,030)                                |
| Mineral properties and deferred exploration costs                      | (306,773)                                    | (93,000)                                     | (306,773)                                  | -  |
| Cash surrendered on write-off of property                              | -  | (70,589)                                     | -  | (70,589)                                   |
| Acquisition of investment  | (94,501)                                     | -  | (94,501)                                   | -  |
| Reclamation bond refunded  | <u>5,594</u>                                 | <u>-</u>                                     | <u>9,323</u>                               | <u>-</u>                                   |
| Net cash used in investing activities                                  | <u>(431,179)</u>                             | <u>(166,289)</u>                             | <u>(373,242)</u>                           | <u>(1,144,853)</u>                         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |  |  |  |  |
| Issuance of shares for cash  | <u>-</u>                                     | <u>-</u>                                     | <u>550,000</u>                             | <u>25,000</u>                              |
| Net cash provided by financing activities                              | <u>-</u>                                     | <u>-</u>                                     | <u>550,000</u>                             | <u>25,000</u>                              |
| <b>Increase (decrease) in cash and cash equivalents for the period</b> | <b>(526,488)</b>                             | <b>(303,391)</b>                             | <b>(267,875)</b>                           | <b>(2,003,650)</b>                         |
| <b>Cash and cash equivalents, beginning of period</b>                  | <b><u>1,953,733</u></b>                      | <b><u>902,670</u></b>                        | <b><u>1,695,120</u></b>                    | <b><u>2,602,929</u></b>                    |
| <b>Cash and cash equivalents, end of period</b>                        | <b>\$ 1,427,245</b>                          | <b>\$ 599,279</b>                            | <b>\$ 1,427,245</b>                        | <b>\$ 599,279</b>                          |
| <b>Cash and cash equivalents consists of:</b>                          |  |  |  |  |
| Cash on hand   | \$ 1,051,519                                 | \$ 1,427,245                                 | \$ 1,051,519                               | \$ 1,427,245                               |
| Term deposits  | 375,726                                      | -  | 375,726                                    | -  |

**Supplemental disclosure with respect to cash flows (Note 8)**

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

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company is primarily engaged in the acquisition, exploration and development of mineral properties. Effective May 10, 2006, the Company consolidated the number of its issued and outstanding common shares on the basis of one new share for every five existing issued shares. The number of shares, options and warrants in Note 6 have been restated to give retroactive recognition of the share consolidation for all periods presented. In addition, all references to number of shares and per share amounts in these financial statements have been restated to reflect the share consolidation.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs 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.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a "going concern" is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

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|                 | January 31,<br>2007 | July 31,<br>2006 |
|-----------------|---------------------|------------------|
| Working capital | \$ 1,563,518        | \$ 2,069,157     |
| Deficit         | (10,130,513)        | (9,667,854)      |

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**Investments**

Long-term investments are carried at cost. If it is determined that the value of the investment is permanently impaired, it is written down to its estimated net realizable value.

**2. ACQUISITION OF MIDDLEVLEI GOLD & INVESTMENTS (PTY) LTD. (FORMERLY PAMODZI GOLD (PROPRIETARY) LIMITED)**

During the period ended January 31, 2007, Pamodzi Gold (Pty) Ltd. ("Pamodzi Gold") changed its name to Middelvlei Gold & Investments (Pty) Ltd. ("MGI").

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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**2. ACQUISITION OF MIDDLEVLEI GOLD & INVESTMENTS (PTY) LTD. (FORMERLY PAMODZI GOLD (PROPRIETARY) LIMITED) (cont'd...)**

During the year ended July 31, 2006, the Company received final acceptance from the TSX Venture Exchange of its previously announced "Shareholders' Agreement" and "Subscription Agreement", dated June 3, 2005, as amended by the "Variation Agreement" dated July 21, 2005 (collectively, the "Shareholders' Agreement"), with each of Pamodzi Resources (Pty) Limited ("Pamodzi Resources") and MGI (formerly Pamodzi Gold), pursuant to which the Company acquired 50% of the issued and outstanding shares of MGI in consideration of advancing to MGI, by way of shareholder's loan, an aggregate of ZAR 15,816,040 (approx. Cdn. \$2,730,000) (the "Shareholder's Loan") plus interest of ZAR 858,341 (approx. Cdn. \$136,000). This transaction was accounted for as an asset purchase since MGI's only purpose is as a holding company for the Company's joint venture (Note 3), summarized as follows:

Pursuant to the second variation agreement the Company agreed to reduce its interest in MGI to 50% less one share and as a result Pamodzi Resources increased its interest in MGI to 50% plus one share. MGI has invested in a new company called Pamodzi Gold Limited. The Company, through MGI owns 17% of Pamodzi Gold Limited (currently listed on the Johannesburg Stock Exchange ("JSE")).

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|                                   |                     |
|-----------------------------------|---------------------|
| Net assets acquired:              |                     |
| Cash                              | \$ 105,467          |
| Restricted cash                   | 36,163              |
| Non-cash working capital          | (69,703)            |
| Mineral property                  | 4,293,442           |
| Current portion of long-term debt | (99,888)            |
| Long-term debt                    | (298,064)           |
| Due to joint venture partner      | (33,618)            |
| Future income tax payable         | (1,483,086)         |
| Provision for reclamation         | (81,620)            |
| <hr/>                             |                     |
| Cash paid (ZAR 14,393,030)        | 2,369,093           |
| Less: Cash of Pamodzi Gold        | (105,467)           |
| <hr/>                             |                     |
| Cash paid net of cash acquired    | <u>\$ 2,263,626</u> |

At July 31, 2006, these balances were consolidated and operations and cash flows have been consolidated commencing August 1, 2006.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

**3. MINERAL PROPERTIES**

| January 31, 2007  | District of<br>Namaqualand,<br>South Africa | Bothaville<br>Gold Project,<br>South Africa | Middelvlei<br>Property,<br>South Africa | January 31,<br>2007 | July 31,<br>2006 |
|---|---|---|---|---------------------|------------------|
| Acquisition costs   |   |   |   |                     |                  |
| Balance, Beginning of period                                | \$ 100                                      | \$ 170,000                                  | \$ 4,160,822                            | \$ 4,330,922        | \$ 306,692       |
| Costs incurred (recovered) in the period                    | -   | -   | (49,797)                                | (49,797)            | 4,319,892        |
| Written-off during the period                               | -   | -   | -                                       | -                   | (295,662)        |
| Acquisition of investment                                   | -   | -   | (4,111,025)                             | (4,111,025)         | -                |
| Depletion   |   |   |   |                     |                  |
| Balance, end of period                                      | 100   | 170,000                                     | -                                       | 170,100             | 4,330,922        |
| Exploration expenditures                                    |   |   |   |                     |                  |
| Balance, beginning of the period                            | -   | 65,337                                      | -                                       | 65,337              | 990,629          |
| Geological and consulting                                   | -   | 948   | -                                       | 948                 | 88,406           |
| Administration and supplies                                 | -   | -   | -                                       | -                   | 7,355            |
| Drilling  | -   | -   | 11,541                                  | 11,541              | -                |
| Professional fees   | -   | -   | -                                       | -                   | 3,769            |
| Seismic survey  | -   | -   | -                                       | -                   | -                |
| Travel  | -   | -   | -                                       | -                   | 1,792            |
| Value added tax   | -   | -   | -                                       | -                   | -                |
| Costs recovered   | -   | -   | -                                       | -                   | (73,685)         |
| Written-off during the period                               | -   | -   | -                                       | -                   | (952,929)        |
| Acquisition of investment                                   | -   | -   | (11,541)                                | (11,541)            | -                |
| Balance, end of period                                      | -   | 66,285                                      | -                                       | 66,285              | 65,337           |
| Mining equipment  |   |   |   |                     |                  |
| Balance, beginning of period                                | -   | -   | 132,621                                 | 132,621             | -                |
| Plant and machinery   | -   | -   | -                                       | -                   | 126,704          |
| Prefabricated office and equipment                          | -   | -   | -                                       | -                   | 5,917            |
| Acquisition of investment                                   | -   | -   | (132,621)                               | (132,621)           | -                |
|   | -   | -   | -                                       | -                   | 132,621          |
| Balance, end of period before depreciation and amortization | 100   | 236,285                                     | -                                       | 236,385             | 4,528,880        |
| Depletion and amortization                                  | -   | -   | (15,217)                                | (15,217)            | -                |
| Acquisition of investment                                   | -   | -   | 15,217                                  | 15,217              | -                |
| Balance end of period after depreciation and amortization   | \$ 100                                      | \$ 236,285                                  | \$ -                                    | \$ 236,385          | \$ 4,528,880     |



**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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

| July 31, 2006                      | District of Namaqualand, South Africa | Bothaville Gold Project, South Africa | Bakgaga Platinum Project, South Africa | Middelvlei Property, South Africa | 2006         | 2005         |
|------------------------------------|---------------------------------------|---------------------------------------|--|-----------------------------------|--------------|--------------|
| Acquisition costs                  |                                       |                                       |  |                                   |              |              |
| Balance, beginning of year         | \$ 100                                | \$ 170,000                            | \$ 136,592                             | \$ -                              | \$ 306,692   | \$ 159,983   |
| Costs incurred in year             | -                                     | -                                     | 159,070                                | 4,160,822                         | 4,319,892    | 296,609      |
| Written-off during the year        | -                                     | -                                     | (295,662)                              | -                                 | (295,662)    | (149,900)    |
| Balance, end of year               | 100                                   | 170,000                               | -                                      | 4,160,822                         | 4,330,922    | 306,692      |
| Exploration expenditures           |                                       |                                       |  |                                   |              |              |
| Balance, beginning of the year     | -                                     | 54,235                                | 936,394                                | -                                 | 990,629      | 169,562      |
| Geological and consulting          | -                                     | 10,525                                | 77,881                                 | -                                 | 88,406       | 588,793      |
| Administration and supplies        | -                                     | 394                                   | 6,961                                  | -                                 | 7,355        | 10,813       |
| Professional fees                  | -                                     | -                                     | 3,769                                  | -                                 | 3,769        | 3,841        |
| Seismic survey                     | -                                     | -                                     | -                                      | -                                 | -            | 212,537      |
| Travel                             | -                                     | 183                                   | 1,609                                  | -                                 | 1,792        | 55,605       |
| Value added tax                    | -                                     | -                                     | -                                      | -                                 | -            | 51,114       |
| Costs recovered                    | -                                     | -                                     | (73,685)                               | -                                 | (73,685)     | (55,500)     |
| Written-off during the year        | -                                     | -                                     | (952,929)                              | -                                 | (952,929)    | (46,136)     |
| Balance, end of year               | -                                     | 65,337                                | -                                      | -                                 | 65,337       | 990,629      |
| Mining equipment                   |                                       |                                       |  |                                   |              |              |
| Plant and machinery                | -                                     | -                                     | -                                      | 126,704                           | 126,704      | -            |
| Prefabricated office and equipment | -                                     | -                                     | -                                      | 5,917                             | 5,917        | -            |
|                                    | -                                     | -                                     | -                                      | 132,621                           | 132,621      | -            |
| Balance, end of year               | \$ 100                                | \$ 235,337                            | \$ -                                   | \$ 4,293,443                      | \$ 4,528,880 | \$ 1,297,321 |

**Middelvlei Gold & Investments (Pty) Ltd. (formerly Pamodzi Gold (Proprietary) Limited), South Africa**

During the period ended January 31, 2007, Pamodzi Gold (Proprietary) Limited changed its name to Middelvlei Gold & Investments (Pty) Ltd. ("MGI").

The Company became a joint venture partner with Pamodzi Resources through MGI (formerly Pamodzi Gold) upon the advancement of \$2,730,000 of its Shareholder's Loan. The purpose of the joint venture is to develop various gold property interests in the Witwatersrand basin of South Africa property interests which MGI is in the process of negotiating to acquire through Pamodzi Gold.

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

**Middlevele Gold & Investments (Pty) Ltd.**  
**(formerly Pamodzi Gold (Proprietary) Limited, South Africa (cont'd...))**

Under the terms of the Shareholder's Agreement, Pamodzi Resources has agreed to introduce a series of advanced gold projects to MGI, MGI being committed to managing all aspects of associated mining and project work. The Company has undertaken to provide funding for the abovementioned projects.

Pursuant to the second variation agreement the Company agreed to reduce its interest in MGI to 50% less one share and as a result Pamodzi Resources increased its interest in MGI to 50% plus one share. MGI has invested in a new company called Pamodzi Gold Limited for which the Company contributed net proceeds of \$2,482,028. The Company, through MGI owns 17.5% of Pamodzi Gold Limited (currently listed on the Johannesburg Stock Exchange ("JSE")).

**Bothaville Gold Project, South Africa**

During the year ended October 31, 2003, the Company entered into a proposed acquisition agreement ("Acquisition Agreement") to purchase all of the issued capital of Celina Overseas Limited ("Celina"). Celina has an option to purchase all of the issued capital of Owl Eye Trading 71 (Pty) Ltd. ("Owl Eye") from Alepro Inc. ("Owl Eye Acquisition"). During the year ended July 31, 2005, in accordance with the terms of the Acquisition Agreement, the Company issued 340,000 common shares valued at \$170,000 to Alepro Inc. Thus, Celina has satisfied its obligations under the Owl Eye Acquisition. During the year ended July 31, 2006, all of the issued shares for Owl Eye were transferred from Celina directly to the Company. Owl Eye holds a prospecting permit in the Bothaville District, Free State, South Africa, as well as option agreements with holders of mineral and prospecting rights in adjoining areas.

**Bakgaga Platinum Project, South Africa**

The Company acquired a 36% interest in Bakgaga Platinum (Pty) Limited ("Bakgaga") and, as a result, Bakgaga's varying interests in the Wonderkop platinum project, in the Limpopo Province of the Republic of South Africa, together with Bakgaga's rights to certain adjoining properties resulting from that certain "Joint Venture" property arrangement with Southern Platinum Corporation.

During the year ended July 31, 2006, the Company abandoned its interest and mineral property costs of \$1,248,591 and other costs of \$70,162 (totaling \$1,318,753) were written-off to operations.

**The South African Diamond Permits**

The Company is proposing to wind up and abandon all companies which have previously held diamond permits in Namaqualand, South Africa (currently at a carried value of \$100).

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

**4. LONG-TERM INVESTMENT**

|   | January 31,<br>2007 | July 31,<br>2006 |
|---|---------------------|------------------|
| Shares in publicly traded company, carrying value | \$ 2,482,028        | \$ -             |

The Company holds 7,210,000 shares (July 31, 2006 – Nil) representing approximately a 17.5% (July 31, 2006 – 0%) interest in a public company quoted on the Johannesburg Stock Exchange. At January 31, 2007, the share price was approximately ZAR 18.50 per share, which represents a market value of \$21,455,016.

**5. LONG-TERM DEBT**

|   | January 31,<br>2007 | July 31,<br>2006 |
|---|---------------------|------------------|
| Interest free loan carried at fair value, calculated using the effective interest method at 10.5%. The loan is repayable under the following terms: | \$ -                | \$ 397,952       |
| • Payments totalling approximately \$33,000 (ZAR218,750) per quarter for eight quarters beginning September 30, 2006                                |                     |                  |
| • Payments totalling approximately \$41,500 (ZAR275,750) per quarter for four quarters starting September 30, 2008                                  |                     |                  |
| Less: current portion   | -                   | 99,888           |
|   | \$ -                | \$ 298,064       |

During the period ended January 31, 2006, the loan was transferred as part of the net proceeds, upon acquisition of the long-term investment (Note 4).

**6. CAPITAL STOCK**

|   | Number<br>of Shares | Share<br>Amount | Contributed<br>Surplus |
|---|---------------------|-----------------|------------------------|
| Authorized  |                     |                 |                        |
| Unlimited common voting shares, without par value |                     |                 |                        |
| Balance, July 31, 2005                            | 9,177,995           | \$ 6,727,766    | \$ 429,944             |
| Issued for cash pursuant to private placements    | 21,410,000          | 6,705,000       | -                      |
| Stock-based compensation                          | -                   | -               | 832,229                |
| Share issue costs                                 | -                   | (282,495)       | -                      |
| Balance, July 31, 2006 and January 31, 2007       | 30,587,995          | \$ 13,150,271   | \$ 1,262,173           |

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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

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

- a) completed a private placement of 5,410,000 units of the Company at a price of \$0.50 per unit, with each unit being comprised of one common share and one non-transferable share purchase warrant. Each warrant may be exercised to purchase an additional common share of the Company at a purchase price of \$0.60 for a period of two years to August 4, 2007. As at July 31, 2005, the Company had received \$2,630,000 of subscriptions towards the private placement, \$350,000 of which were held in trust.
- b) completed a private placement of 16,000,000 common shares of the Company at a price of \$0.25 per share. Share issuance costs of \$282,495 were paid in connection with the private placement. Share subscriptions of \$550,000 were received subsequent to July 31, 2006.

**Stock options**

The Company has a rolling stock option plan whereby a maximum of 10% of the issued common shares are reserved for issuance under the plan. The options can be granted for a maximum term of five years and pricing and vesting are as determined by the board of directors.

During the year ended July 31, 2006, the Company cancelled 344,745 stock options. The Company also repriced 455,902 stock options to an exercise price of \$0.25 per share and extended the expiry date to May 10, 2011.

As at January 31, 2007, stock options were outstanding and exercisable enabling the holders to acquire 3,055,000 shares as follows:

| Number<br>of Shares | Exercise<br>Price | Expiry Date   |
|---------------------|-------------------|---------------|
| 1,455,000           | \$ 0.25           | May 10, 2011  |
| 1,600,000           | 0.34              | July 26, 2011 |

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

|   | Number<br>of Options | Weighted<br>Average<br>Exercise Price |
|---|----------------------|---------------------------------------|
| Balance, July 31, 2005                                | 800,647              | \$ 0.59                               |
| Options granted (weighted average fair value, \$0.21) | 999,098              | 0.25                                  |
| Options granted (weighted average fair value, \$0.39) | 1,600,000            | 0.34                                  |
| Options cancelled                                     | (344,745)            | 0.65                                  |
| Options repriced                                      | (455,902)            | 0.58                                  |
| Options repriced                                      | <u>455,902</u>       | 0.25                                  |
| Balance, July 31, 2006 and January 31, 2007           | 3,055,000            | \$ 0.30                               |
| Number of options currently exercisable               | 3,055,000            | \$ 0.30                               |

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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

**Warrants**

As at January 31, 2007, warrants were outstanding enabling the holders to acquire shares as follows:

| Number of Shares | Exercise Price | Expiry Date                          |
|------------------|----------------|--------------------------------------|
| 418,182          | \$ 0.70        | March 2, 2007 (expired subsequently) |
| 5,410,000        | 0.60           | August 4, 2007                       |

Share purchase warrant transactions and the number of share purchase warrants outstanding are summarized as follows:

|                           | Number of Warrants | Weighted Average Exercise Price |
|---------------------------|--------------------|---------------------------------|
| Balance, July 31, 2005    | 2,742,284          | \$ 0.78                         |
| Warrants granted          | 5,410,000          | 0.60                            |
| Warrants expired          | <u>(2,110,769)</u> | 0.79                            |
| Balance, July 31, 2006    | 6,041,515          | 0.61                            |
| Warrants expired          | <u>(213,333)</u>   | 0.75                            |
| Balance, January 31, 2007 | 5,828,182          | \$ 0.60                         |

**7. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties:

- a) Paid or accrued accounting and administrative service fees of \$73,100 (2006 - \$73,700) to a partnership in which a director has an interest. As at January 31, 2007 an amount of \$40,600 (July 31, 2006 - \$7,500) owing was included in accounts payable.
- b) Paid or accrued consulting fees of \$48,000 (2006 - \$56,000) to a corporation in which a director has an interest.

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

The fair value of the amounts due to related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

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

During the six month period ended January 31, 2007 the Company:

- a) had \$Nil (October 31, 2006 - \$230, July 31, 2006 - \$303,075) of mineral property acquisition costs included in accounts payable.
- b) acquired an investment using the following as consideration.
  - i) Cash - \$94,501, working capital items – (\$444,782), Mineral property - \$4,895,967
  - ii) Loan receivable – (\$101,000), Long-term debt – (\$298,064) Current portion of long term debt – \$(99,888), Provision for reclamation – (\$81,620), Future income tax payable (\$1,483,086).

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|  | 2007     | 2006 |
|--|----------|------|
| Cash paid during the period for interest     | \$ 3,660 | \$ - |
| Cash paid during the period for income taxes | \$ -     | \$ - |

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During the six month period ended January 31, 2006, the Company issued 5,260,000 common shares for \$2,630,000 of subscriptions received in the 2005 fiscal year.

**9. FINANCIAL INSTRUMENTS**

The Company's financial instruments consist of cash and cash equivalents, receivables, due to/from joint venture partner, loan receivable, long term investment, accounts payable and accrued liabilities and long term debt. 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 value, unless otherwise noted.

**Risk management**

The Company has monetary assets and liabilities denominated in foreign currencies and its largest non-monetary assets are its mineral exploration interests in the Republic of South Africa. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments.

The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

**10. PROVISION FOR RECLAMATION**

|                 | January 31,<br>2007 | July 31,<br>2006 |
|-----------------|---------------------|------------------|
| Current balance | \$ -                | \$ 81,620        |

The present value balance at July 31, 2006 assumes a 5.75 year expected life of the mine, a discount rate of 3.50% and a total rehabilitation of \$98,760.

**11. INCOME TAXES**

|  | Six month<br>period<br>January 31,<br>2007 | Year ended<br>July 31,<br>2006 |
|--|--|--------------------------------|
| Loss before income tax recovery              | \$ (462,659)                               | \$ (3,209,889)                 |
| Expected income tax recovery                 | \$ 149,140                                 | \$ 1,018,030                   |
| Share issuance costs                         | 10,241                                     | 23,249                         |
| Items not deductible for income tax purposes | (2,223)                                    | (752,402)                      |
| Unrecognized benefit of non-capital losses   | (157,158)                                  | (288,877)                      |
| Total income taxes                           | \$ -                                       | \$ -                           |

The significant components of the Company's future income tax assets and liabilities are as follows:

|   | January 31,<br>2007 | July 31,<br>2006 |
|---|---------------------|------------------|
| Future income tax assets:                       |                     |                  |
| Non-capital loss carryforwards                  | \$ 964,994          | \$ 897,322       |
| Capital loss carry forwards                     | 17,335              | 17,335           |
| Share issuance costs                            | 73,244              | 83,485           |
| Cumulative exploration and development expenses | -                   | (1,483,086)      |
| Future income tax assets (liabilities)          | 1,055,573           | (484,944)        |
| Valuation allowance                             | (1,055,573)         | (998,142)        |
| Net Future income tax assets (liabilities)      | \$ -                | \$ (1,483,086)   |

**SUPERIOR MINING INTERNATIONAL CORPORATION**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)  
JANUARY 31, 2007

**11. INCOME TAXES (cont'd...)**

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,800,000. These losses, if not utilized, will expire commencing in 2007. Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

**12. SEGMENTED INFORMATION**

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties.

Geographic information is as follows:

|                              | January 31,<br>2007 | January 31,<br>2006   |
|------------------------------|---------------------|-----------------------|
| Income (loss) for the period |                     |                       |
| Canada                       | \$ (427,704)        | \$ (1,621,323)        |
| South Africa                 | (34,955)            | (145,903)             |
|                              | <u>\$ (462,659)</u> | <u>\$ (1,767,226)</u> |
|                              |                     |                       |
|                              | January 31,<br>2007 | July 31,<br>2006      |
| Resource properties          |                     |                       |
| South Africa                 | \$ 236,385          | \$ 4,528,880          |