

**EMGOLD MINING CORPORATION**  
(an exploration stage company)  
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended September 30, 2007 and 2006**  
**(expressed in United States dollars)**

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)  
Interim Consolidated Balance Sheets  
(expressed in United States dollars)  
(Unaudited)

|   | <b>September 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|-------------------------------|------------------------------|
| <b>Assets</b>                                   |                               |                              |
| <b>Current assets</b>                           |                               |                              |
| Cash and cash equivalents                       | \$ 919,392                    | \$ 2,504,377                 |
| Short-term investments                          | 2,644,052                     | --                           |
| Accounts receivable                             | 2,179,510                     | 14,646                       |
| Due from related party (Note 6)                 | --                            | 235,410                      |
| Prepaid expenses and deposits                   | 123,276                       | 170,589                      |
|   | 5,866,230                     | 2,925,022                    |
| <b>Other</b>                                    | 8,037                         | 7,007                        |
| <b>Equipment</b>                                | 304,043                       | 421,949                      |
| <b>Mineral property interests</b> (Note 3)      | 925,766                       | 910,672                      |
|   | \$ 7,104,076                  | \$ 4,264,650                 |
| <b>Liabilities and Shareholders' Equity</b>     |                               |                              |
| <b>Current liabilities</b>                      |                               |                              |
| Accounts payable and accrued liabilities        | \$ 827,912                    | \$ 249,873                   |
| Due to related parties (Note 6)                 | 566,999                       | 195,483                      |
| Capital lease obligation                        | 5,718                         | 5,365                        |
|   | 1,400,629                     | 450,721                      |
| <b>Capital lease obligation</b> (Note 4)        | 27,173                        | 31,504                       |
| <b>Preference shares</b> (Notes 5 and 6)        | 749,564                       | 626,724                      |
|   | 2,177,366                     | 1,108,949                    |
| <b>Shareholders' equity</b>                     |                               |                              |
| Share capital                                   | 36,876,648                    | 33,062,945                   |
| Preference shares (Notes 5 and 6)               | 87,045                        | 90,902                       |
| Warrants  | 2,542,717                     | 1,085,434                    |
| Share subscriptions                             | 78,362                        | --                           |
| Contributed surplus                             | 2,412,930                     | 2,412,930                    |
| Deficit   | (36,493,536)                  | (32,919,054)                 |
| Accumulated other comprehensive income (Note 2) | (577,456)                     | (577,456)                    |
|   | 4,926,710                     | 3,155,701                    |
|   | \$ 7,104,076                  | \$ 4,264,650                 |

### **Subsequent events** (Notes 1 and 5)

See accompanying notes to interim consolidated financial statements.

Approved by the Directors

“Robin A. W. Elliott”

“Sargent H. Berner”

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Interim Consolidated Statements of Operations and Deficit

(expressed in United States dollars)

(Unaudited)

|  | <b>Three months ended<br/>September 30,</b> |                      | <b>Nine months ended<br/>September 30,</b> |                      |
|--|---|----------------------|--|----------------------|
|  | <b>2007</b>                                 | <b>2006</b>          | <b>2007</b>                                | <b>2006</b>          |
| <b>Expenses</b>                                      |   |                      |  |                      |
| Amortization   | \$ 19,792                                   | \$ 22,168            | \$ 65,194                                  | \$ 64,652            |
| Accretion of debt portion of preference shares       | 3,282                                       | 3,668                | 9,330                                      | 10,858               |
| Ceramext™ process research (Note 9)                  | 179,988                                     | 458,999              | 506,778                                    | 1,179,000            |
| Exploration expenses (Note 8)                        | 877,074                                     | 467,742              | 2,134,473                                  | 1,349,843            |
| Foreign exchange loss                                | 58,508                                      | 1,322                | 72,908                                     | 24,732               |
| Finance expense                                      | 13,971                                      | 13,019               | 39,910                                     | 37,179               |
| Legal, accounting and audit                          | (1,041)                                     | 13,209               | 85,909                                     | 61,795               |
| Management and consulting fees                       | 15,139                                      | 8,070                | 33,838                                     | 50,331               |
| Other consulting fees                                | --  | --                   | 18,844                                     | 28,309               |
| Office and administration                            | 79,908                                      | 96,083               | 242,092                                    | 383,681              |
| Salaries and benefits                                | 104,841                                     | 126,229              | 363,775                                    | 522,796              |
| Shareholder communications                           | 40,907                                      | 33,788               | 166,848                                    | 153,247              |
| Travel   | 22,243                                      | 11,300               | 90,287                                     | 97,152               |
| <b>Loss before interest income</b>                   | <b>1,414,612</b>                            | <b>1,255,597</b>     | <b>3,830,186</b>                           | <b>3,963,575</b>     |
| Interest income                                      | (5,754)                                     | (2,810)              | (33,970)                                   | (38,704)             |
| <b>Loss for the period before income taxes</b>       | <b>1,408,858</b>                            | <b>1,252,787</b>     | <b>3,796,216</b>                           | <b>3,924,871</b>     |
| Income tax expense (recovery)                        | 26,317                                      | --                   | (221,734)                                  | --                   |
| <b>Loss for the period</b>                           | <b>1,435,175</b>                            | <b>1,252,787</b>     | <b>3,574,482</b>                           | <b>3,924,871</b>     |
| <b>Deficit, beginning of period</b>                  | <b>35,058,361</b>                           | <b>30,466,811</b>    | <b>32,919,054</b>                          | <b>27,794,727</b>    |
| <b>Deficit, end of period</b>                        | <b>\$ 36,493,536</b>                        | <b>\$ 31,719,598</b> | <b>\$ 36,493,536</b>                       | <b>\$ 31,719,598</b> |
| <b>Loss per share – basic and diluted</b>            | <b>\$ 0.02</b>                              | <b>\$ 0.02</b>       | <b>\$ 0.04</b>                             | <b>\$ 0.06</b>       |
| Weighted average number of common shares outstanding | 85,535,082                                  | 65,654,084           | 84,357,802                                 | 65,923,632           |
| Total common shares outstanding at end of period     | 138,213,475                                 | 67,117,301           | 138,213,475                                | 67,117,301           |

### Interim Statements of Comprehensive Income

|  | <b>Three months ended<br/>September 30, 2007</b> | <b>Nine months ended<br/>September 30, 2007</b> |
|--|--|---|
| <b>Loss for the period before comprehensive income</b> | <b>\$ 1,435,175</b>                              | <b>\$ 3,574,482</b>                             |
| Other comprehensive income                             | --   | --  |
| <b>Comprehensive loss for the period</b>               | <b>\$ 1,435,175</b>                              | <b>\$ 3,574,482</b>                             |

See accompanying notes to interim consolidated financial statements.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Interim Consolidated Statements of Shareholders' Equity

Three and nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

|   | Common Shares<br>Without Par Value |               | Preference<br>Shares | Warrants     | Share<br>subscriptions | Contributed<br>Surplus | Cumulative<br>Translation<br>Adjustment | Deficit         | Accumulated<br>Other<br>Comprehensive<br>Income | Total<br>Shareholders'<br>Equity |
|---|------------------------------------|---------------|----------------------|--------------|------------------------|------------------------|---|-----------------|---|----------------------------------|
|   | Shares                             | Amount        |                      |              |                        |                        |   |                 |   |                                  |
| Balance, December 31, 2005  | 65,538,099                         | \$ 29,874,576 | \$ 90,902            | \$ --        | \$ --                  | \$ 2,319,034           | \$ (577,456)                            | \$ (27,794,727) | \$ --   | \$ 3,912,329                     |
| Shares issued for cash  |                                    |               |                      |              |                        |                        |   |                 |   |                                  |
| Private placement at Cdn\$0.60, less share issue costs              | 1,426,202                          | 632,895       | --                   | 65,198       | --                     | --                     | --                                      | --              | --  | 698,093                          |
| Private placement at Cdn\$0.26, less share issue costs              | 14,344,105                         | 1,907,693     | --                   | 939,089      | --                     | --                     | --                                      | --              | --  | 2,846,782                        |
| Flow-through private placement at Cdn\$0.38, less share issue costs | 2,238,000                          | 581,896       | --                   | 81,147       | --                     | --                     | --                                      | --              | --  | 663,043                          |
| Stock options exercised   | 153,000                            | 50,629        | --                   | --           | --                     | (13,566)               | --                                      | --              | --  | 37,063                           |
| Shares issued for other   |                                    |               |                      |              |                        |                        |   |                 |   |                                  |
| Stewart Property payment at Cdn\$0.29                               | 60,000                             | 15,256        | --                   | --           | --                     | --                     | --                                      | --              | --  | 15,256                           |
| Stock-based compensation  | --                                 | --            | --                   | --           | --                     | 107,462                | --                                      | --              | --  | 107,462                          |
| Cumulative translation adjustment                                   | --                                 | --            | --                   | --           | --                     | --                     | 577,456                                 | --              | (577,456)                                       | --                               |
| Loss for the year   | --                                 | --            | --                   | --           | --                     | --                     | --                                      | (5,124,327)     | --  | (5,124,327)                      |
| Balance, December 31, 2006  | 83,759,406                         | 33,062,945    | 90,902               | 1,085,434    | --                     | 2,412,930              | --                                      | (32,919,054)    | (577,456)                                       | 3,155,701                        |
| Gold conversion option reclassified as debt                         | --                                 | --            | (3,857)              | --           | --                     | --                     | --                                      | --              | --  | (3,857)                          |
| Recovery of future income tax                                       | --                                 | (221,734)     | --                   | --           | --                     | --                     | --                                      | --              | --  | (221,734)                        |
| Private placement at Cdn\$0.11, less share issue costs              | 54,454,069                         | 4,035,437     | --                   | 1,457,283    | 78,362                 | --                     | --                                      | --              | --  | 5,571,082                        |
| Loss for the period   | --                                 | --            | --                   | --           | --                     | --                     | --                                      | (3,574,482)     | --  | (3,574,482)                      |
| Balance September 30, 2007  | 138,213,475                        | \$ 36,876,648 | \$ 87,045            | \$ 2,542,717 | \$ 78,362              | \$ 2,412,930           | \$ --                                   | \$ (36,493,536) | \$ (577,456)                                    | \$ 4,926,710                     |

See accompanying notes to interim consolidated financial statements.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Interim Consolidated Statements of Cash Flows

(expressed in United States dollars)

(Unaudited)

|  | <b>Three months ended<br/>September 30,</b> |                | <b>Nine months ended<br/>September 30,</b> |                |
|--|---|----------------|--|----------------|
|  | <b>2007</b>                                 | <b>2006</b>    | <b>2007</b>                                | <b>2006</b>    |
| <b>Cash provided by (used for):</b>                                |   |                |  |                |
| <b>Operating activities:</b>                                       |   |                |  |                |
| Loss for the period  | \$ (1,435,175)                              | \$ (1,252,787) | \$ (3,574,482)                             | \$ (3,924,871) |
| Items not involving cash   |   |                |  |                |
| Amortization   | 42,645                                      | 44,743         | 125,846                                    | 130,746        |
| Accretion of debt component of preference shares                   | 3,282                                       | 3,668          | 9,330                                      | 10,858         |
| Effect of currency translation                                     | 49,139                                      | (849)          | 108,623                                    | 24,817         |
| Gain on disposition of equipment                                   | (3,298)                                     | --             | (3,298)                                    | --             |
| Income tax expense (recovery)                                      | 25,000                                      | --             | (221,734)                                  | --             |
| Changes in non-cash operating working capital                      |   |                |  |                |
| Accounts receivable  | (10,912)                                    | 6,543          | (36,071)                                   | 25,588         |
| Due to/from related parties  | --  | 170,984        | --   | 185,866        |
| Prepaid expenses and deposits                                      | 101,967                                     | (26,834)       | 47,313                                     | (5,532)        |
| Accounts payable and accrued liabilities                           | 288,135                                     | 121,770        | 337,614                                    | (41,828)       |
| Capital lease  | --  | 1,099          | --   | 5,251          |
|  | (939,217)                                   | (931,663)      | (3,206,859)                                | (3,589,105)    |
| <b>Investing activities:</b>                                       |   |                |  |                |
| Mineral property acquisition costs                                 | --  | (26,639)       | (15,094)                                   | (62,630)       |
| Purchase of short-term investments                                 | (2,105,264)                                 | --             | (2,644,052)                                | --             |
| Proceeds on sale of equipment                                      | --  | --             | 10,000                                     | --             |
| Equipment additions  | --  | (11,033)       | (17,556)                                   | (46,817)       |
|  | (2,105,264)                                 | (37,672)       | (2,666,702)                                | (109,447)      |
| <b>Financing activities:</b>                                       |   |                |  |                |
| Common shares issued for cash                                      | 3,497,220                                   | 703,972        | 3,607,619                                  | 741,035        |
| Share subscriptions received                                       | 78,362                                      | --             | 78,362                                     | --             |
| Due to related parties   | 238,069                                     | --             | 606,926                                    | --             |
| Repayment of capital lease   | (1,349)                                     | --             | (4,331)                                    | --             |
|  | 3,812,302                                   | 703,972        | 4,288,576                                  | 741,035        |
| Increase (decrease) in cash and cash equivalents during the period | 767,821                                     | (265,363)      | (1,584,985)                                | (2,957,517)    |
| Cash and cash equivalents, beginning of period                     | 151,571                                     | 731,785        | 2,504,377                                  | 3,423,939      |
| Cash and cash equivalents, end of period                           | \$ 919,392                                  | \$ 466,422     | \$ 919,392                                 | \$ 466,422     |
| Cash and cash equivalents consists of:                             |   |                |  |                |
| Cash and in bank   | \$ 919,392                                  | \$ 466,422     | \$ 919,392                                 | \$ 466,422     |
| Short-term money market instruments                                | --  | --             | --   | --             |
|  | \$ 919,392                                  | \$ 466,422     | \$ 919,392                                 | \$ 466,422     |

See accompanying notes to interim consolidated financial statements

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **1. Basis of presentation and operations:**

The accompanying consolidated financial statements for the interim periods ended September 30, 2007 and 2006, are prepared on the basis of accounting principles generally accepted in Canada and are unaudited, but in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for fair presentation of the financial position, operations and changes in financial results for the interim periods presented. The consolidated financial statements for the interim periods are not necessarily indicative of the results to be expected for the full year and have been prepared using Canadian generally accepted accounting principles applicable to a going concern.

These financial statements do not contain the detail or footnote disclosure concerning accounting policies and other matters, which would be included in full year financial statements, and therefore should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006.

As at September 30, 2007, the Company has no source of operating cash flow and has an accumulated deficit of \$36,493,536. In addition, the Company has working capital, which is defined as current assets less current liabilities, of \$4,465,601 and has capitalized \$925,766 in acquisition costs related to the Rozan, Stewart, Jazz and Idaho-Maryland mineral property interests. The Company had a loss of \$3,574,662 for the nine month period ended September 30, 2007. Operations for the period ended September 30, 2007, have been funded primarily from net changes in working capital balances. On September 27, 2007, and subsequent to September 30, 2007, the Company closed a private placement for a total of 54,454,069 units at a price of Cdn\$0.11, each comprised of one common share and one share purchase warrant, exercisable for two years at a price of Cdn\$0.15. (See Note 5)

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral reserves that are economically recoverable. The Company is also developing and commercializing a system of proprietary technologies for the production of high value ceramic products from siliceous minerals and waste materials. The Company's continuing operations and the underlying value and recoverability of the amounts shown for mineral property interests or development of the proprietary technologies are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of the mineral property interests and novel technology, and on future profitable production or proceeds from the disposition of the mineral property interests or the new technology.

The Company's ability to continue operations is contingent on its ability to obtain additional financing. Although there are no assurances that management's plan will be realized, management believes that it will be able to secure the necessary financing to continue operations into the future. The Company has incurred severance costs related to several employees of the Company. Additional severance costs are expected in the three months ended December 31, 2007.

These financial statements do not reflect adjustments to the amounts of assets and liabilities, the reported revenues and expenses and balance sheet classifications that would be necessary if the going concern assumption were not appropriate. Such adjustments could be material.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **2. Accounting policies:**

The accounting policies followed by the Company are set out in Note 2 to the audited financial statements for the year ended December 31, 2006, and have been consistently followed in the preparation of these financial statements except that the Company has adopted the following Canadian Institute of Chartered Accountants guidelines effective for the Company's first interim period commencing January 1, 2007:

- (a) Section 3855 – Financial Instruments – Recognition and Measurement. Section 3855 requires that all derivative financial instruments and financial assets, except those classified as held to maturity, must be measured at fair value. Financial liabilities that are classified as held for trading must be measured at fair value; other classifications of liabilities are measured at amortized cost. Investments classified as available-for-sale are reported at fair market value based on quoted market prices at the end of the period. Unrealized gains or losses are excluded from earnings and reported as other comprehensive income or loss. Investments subject to significant influence are reported at cost and not adjusted to fair market value. Under this new standard, the valuation of the preference shares attributable to the gold-conversion option is more appropriately classified as a non-current liability. As a result, \$3,857 has been moved from the equity component of the preference shares to the debt component of the preference shares.
- (b) Section 1530 – Comprehensive Income. Comprehensive income is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in earnings or loss such as unexercised gains or losses on available-for sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities which are not included in earnings or losses until realized.
- (c) Transition adjustment to opening balance. The adoption of Sections 1530 and 3855 impacts the opening equity and losses of the Company. The cumulative translation adjustment of \$577,456 has been included in the transition adjustment opening balance. There would be no income tax impact resulting from adjustments arising from comprehensive income as there are unrecorded income tax assets that would result in no income tax being payable.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **3. Mineral property interests:**

#### **Idaho-Maryland Property, California**

In fiscal 2002, the Company renegotiated a lease with the owners of the Idaho-Maryland Property and surrounding areas in the Grass Valley Mining District, California. All acquisition and exploration costs relating to the Idaho-Maryland Property were written off in fiscal 1999 and exploration costs on the property have been expensed since that date.

The term of the amended lease was for a period of five years, commencing on June 1, 2002, and ending on May 31, 2007. In February 2007, the Company negotiated an extension to the mining lease and option to purchase agreement whereby the term of the exercise date was extended from May 31, 2007, to December 31, 2008. All other conditions of the original agreement, including the option purchase price and net smelter royalty remain unchanged. The Company agreed to a quarterly option payment of \$75,000 beginning on May 1, 2007, continuing for the term of the revised lease. A one-time extension payment of \$75,000 was paid upon execution of the revised agreement, in addition to the final option payment of \$25,500 under the original lease.

#### **Jazz Property, British Columbia**

In April 2004, the Company entered into an option agreement to acquire a 100% interest in the Jazz Property consisting of twenty-four mineral claims (24 units) located in the Nelson Mining Division near Nelson, British Columbia. Under the terms of the agreement, the Company has agreed to make total cash payments of \$215,000 to the optionor over a ten-year period. Cash payments to September 30, 2007, totalled \$45,000.

#### **Rozan Gold Property, British Columbia**

The Company has a 100% interest, subject to a 3% NSR, in the Rozan Gold Property, a prospect located south of the community of Nelson in the Red Mountain area of southeastern British Columbia.

#### **Stewart Property, British Columbia**

In 2001, the Company entered into an option agreement to acquire the rights to the Stewart mineral claims, a prospect located close to Nelson in south-eastern British Columbia. The Company may earn a 100% interest in the property by making payments totalling Cdn\$150,000 (Cdn\$110,000 paid to date) and issuing 200,000 common shares, which were issued. One additional cash payment of Cdn\$40,000 is remaining, due in August 2007, whereupon the Company will be vested with 100% right, title and interest in and to the property, subject only to a 3% NSR payable to the optionors.

### **4. Capital lease obligation:**

The Company leases a vehicle under a capital lease which expires in 2012 and bears simple interest at a rate of 8.69%. At September 30, 2007, future minimum lease payments under capital leases are \$40,398, including \$7,512 of anticipated interest payments, payable at \$697 monthly. The current portion is \$5,718.



**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **5. Share capital:**

#### **Authorized**

Unlimited number of common shares without par value

Unlimited number of first preference shares without par value

#### **Common shares**

During the nine months ended September 30, 2007, 18,360,000 warrants exercisable at a price of Cdn\$0.70, expired, unexercised. In addition, 463,000 stock options exercisable at prices from Cdn\$0.10 to Cdn\$1.00, were cancelled and 125,000 stock options, exercisable at a price of Cdn\$0.30, expired, unexercised.

At September 30, 2007, the Company had completed two tranches of a private placement of a final total of 72,730,236 units (the "Units") at a price of \$0.11 per Unit. Each Unit was comprised of one fully paid and non-assessable common share of the Company and one transferable common share purchase warrant. Each warrant entitles the holder to subscribe for one additional previously unissued common share (a "Warrant Share") in the capital of the Company for a period of 24 months following the date of issue at an exercise price of \$0.15 per Warrant Share. At September 30, 2007, 54,454,069 common shares were issued pursuant to the private placement.

Finder's fees to eligible finders (the "Finders") were paid, equal to 8% of the proceeds raised by such Finders, and non-transferable options (the "Finder's Options"), equal to 8% of number of Units sold by such Finders were also issued. Each of the Finder's Options is exercisable to acquire a Unit of the Company (the "Finder's Units") at a price of \$0.11 per Finder's Unit for a period of 18 months from the date of issuance, subject to adjustment. Each Finder's Unit is comprised of one common share of the Company and one non-transferable common share purchase warrant of the Company exercisable to acquire one additional common share of the Company for a period of 24 months from the date of issuance of the Finder's Option at a price of \$0.15. At September 30, 2007, 3,831,323 Finder's Units were issued.

Subsequent to September 30, 2007, an additional 18,276,167 common shares were issued and 1,150,480 Finder's Options were issued, with the exercise terms as noted above.

#### **Preference shares**

| <b>Equity portion of Class A Preference Shares</b> | <b>Number of Shares</b>   | <b>Amount</b>            |
|--|---------------------------|--------------------------|
| Balance, beginning of period                       | 3,948,428                 | \$ 90,902                |
| Reclassification of gold conversion option         | --                        | (3,857)                  |
| Balance, end of period                             | 3,948,428                 | 87,045                   |
| <b>Debt Portion of Class A Preference Shares</b>   | <b>September 30, 2007</b> | <b>December 31, 2006</b> |
| Balance, beginning of period                       | \$ 626,724                | \$ 613,871               |
| Accretion of debt                                  | 9,330                     | 14,469                   |
| Foreign exchange (gain) / loss on debt             | 109,653                   | (1,616)                  |
| Reclassification of gold conversion option         | 3,857                     | --                       |
| Balance, end of period                             | \$ 749,564                | \$ 626,724               |

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **5. Share capital (continued):**

#### **Preference shares (continued)**

The Series A Preference shares rank in priority to the Company's common shares and are entitled to fixed cumulative preferential dividends at a rate of 7% per annum. At September 30, 2007, \$269,118 (December 31, 2006 - \$194,148) in dividends payable has been accrued and is classified as due to related party.

The shares are redeemable by the Company on 30 days written notice at a redemption price of Cdn\$0.80 per common share, but are redeemable by the holder only out of funds available that are not in the Company's opinion otherwise required for the development of the Company's mineral property interests or to maintain a minimum of Cdn\$2 million in working capital.

The Series A First Preference Shares are convertible into common shares at any time at a ratio of one common share for every four Series A First Preference Shares, which represents an effective conversion price of Cdn\$0.80 per common share. The Preference Shares also have attached a gold redemption feature by which holders may elect at the time of any proposed redemption to receive gold in specie valued at \$300 per ounce in lieu of cash, provided the Company has on hand at the time gold in specie having an aggregate value of not less than the redemption amount. The adoption of the standards discussed in Note 2 resulted in the reclassification of \$3,857 from the equity component of preference shares to the debt component of preference shares.

#### **Warrants:**

The following are the warrants outstanding at September 30, 2007:

| <b>Number of Warrants</b>        | <b>Exercise Price</b> | <b>Expiry Date</b> |
|----------------------------------|-----------------------|--------------------|
| 713,100                          | Cdn\$1.00             | September 15, 2008 |
| 14,344,105                       | Cdn\$0.40             | December 6, 2008   |
| 1,119,000                        | Cdn\$0.50             | December 6, 2008   |
| 179,040                          | Cdn\$0.26             | December 6, 2008   |
| 1,147,529                        | Cdn\$0.26             | December 6, 2008   |
| 89,520*                          | Cdn\$0.50             | December 6, 2008   |
| 1,147,529*                       | Cdn\$0.40             | December 6, 2008   |
| 54,454,069                       | Cdn\$0.15             | September 27, 2009 |
| 3,831,323                        | Cdn\$0.11             | February 27, 2009  |
| 3,831,323*                       | Cdn\$0.15             | September 27, 2009 |
| <b>Weighted Average Exercise</b> |                       |                    |
| 80,856,538                       | Price: Cdn\$0.21      |                    |

\*Reserved for underlying warrants upon the exercise of broker and finder's warrants.

#### **Stock options:**

The Company has a rolling stock option plan for its directors and employees to acquire common shares of the Company at a price determined by the fair market value of the shares at the date of grant. The maximum aggregate number of common shares reserved for issuance pursuant to the plan is 10% of the issued and outstanding common shares, or 8,375,941 common shares. At September 30, 2007, 6,313,000 stock options are outstanding, exercisable for periods up to ten years. Subsequent to September 30, 2007, 505,000 fully vested options, exercisable at prices from Cdn\$0.60 to Cdn\$1.00, were cancelled.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **6. Related party transactions and balances:**

Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, with the exception of preference shares (Note 5).

| <b>Balances receivable from (d):</b> | <b>September 30, 2007</b> | <b>December 31, 2006</b> |
|--------------------------------------|---------------------------|--------------------------|
| LMC Management Services Ltd. (a)     | \$ --                     | \$ 235,410               |
|                                      | \$ --                     | \$ 235,410               |
| <b>Balances payable to (d):</b>      |                           |                          |
| LMC Management Services Ltd. (a)     | \$ 292,653                | \$ --                    |
| Directors, officers and employees    | 5,228                     | 1,335                    |
| Preference shares                    | 269,118                   | 194,148                  |
|                                      | \$ 566,999                | \$ 195,483               |

Related party transactions in these interim consolidated financial statements are as follows:

- (a) During the nine months ended September 30, 2007, \$603,516 (2006 - \$666,087) was paid in management, administrative, geological and other services provided by LMC Management Services Ltd. ("LMC"), a private company held jointly by the Company and other public companies, to provide services on a full cost recovery basis to the various public entities currently sharing office space with the Company. Currently, the Company has a 25% interest in LMC. Three months of estimated working capital is required to be on deposit with LMC under the terms of the services agreement. There is no difference between the cost of \$1 and equity value, as LMC does not retain any profits in connection with the services it provides.
- (b) Consulting fees of Cdn\$36,500 (2006 – Cdn\$26,000) were paid indirectly to Kent Avenue Consulting Ltd., a private company controlled by a director, Sargent H. Berner. These amounts are included in the services provided in (a) above.
- (c) Mr. Lang and Lang Mining Corporation are the holders of preference shares, which are described in Note 5.
- (d) Related party balances are non-interest bearing and are due on demand, with no fixed terms of repayment, except for preference shares, which are described in Note 5.

### **7. Comparative figures:**

Where necessary, comparative figures have been changed to conform to the current period's presentation.

**The Company's independent auditor has not performed a review of these interim consolidated financial statements.**

## **EMGOLD MINING CORPORATION**

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### **8. Exploration expenses:**

|   | <b>Three months ended<br/>September 30,</b> |                   | <b>Nine months ended<br/>September 30,</b> |                     |
|---|---|-------------------|--|---------------------|
|   | <b>2007</b>                                 | <b>2006</b>       | <b>2007</b>                                | <b>2006</b>         |
| <b>Idaho-Maryland Mine, California</b>    |   |                   |  |                     |
| Exploration costs                         |   |                   |  |                     |
| Assays and analysis                       | \$ 2,406                                    | \$ --             | \$ 2,465                                   | \$ --               |
| Geological and geochemical                | 115,663                                     | 220,060           | 366,853                                    | 611,524             |
| Land lease and taxes                      | 75,000                                      | 56,038            | 215,844                                    | 116,578             |
| Mine planning                             | 225,121                                     | 157,393           | 916,623                                    | 411,790             |
| Site activities                           | 89,015                                      | 31,747            | 236,255                                    | 193,421             |
| Transportation                            | 2,464                                       | 1,498             | 4,470                                      | 13,698              |
| Incurred during the period                | 509,669                                     | 466,736           | 1,778,510                                  | 1,347,011           |
| <b>Jazz Property, British Columbia</b>    |   |                   |  |                     |
| Exploration costs                         |   |                   |  |                     |
| Geological and geochemical                | 9,265                                       | 172               | 9,534                                      | 228                 |
| Site activities                           | 81  | --                | 125  | 25                  |
| Assistance and recoveries                 | --  | --                | (307)                                      | --                  |
| Incurred during the period                | 9,346                                       | 172               | 9,352                                      | 253                 |
| <b>Rozan Property, British Columbia</b>   |   |                   |  |                     |
| Exploration costs                         |   |                   |  |                     |
| Assay and analysis                        | 179   | --                | 179  | --                  |
| Drilling                                  | 1,629                                       | --                | 1,629                                      | --                  |
| Geological and geochemical                | 4,974                                       | --                | 5,834                                      | 210                 |
| Site activities                           | 1,368                                       | --                | 1,619                                      | 64                  |
| Transportation                            | 258   | --                | 258  | --                  |
| Assistance and recoveries                 | --  | --                | (294)                                      | --                  |
| Incurred during the period                | 8,408                                       | --                | 9,225                                      | 210                 |
| <b>Stewart Property, British Columbia</b> |   |                   |  |                     |
| Exploration costs                         |   |                   |  |                     |
| Assay and analysis                        | 20,343                                      | --                | 20,343                                     | --                  |
| Drilling                                  | 262,044                                     | --                | 262,044                                    | --                  |
| Geological and geochemical                | 35,833                                      | --                | 35,870                                     | 150                 |
| Site activities                           | 5,349                                       | --                | 5,512                                      | 150                 |
| Transportation                            | 26,082                                      | --                | 26,082                                     | --                  |
| Assistance and recoveries                 | --  | --                | (12,465)                                   | --                  |
| Incurred during the period                | 349,651                                     | 834               | 337,386                                    | 2,369               |
| <b>Incurred during the period</b>         | <b>\$ 877,074</b>                           | <b>\$ 467,742</b> | <b>\$ 2,134,473</b>                        | <b>\$ 1,349,843</b> |

The Company's independent auditor has not performed a review of these interim consolidated financial statements.

## EMGOLD MINING CORPORATION

(an exploration stage company)

Notes to Interim Consolidated Financial Statements

Nine months ended September 30, 2007 and 2006

(expressed in United States dollars)

(Unaudited)

### 9. Ceramext™ process research costs:

|   | Three months ended<br>September 30, |                   | Nine months ended<br>September 30, |                     |
|---|-------------------------------------|-------------------|------------------------------------|---------------------|
|   | 2007                                | 2006              | 2007                               | 2006                |
| <b>Ceramext™ Process Costs</b>  |                                     |                   |                                    |                     |
| Prototype materials for research  | \$ 18,715                           | \$ 31,560         | \$ 60,524                          | \$ 127,068          |
| Ceramext™ process royalties and<br>amortization of license fee and<br>bench-scale research facility | 20,000                              | 10,000            | 60,000                             | 30,000              |
| Consulting fees   | 3,373                               | 18,259            | 4,780                              | 32,348              |
| Consumable materials  | --                                  | 5,481             | 720                                | 32,434              |
| Engineering costs   | 115,647                             | 308,722           | 286,582                            | 726,800             |
| Marketing and commercialization   | 30                                  | 20,769            | 599                                | 25,091              |
| Sample preparation  | --                                  | 16,443            | 680                                | 51,909              |
| Site costs  | 21,991                              | 37,225            | 86,792                             | 123,460             |
| Transportation  | 232                                 | 10,540            | 6,101                              | 29,890              |
| <b>Incurred during the period</b>   | <b>\$ 179,988</b>                   | <b>\$ 458,999</b> | <b>\$ 506,778</b>                  | <b>\$ 1,179,000</b> |