

NEVORO INC.
(An Exploration Stage Company)
Consolidated Financial Statements
(Expressed in US\$)

December 31, 2008 and 2007

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(Expressed in US\$)
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| Index | PAGE |
|---|---------------|
| Management's Responsibility for Financial Reporting | 1 |
| Auditors' Report to the Shareholders | 2 |
| Consolidated Financial Statements | |
| Consolidated Balance Sheets | 3 |
| Consolidated Statements of Operations and Comprehensive Loss | 4 |
| Consolidated Statements of Cash Flows | 5 |
| Consolidated Statements of Shareholders' Equity | 6 |
| Notes to the Consolidated Financial Statements | 7 - 38 |

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Nevoro Inc. (An Exploration Stage Company) are the responsibility of the Company's management. The financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available.

Management has developed and maintains a system of internal controls to ensure that the Company's assets are safeguarded, transactions are authorized and properly recorded, and financial information is reliable.

The Board of Directors is responsible for ensuring management fulfills its responsibilities. The Audit Committee reviews the results of the audit and the annual financial statements prior to their submission to the Board of Directors for approval.

The consolidated balance sheets as at December 31, 2008 and 2007 and statements of operations, shareholders' equity and cash flows for the years ended December 31, 2008 and 2007 have been audited by McGovern, Hurley, Cunningham LLP, Chartered Accountants, and their reports outline the scope of their examination and gives their opinion on the financial statements.

"William Schara"

William Schara
President

Toronto, Canada
March 31, 2009



McGovern, Hurley, Cunningham, LLP
Chartered Accountants

AUDITORS' REPORT

TO THE SHAREHOLDERS OF NEVORO INC.
(An Exploration Stage Company)

We have audited the consolidated balance sheets of Nevoro Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, cash flows and shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

MCGOVERN, HURLEY, CUNNINGHAM, LLP

A handwritten signature in black ink that reads "McGovern, Hurley, Cunningham, LLP".

**Chartered Accountants
Licensed Public Accountants**

Toronto, Canada
March 25, 2009

NEVORO INC.

(An Exploration Stage Company)
Consolidated Balance Sheets
December 31,
(Expressed in US\$)

| | 2008 | 2007 |
|--|---------------|---------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents (Note 3) | \$ 5,736,795 | \$ 5,688,376 |
| Amounts receivable, prepaids and other (Note 11) | 331,445 | 132,533 |
| | 6,068,240 | 5,820,909 |
| Mineral Interests (Notes 4, 5, 6 and 8) | 23,499,000 | 12,129,939 |
| Equipment (Note 7) | 89,626 | 73,805 |
| | \$ 29,656,866 | \$ 18,024,653 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 11) | \$ 615,569 | \$ 369,107 |
| Future Income Tax Liability (Note 10) | 1,210,000 | 3,321,800 |
| | 1,825,569 | 3,690,907 |
| Shareholders' Equity | | |
| Capital Stock (Note 9(b)) | 48,693,335 | 15,148,029 |
| Warrants (Note 9(c)) | 3,368,521 | 282,385 |
| Contributed Surplus | 5,030,982 | 3,331,396 |
| | 57,092,838 | 18,761,810 |
| Accumulated Other Comprehensive Income | 18,985 | 18,985 |
| Deficit | (29,280,526) | (4,447,049) |
| | (29,261,541) | (4,428,064) |
| | 27,831,297 | 14,333,746 |
| | \$ 29,656,866 | \$ 18,024,653 |

Nature of Operations (Note 1)
Commitments and Contingencies (Note 8 and Note 13)
Subsequent Events (Note 16)

Approved on Behalf of the Board:

Signed, "William Schara"

Director

Signed, "Philip Martin"

Director

See accompanying notes to the consolidated financial statements

NEVORO INC.

(An Exploration Stage Company)

Consolidated Statements of Operations and Comprehensive Loss

Years Ended December 31,

(Expressed in US\$)

| | 2008 | 2007 |
|---|---------------|--------------|
| General and Administrative Expenses | | |
| Salaries and benefits | \$ 1,003,738 | \$ 236,649 |
| Stock-based compensation (Note 9(d)) | 655,783 | 2,353,406 |
| Foreign exchange loss (gain) | 969,046 | (10,422) |
| Warrant revaluation expense (Note 9(c)) | 385,314 | - |
| Travel | 321,625 | 171,957 |
| Legal, audit and other professional fees (Note 11(d)) | 199,233 | 102,065 |
| Management, consulting and directors fees (Note 11(c)) | 199,170 | 250,401 |
| Office and miscellaneous | 176,947 | 105,156 |
| Investor relations | 160,433 | 84,705 |
| Occupancy costs | 128,676 | 53,996 |
| Filing, listing and transfer agents fees | 111,458 | 85,006 |
| Insurance | 38,142 | 29,297 |
| Amortization | 26,614 | 13,780 |
| Loss Before Other Items and Income Tax | 4,376,179 | 3,475,996 |
| Other Items | | |
| Interest income | (103,941) | (155,136) |
| General exploration | 238,773 | 480,539 |
| Write-down of mineral interests (Note 8) | 28,441,866 | 108,592 |
| Loss Before Income Tax | 32,952,877 | 3,909,991 |
| Future income tax expense (recovery) (Note 10) | (8,119,400) | (55,803) |
| Net Loss and Comprehensive Loss for the Year | \$ 24,833,477 | \$ 3,854,188 |
| Loss Per Share, Basic and Diluted | \$ 0.22 | \$ 0.06 |
| Weighted Average Number of Common Shares Outstanding | 112,708,678 | 62,069,012 |

See accompanying notes to the consolidated financial statements

NEVORO INC.

(An Exploration Stage company)
Consolidated Statements of Cash Flows
Years Ended December 31,
(Expressed in US\$)

| | 2008 | 2007 |
|--|---------------------|---------------------|
| Operating Activities | | |
| Net loss for the year | \$ (24,833,477) | \$ (3,854,188) |
| Items not involving cash | | |
| Amortization | 26,614 | 13,780 |
| Future income tax (recovery) | (8,119,400) | (55,803) |
| Stock-based compensation | 655,783 | 2,353,406 |
| Stock-based compensation in general exploration | 36,472 | 208,260 |
| Write-down of mineral interests | 28,441,866 | 108,592 |
| Warrant revaluation expense | 385,314 | - |
| Changes in non-cash working capital items | | |
| Amounts receivable, prepaids and other | (141,435) | (128,412) |
| Accounts payable and accrued liabilities | (720,988) | 92,212 |
| Cash Used in Operating Activities | (4,269,251) | (1,262,153) |
| Investing Activities | | |
| Mineral interests | (4,105,835) | (1,904,898) |
| Cash acquired on business combination (Notes 4, 5 and 6) | 223,698 | 151,640 |
| Equipment purchases | (30,390) | (84,577) |
| Cash Used in Investing Activities | (3,912,527) | (1,837,835) |
| Financing Activities | | |
| Issuance of capital stock for cash, net of issue costs | 8,230,197 | 8,805,526 |
| Repayment of shareholder advances | - | (17,162) |
| Cash Provided by Financing Activities | 8,230,197 | 8,788,364 |
| Increase in Cash and Cash Equivalents | 48,419 | 5,688,376 |
| Cash and Cash Equivalents, Beginning of Year | 5,688,376 | - |
| Cash and Cash Equivalents, End of Year | \$ 5,736,795 | \$ 5,688,376 |

SUPPLEMENTAL INFORMATION

| | | |
|---|---------------|--------------|
| Interest paid | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |
| Common shares issued for business combination (Notes 4, 5 and 6) | \$ 26,458,689 | \$ 6,100,000 |
| Common shares issued for services rendered (Note 9(b)) | \$ - | \$ 10,350 |
| Equipment acquired on business combination (Note 6) | \$ 12,044 | \$ - |
| Change in accrued exploration expenditures | \$ 59,489 | \$ 120,506 |
| Warrants issued for services rendered (Note 9(b)) | \$ 117,850 | \$ 364,831 |
| Stock based compensation charged to mineral interests (Note 9(d)) | \$ 257,750 | \$ 769,730 |
| Options issued for services (Notes 6 and 9(d)) | \$ 61,580 | \$ - |
| Common shares issued for mineral interests (Note 8(f)(iii)) | \$ 7,650 | \$ - |
| Warrant revaluation allocated to mineral properties (Note 9(c)) | \$ 493,592 | \$ - |
| Warrants issued for business combination (Note 6) | \$ 1,056,000 | \$ - |
| Options issued for business combination (Note 6) | \$ 688,000 | \$ - |

See accompanying notes to the consolidated financial statements

NEVORO INC.**(An Exploration Stage Company)****Consolidated Statements of Shareholders' Equity****Years Ended December 31, 2008 and 2007****(Expressed in US\$)**

| | Number of Shares | Capital Stock | Contributed Surplus | Warrants | Deficit | Accumulated Other Comprehensive Income | Total Shareholders' Equity |
|--|---------------------|------------------|------------------------|--------------|-----------------|---|----------------------------------|
| Balance, December 31, 2006 | 912,485 | \$ 524,887 | \$ - | \$ - | \$ (592,861) | \$ 18,985 | \$ (48,989) |
| Net loss for year | - | - | - | - | (3,854,188) | - | (3,854,188) |
| Issued for cash | | | | | | | |
| Private placements, (Notes 9(b)) | 49,232,700 | 9,042,675 | - | - | - | - | 9,042,675 |
| Exercise of warrants | 562,000 | 222,947 | - | (82,447) | - | - | 140,500 |
| Share issue costs | - | (742,480) | - | 364,832 | - | - | (377,648) |
| Business combination (Note 4) | 24,400,000 | 6,100,000 | - | - | - | - | 6,100,000 |
| Finder's fee | 41,400 | - | - | - | - | - | - |
| Stock-based compensation (Note 9(d)) | - | - | 3,331,396 | - | - | - | 3,331,396 |
| Balance, December 31, 2007 | 75,148,585 | 15,148,029 | 3,331,396 | 282,385 | (4,447,049) | 18,985 | 14,333,746 |
| Net loss for year | - | - | - | - | (24,833,477) | - | (24,833,477) |
| Issued for cash | | | | | | | |
| Private placements (Note 9(b)) | 26,691,214 | 7,998,950 | - | 1,035,585 | - | - | 9,034,535 |
| Exercise of warrants | 15,000 | 5,955 | - | (2,205) | - | - | 3,750 |
| Share issue costs | - | (925,938) | - | 117,850 | - | - | (808,088) |
| Business combination (Note 5) | 19,981,476 | 11,789,071 | - | - | - | - | 11,789,071 |
| Business combination (Note 6) | 29,937,997 | 14,669,618 | - | - | - | - | 14,669,618 |
| Fair value of warrants extended (Note 9(c)) | - | - | - | 878,906 | - | - | 878,906 |
| Fair value of option granted on business combination (Note 6) | - | - | 688,000 | - | - | - | 688,000 |
| Fair value of warrants granted on business combination (Note 6) | - | - | - | 1,056,000 | - | - | 1,056,000 |
| Stock-based compensation (Note 9(d)) | - | - | 1,011,586 | - | - | - | 1,011,586 |
| Issued for property (Note 8(f)(iii)) | 80,000 | 7,650 | - | - | - | - | 7,650 |
| Balance, December 31, 2008 | 151,854,272 | \$ 48,693,335 | \$ 5,030,982 | \$ 3,368,521 | \$ (29,280,526) | \$ 18,985 | \$ 27,831,297 |

See accompanying notes to the consolidated financial statements

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

1. NATURE OF OPERATIONS

Nevoro Inc. (the "Company" or "Nevoro") incorporated under the laws of the Province of Ontario, was inactive since 1991 and was searching for new business opportunities. During the year ended December 31, 2007, the Company entered into an agreement with the shareholders of Goodsprings Development Corporation ("Goodsprings") to acquire 100% of the issued and outstanding shares of Goodsprings, a private mineral exploration corporation incorporated in the State of Nevada, USA. Goodsprings held an interest in a portfolio of precious metal exploration projects located in Nevada, USA (see Note 4). During the year ended December 31, 2008, the Company entered into an arrangement agreement with Aurora Platinum Exploration Inc. (formerly Aurora Metals (BVI) Ltd.) ("Aurora") to acquire 100% of the issued and outstanding shares of Aurora, a public mineral exploration company with a project located in the Stillwater Complex in the State of Montana (see Note 5) and with Sheffield Resources Ltd. ("Sheffield") to acquire 100% of the issued and outstanding shares of Sheffield, also a public mineral exploration company with one project located in the State of California and one project located in the Province of British Columbia (see Note 6). The Company is a development stage entity as defined by the Canadian Institute of Chartered Accountants (the "CICA") Accounting Guideline 11 and currently has interests in resource properties in the United States of America and Canada.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying value of certain assets.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and to meet its liabilities for the ensuing year as they fall due, to fund cash payments as discussed in Note 8 and Note 13, and to fund current planned exploration programs.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year except as outlined below. Outlined below are those policies considered particularly significant.

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid temporary investments, which mature within ninety days from the original dates of acquisition and which are readily convertible into known amounts of cash.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Mineral interests

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse. Costs accumulated relating to projects that are abandoned are written-off in the period in which a decision to discontinue the project is made.

All deferred mineral property expenditures are reviewed periodically, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs will be depleted using the unit-of-production method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

The Company is still in the exploration stage and commercial production has not yet commenced. Hence, depletion has not been charged in these financial statements.

From time to time the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received. Proceeds received on the sale or option of the Company's property interest are recorded as a reduction of the mineral property cost. The Company recognizes in income those costs that are recovered on mineral property interests when amounts received or receivable are in excess of the carrying amount.

(c) Asset retirement obligations ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. As at December 31, 2008 and 2007, the Company has determined that it has no material AROs to record in these financial statements.

(d) Equipment

Equipment is recorded at cost and amortized using the declining-balance method at an annual rate of 50% for vehicles, 20% for office equipment and furniture and fixtures, 30% for computer equipment and 100% for software, based on the estimated useful lives of the equipment.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the collectability of amounts receivable, balances of accrued liabilities, the fair value of financial instruments, the rates for amortization of equipment, the recoverability of mineral property interests, determination of asset retirement and environmental obligations, estimates of future income tax assets and liabilities, valuation allowances for future income tax assets and the determination of the variables used in the calculation of stock-based compensation. While management believes that these estimates are reasonable, actual results could differ from those estimates and could materially impact future results of operations and cash flows.

(f) Capital stock

Capital stock issued for non-monetary consideration is recorded at fair value pursuant to the agreement to issue shares as determined by the Board of Directors of the Company based on the trading price of the shares on the TSX Venture Exchange (the "Exchange"). Costs incurred for the issue of shares are deducted from capital stock.

(g) Loss per share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(h) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees, and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, share issue costs or mineral interests, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(j) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Nevoro Nevada Inc. (formerly "Goodsprings Development Corporation"), Aurora Platinum Explorations Inc., Sheffield Resources Ltd., Nevoro Montana Inc. (formerly "Aurora Metals USA, Inc."), and Nevoro Copper Inc. These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All material intercompany balances and transactions have been eliminated on consolidation.

(k) Warrants

Proceeds received on the issuance of units, are allocated between common shares and warrants.

(l) Financial instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition. When a decline in the fair value of an available-for-sale financial asset has been recognized directly in comprehensive income, and there is objective evidence that the asset is impaired, and the decline is other than temporary, the cumulative loss that had been recognized directly in other comprehensive income is removed from accumulated other comprehensive income and recognized in net income even though the financial asset has not been derecognized.

The fair value of substantially all marketable securities is determined by quoted market prices. Gains or losses on securities sold are based on the specific identification method.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from operations calculated in accordance with Canadian GAAP.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Adoption of new accounting standards

Effective January 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants ("CICA") Handbook.

(i) Section 1535 - Capital Disclosures

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy has been included in Note 14.

(ii) Sections 3682 and 3863 - Financial Instruments - Disclosures and Presentation

Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in Note 14.

(n) Future accounting changes

(i) Section 3064 - Goodwill and Intangible Assets

In November 2007, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaced the existing Handbook Section 3062, Goodwill and Other Intangible Assets and Handbook Section 3450, Research and Development Costs. This standard is effective for annual financial statements relating to fiscal years beginning on or after October 1, 2008, with earlier application encouraged. The standard provides guidance on the recognition, measurement and disclosure requirements for goodwill and intangible assets. The Company is currently assessing the impact of this new accounting standard on its financial statements.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Future accounting changes (continued)

(ii) Section 1582 - Business Combinations

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011.

(iii) Section 1601 – Consolidations and Section 1602 – Non-Controlling Interests

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on January 1, 2011.

(iv) EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

(v) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The effective date for the Company is for interim and annual financial statements relating to the Company's fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

| | December 31, 2008 | December 31, 2007 |
|---|----------------------|----------------------|
| Cash | \$ 4,900,926 | \$ 147,757 |
| US\$ Discount Notes with average interest rate of 2.19% (2007 - 2.80%) | 834,965 | 5,495,835 |
| Money market fund | 904 | 44,784 |
| | \$ 5,736,795 | \$ 5,688,376 |

4. ACQUISITION OF GOODSPRINGS

The shareholders of Goodsprings and Nevoro entered into an agreement of purchase and sale dated February 5, 2007, whereby Nevoro acquired 100% of the issued and outstanding shares of Goodsprings for the issuance of 24,400,000 common shares of Nevoro. This acquisition closed February 15, 2007. This business combination is accounted for using the purchase method of accounting, with Nevoro being identified as the acquirer and Goodsprings as the acquiree. In accordance with the purchase method of accounting, the purchase cost was allocated to the underlying assets acquired based on their fair values at the date of acquisition. The purchase consideration of \$6,100,000 and the costs of the transaction of \$155,224 for a total of \$6,255,224 exceeded the carrying value of the net liabilities assumed by \$6,272,692, which was applied to increase the carrying value of the interest in mineral properties. The excess amount will not increase the carrying value of the underlying assets for tax purposes resulting in a temporary difference between accounting and tax values. The resulting estimated future income tax liability associated with the temporary difference of \$6,272,692 was applied to increase the carrying value of the mineral property by \$3,377,603 using the combined US income tax rate of approximately 35%.

The allocation of the purchase cost to assets and liabilities acquired is as follows:

| Purchase Price Allocation | |
|--|--------------|
| Cash | \$ 151,640 |
| Amounts receivable | 1,350 |
| Equipment | 3,008 |
| Interest in mineral properties | 9,941,581 |
| Accounts payable and accrued liabilities | (121,790) |
| Advances | (342,962) |
| Future income tax liabilities | (3,377,603) |
| | \$ 6,255,224 |
| Consideration | |
| 24,400,000 Common shares | 6,100,000 |
| Transaction costs | 155,224 |
| | \$ 6,255,224 |

The consolidated financial statements assume the cost of acquisition is the fair value of the Nevoro common shares issued based on the issuance of 24,400,000 Nevoro common shares at \$0.25 providing total purchase consideration of \$6,100,000.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

5. ACQUISITION OF AURORA

On June 10, 2008, Nevoro, Nevoro Platinum Inc. ("Subco") and Aurora completed a business combination whereby Subco and Aurora merged and continued as one corporation with the same effect as if they were amalgamated, through a court approved statutory plan of arrangement under Section 288 of the Business Corporations Act (British Columbia). Each common share of Aurora was cancelled and the shareholders thereof received, for each such common share of Aurora, one common share of Nevoro.

Aurora is an exploration company with mineral properties located in the Stillwater Complex in the State of Montana (see Note 8(e)).

The acquisition was accounted for using the purchase method of accounting, with Nevoro being identified as the acquirer and Aurora as the acquiree. In accordance with the purchase method of accounting, the purchase consideration of \$11,789,071 and related transaction costs of \$920,813 were allocated to the underlying assets acquired and liabilities assumed, based on their fair values at the date of acquisition. Total consideration of \$12,709,884 exceeded the carrying value of the net assets acquired by \$12,024,853 which was applied to increase the carrying value of the mineral interests. Aurora was formed in the British Virgin Islands which does not require the payment of income taxes. Aurora was continued into British Columbia on May 5, 2008. Upon immigration into Canada, Aurora was deemed to have disposed of, at fair market value, each property owned by it and was deemed to have reacquired such property at the same amount at the time immediately after immigration to Canada. Accordingly, at the time of immigration, the fair value of the Aurora assets was equal to the tax value of the assets.

The allocation of the purchase cost to assets and liabilities acquired is as follows:

| | |
|--|---------------|
| Purchase Price Allocation | |
| Cash | \$ 7,802 |
| Mineral interests | 13,315,218 |
| Accounts payable and accrued liabilities | (613,136) |
| | <hr/> |
| | \$ 12,709,884 |
| Consideration | |
| 19,981,476 Nevoro common shares | 11,789,071 |
| Transaction costs | 920,813 |
| | <hr/> |
| | \$ 12,709,884 |

The 19,981,476 Nevoro common shares issued were valued at \$0.59 per share (Cdn\$0.60) for a total purchase consideration of \$11,789,071.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

6. ACQUISITION OF SHEFFIELD

On July 29, 2008, Nevoro acquired all of the issued and outstanding securities of Sheffield, pursuant to an Arrangement Agreement (the "Agreement") entered into on June 9, 2008.

Nevoro and Sheffield completed the Arrangement by way of a court approved plan of arrangement pursuant to Section 288 of the Business Corporations Act (British Columbia) whereby each issued and outstanding Sheffield common share was cancelled and the holder thereof received 0.80 of one Nevoro common share. Sheffield had 35,422,497 common shares issued and outstanding. Holders of Sheffield's common share purchase warrants ("Sheffield Warrants"), shall receive upon the subsequent exercise of each Sheffield Warrant, 0.80 of one Nevoro common share. Holders of outstanding Sheffield stock options ("Sheffield Options"), received such number of Nevoro options to acquire one Nevoro common share, equal to the product of: (i) the number of Sheffield Options held immediately before the closing of the Arrangement, and (ii) 0.80. The exercise price of the resulting Nevoro option was an amount equal to the quotient of (A) the exercise price of the Sheffield Options immediately before closing, divided by (B) 0.80. Any fractional Nevoro common share or replacement option issuable to any Sheffield security holder as a result of the Arrangement was rounded down to the nearest whole number, and no cash or other payment in lieu of such fractional shares or options was paid or payable to any person pursuant to the Arrangement.

Pursuant to an agreement entered into by Sheffield prior to the arrangement, upon a change of control, Sheffield was required to issue 2,000,000 Sheffield shares to Variety Investments Ltd. ("Variety") (see Note 8(f)(i)). In light of the acquisition of Sheffield by Nevoro, Nevoro issued 1,600,000 Nevoro common shares to Variety to satisfy Sheffield's obligation under the agreement.

The acquisition is accounted for using the purchase method of accounting, with Nevoro being identified as the acquirer and Sheffield as the acquiree. In accordance with the purchase method of accounting, the purchase consideration comprised of 28,337,997 common shares valued at \$13,885,618, related cash transaction costs of \$297,225 and 300,000 stock options granted as a finder's fee valued at \$61,580 for total transaction costs of \$358,805, 1,600,000 common shares valued at \$784,000 and the Black-Scholes values of the warrants and vested stock options of \$1,744,000 are allocated to the underlying assets acquired and liabilities assumed, based on their fair values at the date of acquisition. Total consideration of \$16,772,423 exceeded the carrying value of the net assets acquired by \$13,699,900 which was applied to increase the carrying value of the mineral properties.

The excess amount will not increase the carrying value of the underlying assets for tax purposes resulting in a temporary difference between accounting and tax values. The resulting estimated future income tax liability associated with the temporary difference of \$13,699,900 was applied to increase the carrying value of the mineral properties by \$6,007,600, using the combined Canadian and US tax rates of approximately 27% and 35% respectively.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

6. ACQUISITION OF SHEFFIELD (Continued)

The allocation of the purchase cost to assets and liabilities acquired is as follows:

| Purchase Price Allocation | | |
|---|--|---------------|
| Cash | | \$ 215,896 |
| Amounts receivable and prepaid expenses | | 57,477 |
| Equipment | | 12,044 |
| Mineral properties | | 22,908,409 |
| Accounts payable and accrued liabilities | | (413,803) |
| Future income tax liabilities | | (6,007,600) |
| | | <hr/> |
| | | \$ 16,772,423 |
| | | <hr/> |
| Consideration | | |
| 28,337,997 Nevoro common shares | | 13,885,618 |
| 1,600,000 Nevoro common shares issued to Variety (Note 8(f)(i)) | | 784,000 |
| 12,223,628 Sheffield warrants (9,778,902 Nevoro warrants) | | 1,056,000 |
| 2,833,799 Nevoro stock options | | 688,000 |
| Cash and stock option transaction costs | | 358,805 |
| | | <hr/> |
| | | \$ 16,772,423 |

7. EQUIPMENT

| | Cost | Accumulated Amortization | Net Book Value December 31, 2008 |
|------------------------|-------------|-------------------------------------|---|
| Vehicles | \$ 3,933 | \$ (2,060) | \$ 1,873 |
| Office equipment | 6,692 | (703) | 5,989 |
| Furniture and fixtures | 52,874 | (12,830) | 40,044 |
| Computer equipment | 60,593 | (19,424) | 41,169 |
| Software | 3,926 | (3,375) | 551 |
| | <hr/> | | |
| | \$ 128,018 | \$ (38,392) | \$ 89,626 |

| | Cost | Accumulated Amortization | Net Book Value December 31, 2007 |
|------------------------|-------------|-------------------------------------|---|
| Vehicles | \$ - | \$ - | \$ - |
| Office equipment | 642 | (64) | 578 |
| Furniture and fixtures | 32,670 | (3,288) | 29,382 |
| Computer equipment | 48,089 | (7,306) | 40,783 |
| Software | 6,185 | (3,123) | 3,062 |
| | <hr/> | | |
| | \$ 87,586 | \$ (13,781) | \$ 73,805 |

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS

For the year ended December 31, 2008, the Company incurred acquisition costs and exploration expenditures on its mineral properties as follows:

| | Stillwater Project | Moonlight Project | St. Elmo Project | Silver King Project | Cross Project | Eagleville Project | Dome Hill Project | Monarch Project | Golden Loon Project | Other Projects | Total |
|-----------------------------------|--------------------|-------------------|------------------|---------------------|---------------|--------------------|-------------------|-----------------|---------------------|----------------|---------------|
| Balance – December 31, 2007 | \$ - | \$ - | \$ 6,311,220 | \$ 1,578,087 | \$ 1,042,804 | \$ 995,789 | \$ 992,616 | \$ 79,471 | \$ - | \$ 1,129,952 | \$ 12,129,939 |
| Acquisition costs | 13,315,218 | 20,365,134 | 130,308 | 76,297 | - | 22,881 | 30,614 | 34,602 | 3,073,338 | 61,521 | 37,109,913 |
| Exploration costs | | | | | | | | | | | |
| Consulting | 454,127 | 228,345 | 14,400 | 1,442 | 8,852 | 10,866 | 5,439 | 1,013 | 1,531 | (142,205) | 583,810 |
| Geological | - | 77,590 | 9,768 | 8,640 | 11,198 | 9,416 | - | 2,225 | - | - | 118,837 |
| Drilling | 322,896 | 354,305 | - | 111,964 | 81,597 | - | - | 184,912 | - | 104,717 | 1,160,391 |
| Legal | (17,232) | 40,164 | 9,151 | - | - | - | - | - | - | - | 32,083 |
| Exploration support | 108,366 | 51,780 | 5,524 | 2,718 | 277 | 12,583 | 567 | 4,241 | (41,743) | 25,745 | 170,058 |
| Travel | 32,618 | 29,329 | 422 | 1,799 | 4,910 | 3,823 | 2,024 | 2,703 | 1,465 | 823 | 79,916 |
| Field supplies | 17,088 | 29,435 | 195 | - | - | 214 | 85 | 702 | 161 | - | 47,880 |
| Salaries and benefits | 83,667 | 94,060 | 16,695 | 33,639 | 24,187 | 51,390 | 15,059 | 35,364 | 31,367 | 33,198 | 418,626 |
| Geophysical | - | - | - | - | - | - | 2,800 | - | - | - | 2,800 |
| Reclamation | - | - | - | 255 | - | - | - | - | - | 10,100 | 10,355 |
| Permitting | - | - | 6,681 | 115 | - | - | 87,581 | 7,023 | 4,699 | 5,159 | 111,258 |
| Recoveries | - | - | - | - | - | - | - | - | - | (35,000) | (35,000) |
| Exploration costs | 1,001,530 | 905,008 | 62,836 | 160,572 | 131,021 | 88,292 | 113,555 | 238,183 | (2,520) | 2,537 | 2,701,014 |
| Exploration and acquisition costs | 14,316,748 | 21,270,142 | 193,144 | 236,869 | 131,021 | 111,173 | 144,169 | 272,785 | 3,070,818 | 64,058 | 39,810,927 |
| Write-down | - | (14,270,142) | (5,273,364) | (1,814,956) | (1,173,825) | (897,962) | (921,785) | - | (3,070,818) | (1,019,014) | (28,441,866) |
| Balance – December 31, 2008 | \$14,316,748 | \$ 7,000,000 | \$ 1,231,000 | \$ - | \$ - | \$ 209,000 | \$ 215,000 | \$ 352,256 | \$ - | \$ 174,996 | \$ 23,499,000 |

Management reviewed the Company's mineral interests for impairment as at December 31, 2008 in view of current economic conditions. Accordingly, the carrying values of the Company's mineral interests were written-down to management's estimate of fair value.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

For the year ended December 31, 2007, the Company incurred acquisition costs and exploration expenditures on its mineral properties as follows:

| | St. Elmo Project | Silver King Project | Cross Project | Eagleville Project | Dome Hill Project | Monarch Project | Other Projects | Total |
|-----------------------------------|---------------------|------------------------|------------------|-----------------------|----------------------|--------------------|-------------------|---------------|
| Balance – December 31, 2006 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1 | \$ 1 |
| Acquisition costs | 5,579,854 | 1,207,735 | 916,677 | 896,818 | 770,945 | 24,185 | 945,230 | \$ 10,341,444 |
| Exploration costs | | | | | | | | |
| Consulting | 81,644 | 18,998 | 9,948 | 29,384 | 45,727 | 1,280 | 38,282 | 225,263 |
| Geological | 10,394 | 17,545 | - | 3,470 | 3,144 | - | 2,208 | 36,761 |
| Drilling | 74,908 | 1,760 | 34,964 | - | - | - | - | 111,632 |
| Legal | 13,504 | - | - | - | 3,078 | 2,022 | 81,772 | 100,376 |
| Exploration support | 66,655 | 20,790 | 736 | 1,972 | 2,229 | 64 | 37,298 | 129,744 |
| Travel | 5,726 | 2,442 | 974 | 2,046 | 11,925 | 715 | 10,347 | 34,175 |
| Land maintenance | 57,041 | 34,585 | 22,707 | 7,889 | 19,244 | 1,343 | 40,857 | 183,666 |
| Field supplies | - | - | 1,518 | - | - | - | 56,517 | 58,035 |
| Salaries and benefits | 339,063 | 192,717 | 55,280 | 54,210 | 98,830 | 24,741 | 56,032 | 820,873 |
| Geophysical | 52,631 | 58,328 | - | - | 31,131 | 25,121 | - | 167,211 |
| Reclamation | 29,800 | 8,915 | - | - | - | - | - | 38,715 |
| Permitting | - | 14,272 | - | - | 6,363 | - | - | 20,635 |
| Recoveries | - | - | - | - | - | - | (30,000) | (30,000) |
| Exploration costs | 731,366 | 370,352 | 126,127 | 98,971 | 221,671 | 55,286 | 293,313 | 1,897,086 |
| Exploration and acquisition costs | 6,311,220 | 1,578,087 | 1,042,804 | 995,789 | 992,616 | 79,471 | 1,238,543 | 12,238,530 |
| Write down | - | - | - | - | - | - | (108,592) | (108,592) |
| Balance – December 31, 2007 | \$ 6,311,220 | \$ 1,578,087 | \$ 1,042,804 | \$ 995,789 | \$ 992,616 | \$ 79,471 | \$ 1,129,952 | \$ 12,129,939 |

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(a) St. Elmo Project

The St. Elmo Project consists of the Happy Tracks Property and the Diamond Jim Property.

On April 15, 2006, Goodsprings entered into a mining lease and option to purchase agreement with four arm's length individuals (collectively, the "Owners"), whereby Goodsprings was granted a five-year lease with an option to purchase unpatented lode mining claims and water rights comprising the Happy Tracks Property, located in the State of Nevada, USA.

Goodsprings was granted the exclusive right to explore the Happy Tracks Property during the term of the lease for the following consideration:

- \$25,000 due upon signing (paid)
- \$30,000 due April 13, 2007 (paid)
- \$35,000 due April 13, 2008 (paid)
- \$10,000 due April 15, 2009
- \$10,000 due July 15, 2009
- \$45,000 due April 13, 2010

Goodsprings has the option to purchase the entire interest in the Happy Tracks Property for the sum of \$1,095,000. This option is exercisable at any time during the agreement. If, during the term of the Agreement, Goodsprings decides to purchase the Happy Tracks Property prior to the fifth anniversary of the signing of the Agreement, the purchase price may be reduced by \$100,000 for each full year left in the agreement.

Goodsprings shall pay the Owners a production royalty equal to 2.5% of any and all net smelter returns from the production or sale of minerals from the Happy Tracks Property. A 2.5% net smelter returns royalty will be payable on all previously mined materials originating from the Happy Tracks Property, shipped or milled by Goodsprings. The 2.5% net smelter return ("NSR") royalty would cease upon acquisition of the property by Goodsprings.

On December 1, 2006, Goodsprings entered into a mining lease and option to purchase agreement with an arm's length individual (the "Owner"), whereby Goodsprings was granted a five-year lease with an option to purchase the Diamond Jim Project unpatented lode-mining claims, located in the State of Nevada, USA.

Goodsprings was granted the exclusive right to explore the Diamond Jim Project during the term of the lease for the following consideration:

- \$30,000 due upon signing (paid)
- \$30,000 due on the first anniversary of the effective date and each subsequent anniversary of the effective date during the term of the agreement. (\$60,000 paid)

Goodsprings has the option to purchase the entire interest in the Diamond Jim Project for the sum of \$400,000.

The Company shall pay the Owner a production royalty equal to 3% of the net smelter returns from the production or sale of minerals from the property, of which the Company can purchase one third of the royalty (representing 1%) for \$1,000,000.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(a) St. Elmo Project (continued)

On January 11, 2008, the Company entered into a Purchase Agreement with an arm's length corporation, for certain claims located adjacent to the St. Elmo Project. The basic terms call for a \$5,000 payment on signing (paid) and a net smelter return ("NSR") royalty of 3.0% payable to Victory Exploration Inc., the original owner. Nevoro can purchase the St. Elmo NSR royalty from Victory Exploration Inc. in increments of 1% for \$500,000 per 1%.

The project, after a review for impairment, was written-down to management's estimate of recoverable value of \$1,231,000.

(b) Silver King, Cross and Eagleville Projects

During the year ended December 31, 2006, Goodsprings entered into three separate mining lease and option to purchase agreements with lease terms of ten years expiring on various dates to August 31, 2016.

During the year ended December 31, 2008, the Company determined that the Silver King and Cross Project were no longer viable and the projects were written-off. The Company officially terminated its lease with the owners of Cross Project, and no further payments are required.

Pursuant to the remaining two agreements (Silver King and Eagleville), the Company is responsible for the following rental payments:

- \$6,000 during the year ended December 31, 2006 (paid)
- \$22,000 during the year ended December 31, 2007 (paid)
- \$33,000 during the year ended December 31, 2008 (paid)
- \$44,000 during the year ended December 31, 2009
- \$49,000 during the year ended December 31, 2010
- \$74,000 during the years ended December 31, 2011 through 2016

On the first and all subsequent anniversaries of the exercise of the purchase option, the Company shall make minimum advance royalty payments of \$50,000 until sustained commercial production begins. Minimum advance royalty payments will be creditable against the Company's royalty payment obligations.

The Company can exercise the purchase option for any of the properties by making a payment of \$300,000 per property, subject to a 3% net smelter return royalty and has the option to purchase one third of the royalties in each agreement for \$1,000,000 each.

On the Eagleville project, the Company must fulfill the following work commitments.

- \$5,000 during the first lease year (fulfilled)
- \$25,000 during the second lease year (fulfilled)
- \$50,000 during the third lease year (fulfilled)
- \$100,000 during the fourth and all subsequent lease years.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(b) Silver King, Cross and Eagleville Projects (continued)

All work commitments incurred in excess of the work expenditure requirement will be credited toward the work commitment for the subsequent lease year. Any work commitment not fulfilled will be subject to a payment of seventy-five percent of the difference between the actual expenditure and the minimum work expenditure.

(c) Dome Hill

The Company is required to make the following rental payments on the Dome Hill Project:

- \$10,000 during the year ended December 31, 2007 (paid)
- \$10,000 during the year ended December 31, 2008 (paid)
- \$15,000 during the year ended December 31, 2009
- \$20,000 on the subsequent anniversaries of the effective date of the agreement, up to 2027.

The Company has the option to purchase the claims for \$125,000 and the owner retains a 3% NSR royalty. Nevoro may purchase 1/3 of the royalty for \$1,000,000.

Nevoro holds rights to additional claims in the Dome Hill project and has the option to purchase for \$75,000.

The project has been written-down to management's estimate of recoverable value of \$215,000.

(d) Monarch

Effective October 2, 2007, the Company entered into a Lease with Option to Purchase Agreement with arm's length parties for the Monarch Project situated in Nevada's Walker Lane structural belt. The basic lease terms call for a \$4,000 payment on signing, (paid), a \$25,000 (paid) payment on the first anniversary and a \$100,000 payment on the second anniversary. Minimum advance royalty payments of \$30,000, \$50,000 and \$75,000 are due on subsequent anniversaries. A sliding scale NSR from 3% to 6% on the price of gold, a sliding scale NSR from 2.5% to 5% based on the price of copper, and a 3% NSR on other metals, is payable to the original owner and survives the purchase of the claims. Nevoro can purchase a 1% NSR royalty for \$1,000,000. Nevoro is required to conduct a gravity survey on the property during the first year (conducted).

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(e) Stillwater

The Company holds the Stillwater Project which it acquired from Aurora as discussed in Note 5. The Stillwater Project consists of the Basal Zone Lease Agreement, executed January 1, 2004 and the Mountain View Lease Agreement signed February 1, 2004.

The basic lease terms of the Basal Zone Lease Agreement call for annual payments as follows:

Upon payment of nominal cash consideration (paid), the lease of mineral claims in the Basal Zone Lease Agreement is granted to the Company for 10 years ("Primary Term").

- \$500 per month from the first anniversary of the date of execution. (\$6,000 paid)
- \$1,000 per month from the second anniversary of the date of execution (\$12,000 paid)
- \$1,500 per month from the third anniversary of the date of execution (\$36,000 paid up to December 31, 2008)
- \$2,000 per month from the sixth anniversary of the date of execution until the end of the Primary Term.

A 2% production royalty exists on the sales of ores and concentrates; 2% NSR (if sold to a mill, smelter or refinery) or 2% of net income (if not sold to a mill, smelter or refinery). If there is a federal royalty imposed on any sales, then 50% of such federal royalty will be offset against the production royalty.

The basic terms of the Mountain View Lease Agreement are as follows:

Upon payment of nominal cash consideration (paid), the lease of mineral claims in the Mountain View Lease Agreement is granted to the Company for 10 years ("Primary Term") expiring February 1, 2014. If the Company wishes to extend the Primary Term of the lease, then the Company must pay \$50,000.

Upon the commencement of construction of a mine, the Company must pay a \$500,000 advance royalty, 50% of which will be credited against future production royalties.

A 2% production royalty exists on the sale of ore and concentrate. 2% NSR (if sold to a mill, smelter or refinery) or 2% of net income (if not sold to a mill, smelter or refinery).

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(e) Stillwater (Continued)

Acquisition of the Benbow Chromite Mine

The Company has signed an agreement to acquire, through its indirect wholly owned subsidiary Aurora Metals USA, Inc. the Benbow chromite mine which is adjacent to Nevoro's Stillwater project in Montana.

The mine will be acquired under a Lease with Option to Purchase from Benbow Mine, Limited Liability Partnership, (the "Owner"). The Agreement is subject to title opinion, and the satisfactory completion of a due diligence investigation. The basic lease is for 25 years expiring July 14, 2033, unless the Agreement is terminated, cancelled or extended. The terms of the Agreement call for a signing bonus of \$50,000 subject to the approvals noted above (\$5,000 paid, to be credited against the first payment), with payments of \$50,000 on each of the first through fifth anniversaries, \$75,000 on each of the sixth through tenth anniversaries, \$100,000 on the eleventh and each subsequent anniversary of the effective date (the "Minimum Payments"). A 5% production royalty (the "Royalty") shall be paid to the Owner, based on net proceeds from the production and sale of minerals from the property. The Minimum Payments shall constitute advance payments of the Royalty on the property and shall be credited in Nevoro's favor against Royalty payment obligations. Nevoro has the option to purchase the property for \$5,000,000.

If the option to purchase is exercised after the fifth anniversary, but before the tenth anniversary, the purchase price will be \$10,000,000, or alternatively, Nevoro has the option to purchase an undivided fifty percent interest in the property for \$5,000,000, subject to its right to purchase additional portions of ownership of and title to the property in increments representing 5% of the entire undivided ownership for \$500,000 for each such increment.

(f) Moonlight and Golden Loon

The Company now holds the Golden Loon Project and the Moonlight Copper Project as a result of the acquisition of Sheffield (see Note 6).

Moonlight Copper Project

The Moonlight Copper Project is comprised of the Diane Claims, Teagan Claims and California-Engels Claims:

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(f) Moonlight and Golden Loon (Continued)

Moonlight Copper Project (Continued)

(i) Diane Claims

On March 23, 2005, the Company's wholly-owned subsidiary, Sheffield, entered into an assignment agreement to acquire an option to purchase an undivided 100% interest in the Diane 1 to Diane 8 mineral claims in Plumas County, California, U.S.A., subject to a purchasable 2% net smelter returns royalty ("NSR"). The Company is obligated to two assignors and the vendor as follows: In aggregate; a) pay \$5,000 (paid); b) pay \$45,000 in three equal tranches, the first tranche on signing of the agreement (paid), the second tranche payable on receipt of regulatory approval (paid) and the third tranche payable 60 days following regulatory approval (paid); c) issue 650,000 common shares on receipt of regulatory approval (issued); d) issue 100,000 common shares by June 1, 2005 (issued); e) issue 200,000 common shares by June 1, 2006 (issued); f) issue 1,000,000 common shares 30 days after commencement of a pre-feasibility or feasibility study; g) issue 1,000,000 common shares 30 days after commencement of construction of a plant being installed for purposes of commercial mineral production; h) annual payment of \$20,000 by June 1 of each year, beginning in 2005 (\$20,000 paid for 2005, \$20,000 paid for 2006, \$20,000 paid for 2007 and \$20,000 paid for 2008); and i) payment of the annual lease fees for each claim.

The Agreement may be terminated by Sheffield at any time by giving written notice provided that the Company has to make payment of the related taxes to maintain the claims in good standing for 12 months from the date of termination.

Pursuant to the terms of the March 23, 2005 assignment agreement, the issuance of the 2,000,000 shares due under f) and g) above was accelerated on the change of control of Sheffield and these shares became immediately due and issuable. Upon acquisition of Sheffield by the Company, these 2,000,000 common shares were issued and became subject to the share exchange as described in Note 6.

(ii) Teagan Claims

At December 31, 2008, Sheffield held a 100% interest in certain claims, located in Plumas County, California, U.S.A.

(iii) California-Engels Claims

In April 2006, Sheffield entered into an exploration permit with option to lease and purchase with a California company, enabling the Company to explore and purchase patented and fee lands that are located near the Company's Moonlight Project, subject to a 2% NSR capped at \$25,000,000. Under the terms of the agreement, Sheffield was required to pay \$20,000 for the exploration permit (paid). On initiation of the mining lease, Sheffield must pay \$1,000 (paid) and issue 50,000 common shares (issued) upon regulatory consent to the agreement, make annual payments of \$20,000, and must issue an additional 200,000 common shares over two years. For the 2007 payment, \$20,000 has been paid and 100,000 Sheffield shares have been issued. For the 2008 payment, \$23,600 has been paid and 80,000 Nevoro shares valued at \$7,650 (100,000 pre-acquisition Sheffield shares) have been issued.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)**(f) Moonlight and Golden Loon (Continued)****Moonlight Copper Project (Continued)****(iii) California-Engels Claims (continued)**

The Company is also required to issue 200,000 common shares upon completion of a bankable feasibility study and upon construction of a mill. The Company may purchase the property at any time for \$10,000,000 or by issuing 1,000,000 common shares and paying an annual \$60,000 advance royalty.

As at December 31, 2008, The Company reviewed the project for possible impairment in consideration of current economic conditions and has written-down the carrying costs to \$7,000,000, being management's estimate of net recoverable value.

Golden Loon Nickel Cobalt Property

On February 28, 2007, Sheffield entered into an option agreement ("Option") to acquire a 100% interest in the Golden Loon nickel/cobalt property from Tilava Mining Corporation ("Tilava"), a private company based in Clinton, British Columbia. The Golden Loon property is located approximately 7 km to the west of the community of Little Fort, British Columbia (approximately 80 km north of Kamloops, British Columbia). Tilava owns a 100% interest in the Golden Loon property subject to a 3% NSR held by a third party. The NSR is purchasable for Cdn\$1,500,000. The Company has the right to acquire 100% of Tilava's interest and the right to purchase the NSR. An initial payment of Cdn\$5,000 was made to Tilava on signing of the Option and a further Cdn\$20,000 (paid) and 150,000 Sheffield shares (issued) upon acceptance of the agreement by the TSX Venture Exchange. The agreement contemplates three stages of exploration with future payments and annual work commitments to earn a 75% interest as shown in the table below.

| Stage | <u>Payment to Continue Option</u> | | Work | |
|--------------|--|---------------|-------------------|-------------------|
| | Cash | Shares | Commitment | Completion |
| Stage 1 | Cdn\$ - | - | Cdn\$ 250,000 | Completed |
| Stage 2 | 25,000 | 250,000 | 300,000 | Partly completed |
| Stage 3 | 50,000 | 300,000 | 500,000 | |
| | Cdn\$ 75,000 | 550,000 | Cdn\$ 1,050,000 | |

Prior to the acquisition disclosed in Note 6, Sheffield issued 250,000 common shares valued at Cdn\$62,500 and paid Cdn\$25,000 for its Stage 2 payment in the first quarter of 2008.

Subsequent to December 31, 2008 the Company decided not to proceed with exploration of the property and the interest has therefore been written-off.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

8. MINERAL INTERESTS (Continued)

(g) Other Projects

The Company has the following additional projects in Nevada, all of which are wholly owned or optioned:

Warm Springs and Stealth

The Company has leased out the Warm Springs and Stealth Projects to arm's length third parties and received cash payments and royalties of \$35,000 during the year ended December 31, 2008, (2007 - \$30,000).

Long Canyon

On November 27, 2007 the Company announced that it had staked lode claims in the Long Canyon area of Central Idaho for a cost of \$11,075.

Jenny Hill

During the year ended December 31, 2007, the Company entered into a Mining Lease and Option to Purchase Agreement with an arm's length party, with respect to the Jenny Hill Property, situated in Nevada's Walker Lane structural belt. The basic lease terms call for a payment of \$11,700 (paid) on signing with payments of \$15,000 (paid), \$25,000, \$35,000 and \$50,000 due on subsequent anniversaries. The Company will be required to purchase the claims for \$500,000 should it decide to pursue mining activity. Up to \$300,000 of previously made payments will be credited towards the \$500,000 purchase price. A 3% NSR royalty to the original owner survives the purchase of the claims, and one third of this royalty can be purchased for \$1,000,000.

Boulderfield

Effective October 2, 2007, the Company entered into a Lease with Option to Purchase Agreement with an arm's length party for the Boulderfield Project also situated in Nevada's Walker Lane structural belt. The basic lease terms call for \$10,000 on signing (paid), a \$50,000 payment on the first anniversary, and a \$100,000 payment on the second anniversary. Minimum advance royalty payments of \$40,000, \$50,000 and \$100,000 are due on subsequent anniversaries. A sliding scale NSR royalty, from 3% to 6% based on the price of gold, payable to the original owner survives the purchase of the claims. Nevoro can purchase a 1% NSR royalty for \$1,000,000.

The Company had the option to purchase the project for \$160,000 consisting of the minimum payments paid on execution of the agreement and on the first and second anniversaries of the effective date. During the year ended December 31, 2008, the Company determined that the Boulderfield Project was not viable and the project was written-off. The Company officially terminated its lease with the owners of the Boulderfield Project during the first half of 2008 and no further payments are required.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. SHARE CAPITAL

(a) **Authorized**

Unlimited number of common shares with no par value

(b) **Private placements**

- (i) On June 12, 2008, the Company completed the first tranche of a private placement financing of 20,015,500 units priced at \$0.34 (Cdn\$0.35) per unit for total gross proceeds of \$6,846,402 (Cdn\$7,005,425). Each unit consisted of one common share of the Company and one half of one common share purchase warrant, with each whole warrant enabling the holder to acquire one common share of the Company at an exercise price of Cdn\$0.50 (US\$0.49) until June 12, 2011.

The agents for the private placement received 1,283,892 broker warrants as a commission with the same terms as the private placement units. The agents also received a cash commission of \$439,262 (Cdn\$449,362) and fees of \$88,605 (Cdn\$90,643) recorded as a cost of issue.

The fair value of the 10,007,750 warrants, and the 1,283,892 broker warrants granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 79%; risk-free interest rate of 3.4%; and an expected life of 2 years. The warrants were assigned a fair value of \$742,971 (Cdn\$760,228). The broker warrants were assigned a fair value of \$87,832 (Cdn\$89,872) and are recorded as a cost of issue.

- (ii) On August 8, 2008, the Company raised funds through the issuance of 6,675,714 private placement units priced at \$0.328 (Cdn\$0.35) per unit for total gross proceeds of \$2,188,133 (Cdn\$2,336,500). Each unit consisted of one common share and one half of one common share purchase warrant, each warrant enables the holder to acquire one common share of the Company at an exercise price of Cdn\$0.50 (US\$0.47) until June 12, 2011.

The agents for the private placement received 421,750 broker warrants as a commission with the same terms as the private placement units. The agents also received a cash commission of \$137,653 (Cdn\$147,613) and fees of \$15,834 (Cdn\$16,979) recorded as a cost of issue.

The fair value of the 3,337,857 warrants, and the 421,750 broker warrants granted was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 93%; risk-free interest rate of 2.71%; and an expected life of 2 years. The warrants were assigned a fair value of \$292,614 (Cdn\$312,579). The broker warrants were assigned a fair value of \$30,018 (Cdn\$32,053) and are recorded as a cost of issue.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. CAPITAL STOCK (continued)

(b) Private placements (continued)

During the year ended December 31, 2007, the Company completed four private placement financings for total gross proceeds of \$9,042,675.

- (iii) The first private placement consisted of the sale of 2,000,000 common shares at \$0.001 per share for total gross proceeds of \$2,000 pursuant to a non-brokered private placement. The private placement was sold to members of the new management team of the Company.
- (iv) The second private placement consisted of the sale of 2,500,000 common shares at \$0.025 per share for total gross proceeds of \$62,500 pursuant to a non-brokered private placement. The private placement was sold to a founding investor group, which included certain members of the new management team of the Company. Directors and related persons, and officers of the new management team of the Company subscribed for a total of 1,500,000 common shares for gross proceeds of \$37,500 pursuant to this private placement.
- (v) The third private placement consisted of the sale of 11,025,000 common shares at \$0.05 per share for total gross proceeds of \$551,250 pursuant to a non-brokered private placement. The private placement was sold to a group of private and institutional investors, which included certain members of the new management team of the Company. Directors and related persons, and officers of the new management team of the Company subscribed for a total of 4,250,000 common shares for gross proceeds of \$221,500 pursuant to this private placement.
- (vi) The fourth private placement consisted of five tranches that closed on February 5, 2007, March 7, 2007, April 23, 2007, May 14, 2007 and June 29, 2007 for a total sale of 33,707,700 common shares at \$0.25 per share for total gross proceeds of \$8,426,925. Westwind Partners Inc. was paid a finder's fee consisting of 1,686,000 common share purchase warrants. Haywood Securities Inc. was paid a finder's fee consisting of cash of \$7,500 equal to 6% of the gross proceeds sold, and 30,000 common share purchase warrants. MGI Securities Inc. was paid a finder's fee consisting of cash of \$227,216, 41,400 common shares valued at \$10,350, and 950,262 common share purchase warrants. Each whole warrant entitles the holder to acquire one common share of the Company for \$0.25 until February 5, 2009, March 7, 2009, October 7, 2008 and December 29, 2008 respectively. A director and an officer of the Company subscribed for a total of 140,000 common shares for gross proceeds of \$35,000 pursuant to this private placement.

The fair value of the warrants granted during the year ended December 31, 2007 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4%; and an expected life of approximately 22 months. The warrants were assigned a fair value of \$247,340, \$4,410 and \$113,082 respectively, and were recorded as a cost of issue.

Pursuant to an escrow agreement dated June 6, 2007, 8,010,000 common shares held in escrow as at December 31, 2008 were released on March 17, 2009.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. CAPITAL STOCK (continued)**(c) Warrants**

In September 2008, the Company extended the expiry of all outstanding warrants by one year from their respective dates of expiry. The value of these extensions was estimated at \$878,906 using the Black-Scholes option pricing model under the following assumptions: expected dividend yield of 0%, expected volatility of 140%, risk free interest rate of 2.95%, and an expected life of 1 to 3 years. \$385,314 of the value resulted in an increase to warrant revaluation expense and \$493,592 resulted in an increase to mineral properties.

| | Value | Number of Warrants | Weighted Average Exercise Price |
|--|--------------|--------------------|---------------------------------|
| Balance, December 31, 2006 | \$ - | - | \$ - |
| Issued (Note 9(b)(vi)) | 247,340 | 1,686,000 | 0.25 |
| Issued (Note 9(b)(vi)) | 4,410 | 30,000 | 0.25 |
| Issued (Note 9(b)(vi)) | 113,082 | 950,262 | 0.25 |
| Exercised | (82,447) | (562,000) | 0.25 |
| Balance, December 31, 2007 | \$ 282,385 | 2,104,262 | \$ 0.25 |
| Exercised | (2,205) | (15,000) | 0.25 |
| Issued (Note 9(b)(i)) | 830,803 | 11,291,642 | 0.49 |
| Issued (Note 9(b)(ii)) | 322,632 | 3,759,607 | 0.47 |
| Warrants acquired on business combination (Note 6) (*) | 1,056,000 | 9,778,902 | 0.38 |
| Increase in Nevoro warrant value due to extension of warrants | 385,314 | - | - |
| Increase in Sheffield warrant value due to extension of warrants | 493,592 | - | - |
| Balance, December 31, 2008 | \$ 3,368,521 | 26,919,413 | \$ 0.43 |

As at December 31, 2008, the following warrants were issued and outstanding:

| Expiry Date | Value | Number of Warrants | Exercise Price |
|-----------------------|--------------|--------------------|----------------|
| October 7, 2009 | \$ 175,440 | 904,500 | \$ 0.25 |
| December 29, 2009 | 8,079 | 45,762 | 0.25 |
| February 5, 2010 | 223,539 | 1,124,000 | 0.25 |
| March 7, 2010 | 2,935 | 15,000 | 0.25 |
| June 12, 2011 | 1,031,656 | 11,291,642 | 0.50 Cdn |
| June 12, 2011 | 377,280 | 3,759,607 | 0.50 Cdn |
| October 6, 2009 (*) | 149,619 | 884,571 | 0.56 Cdn |
| November 10, 2009 (*) | 111,641 | 660,571 | 0.44, 0.56 Cdn |
| December 5, 2009 (*) | 528,192 | 3,161,760 | 0.44, 0.56 Cdn |
| January 10, 2010 (*) | 133,582 | 816,000 | 0.44 Cdn |
| February 23, 2010 (*) | 144,832 | 907,200 | 0.56 Cdn |
| October 12, 2010 (*) | 481,726 | 3,348,800 | 0.56 Cdn |
| | \$ 3,368,521 | 26,919,413 | \$ 0.43 |

(*) These warrants were originally issued by Sheffield. As part of the arrangement with Sheffield (Note 6), the Company agreed to honour all Sheffield warrants, upon subsequent exercise, by issuing 0.80 of one Nevoro common share in exchange for each Sheffield warrant issued and outstanding. The number of warrants outstanding and their related exercise price shown above represent the equivalent number of Nevoro common shares to be issued and price to be received for each equivalent Nevoro share if the Sheffield warrants are exercised.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. CAPITAL STOCK (Continued)

(d) Stock Options

(i) 2008 Stock Option Grants

On March 5, 2008, the Company granted stock options to acquire 675,000 common shares exercisable at Cdn\$0.60 per share on or before March 5, 2013, to consultants and employees of the Company. The options vested immediately.

The fair value of options granted was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 3.90%; and an expected life of 5 years. The options were assigned a fair value of \$289,575 of which \$107,250 has been allocated to mineral interests and general exploration on a pro-rata basis.

On August 8, 2008, the Company granted 300,000 stock options to a director at an exercise price of Cdn\$0.31 per share on or before August 7, 2013 as a finder's fee for the Sheffield acquisition.

The fair value of options granted was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 98%; risk-free interest rate of 3.46%; and an expected life of 5 years. The options were assigned a fair value of \$61,580 which has been allocated as a cost of the Sheffield transaction (Note 6).

On August 15, 2008, the Company granted stock options to acquire 3,760,000 common shares exercisable at Cdn\$0.22 per share on or before August 15, 2013, to directors, officers, consultants and employees of the Company. The options vested immediately.

The fair value of options granted was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 98%; risk-free interest rate of 3.46%; and an expected life of 5 years. The options were assigned a fair value of \$581,005 of which \$186,972 has been allocated to mineral interests and general exploration on a pro-rata basis.

On November 19, 2008, the Company granted stock options to acquire 100,000 common shares exercisable at Cdn\$0.04 per share on or before November 19, 2013, to a consultant and an employee of the Company. The options vested immediately.

The fair value of options granted was estimated at the date of grant using the Black-Scholes option model with the following assumptions: expected dividend yield of 0%; expected volatility of 98%; risk-free interest rate of 2.64%; and an expected life of 5 years. The options were assigned a fair value of \$2,425.

During the year ended December 31, 2008, the Company recognized an additional stock-based compensation expense of \$77,000 relating to the vesting of the options granted pursuant to the Sheffield acquisition (Note 6).

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. CAPITAL STOCK (Continued)

(d) Stock Options (Continued)

(ii) 2007 Stock Option Grants

On September 24, 2007, the Company granted stock options that vested immediately upon grant, to acquire up to 9,300,000 common shares of the Company at CDN\$0.45 per share on or before September 24, 2012, to directors, officers and consultants.

The fair value of each option granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.50% and an expected life of 5 years. The options were assigned a fair value of \$3,194,281 with \$769,730 allocated to mineral interests and the remainder recorded as an expense in these consolidated financial statements.

On October 31, 2007, the Company granted 65,000 options that vested immediately to two consultants at an exercise price of CDN\$0.46 that expire on October 31, 2012.

The fair value of each option granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.18%; and an expected life of 5 years. The options were assigned a fair value of \$22,185 which has been recorded as an expense in these consolidated financial statements.

On November 6, 2007, the Company granted 300,000 options that vested immediately to three consultants at an exercise price of CDN\$0.50 that expire on November 6, 2012.

The fair value of each option granted was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk-free interest rate of 4.18%; and an expected life of 5 years. The options were assigned a fair value of \$114,300 which has been recorded as an expense in these consolidated financial statements.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

9. CAPITAL STOCK (Continued)**(d) Stock Options (Continued)**

| | Value | Number of Options | Weighted Average Exercise Price |
|---|--------------|----------------------|--|
| Balance, December 31, 2006 | \$ - | - | \$ - |
| Granted | 3,194,281 | 9,300,000 | 0.45 |
| Granted | 22,815 | 65,000 | 0.46 |
| Granted | 114,300 | 300,000 | 0.50 |
| Balance, December 31, 2007 | 3,331,396 | 9,665,000 | \$ 0.45 |
| Granted | 289,575 | 675,000 | 0.60 |
| Granted | 581,005 | 3,760,000 | 0.22 |
| Granted | 61,580 | 300,000 | 0.31 |
| Granted | 2,425 | 100,000 | 0.04 |
| Options granted on business combination (Note 6) | 688,000 | 2,833,799 | 0.31 |
| Balance, December 31, 2008 | \$ 4,953,981 | 17,333,799 | \$ 0.40 |

As at December 31, 2008, the following options were issued and outstanding:

| Expiry Date | Value | Stock Options Granted | Stock Options Exercisable | Exercise Price (Cdn \$) |
|------------------------------|--------------|-----------------------------|---------------------------------|----------------------------|
| September 24, 2012 | \$ 3,194,281 | 9,300,000 | 9,300,000 | 0.45 |
| October 31, 2012 | 22,815 | 65,000 | 65,000 | 0.46 |
| November 6, 2012 | 114,300 | 300,000 | 300,000 | 0.50 |
| March 5, 2013 | 289,575 | 675,000 | 675,000 | 0.60 |
| August 7, 2013 | 61,580 | 300,000 | 300,000 | 0.31 |
| August 15, 2013 | 581,005 | 3,760,000 | 3,760,000 | 0.22 |
| November 19, 2013 | 2,425 | 100,000 | 100,000 | 0.04 |
| February 28, 2010 | 327,427 | 1,192,000 | 1,192,000 | 0.25 |
| December 12, 2010 | 72,166 | 332,000 | 332,000 | 0.46 |
| February 23, 2011 | 17,272 | 80,000 | 80,000 | 0.49 |
| November 13, 2011 | 22,842 | 80,000 | 80,000 | 0.34 |
| March 9, 2012 | 73,030 | 240,000 | 240,000 | 0.30 |
| July 6, 2012 | 87,364 | 280,000 | 280,000 | 0.30 |
| July 31, 2012 | 38,115 | 266,919 | 200,189 | 0.30 |
| January 3, 2013 | 47,173 | 320,000 | 160,000 | 0.30 |
| March 28, 2013 | 2,611 | 42,880 | 21,440 | 0.30 |
| Balance December 31, 2008 | \$ 4,953,981 | 17,333,799 | 17,085,629 | |

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

10. INCOME TAXES**Provision for income taxes**

The reconciliation of the income tax provision computed at federal statutory rates of 34% (2007 - 36%) to the reported income tax provision is as follows:

| | Year Ended December 2008 | Year Ended December 2007 |
|---|-----------------------------|-----------------------------|
| Income tax benefit computed at Canadian statutory rates | \$ (11,039,200) | \$ (1,386,900) |
| Stock-based compensation and warrant extension | 348,800 | 922,200 |
| Non-deductible expenses | 408,300 | - |
| Change in foreign exchange | 169,500 | - |
| Change in expected tax rates and other | 80,900 | - |
| Share issue costs | (234,300) | (139,700) |
| Expiry of non-capital losses | 364,600 | - |
| Other | 39,500 | (11,703) |
| Change in valuation allowance | 1,742,500 | 560,300 |
| Future income tax (recovery) | \$ (8,119,400) | \$ (55,803) |

Future tax balances

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

| | As At December 2008 | As At December 2007 |
|---|------------------------|------------------------|
| Future tax assets (liabilities) | | |
| Non-capital losses | \$ 2,985,100 | \$ 352,500 |
| Capital losses | 142,200 | - |
| Resource property expenditures | (2,301,800) | (3,241,300) |
| Share issue costs | 300,300 | 123,700 |
| Other | 6,000 | 42,600 |
| | 1,131,800 | (2,722,500) |
| Valuation allowance | (2,341,800) | (599,300) |
| Future income tax (liability) | (1,210,000) | (3,321,800) |
| Future income tax (liability) – Canada | - | - |
| Future income tax (liability) – United States | (1,210,000) | (3,321,800) |
| Net future income tax (liability) | \$ (1,210,000) | \$ (3,321,800) |

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

10. INCOME TAXES (Continued)

The Company has non-capital losses of approximately \$9,342,000, of which \$4,324,000 (Cdn\$5,267,000) may be utilized to reduce future taxable income in Canada and \$5,018,000 may be utilized to reduce future taxable income in the United States.

The non-capital losses expire as follows:

| <u>Year of Expiry</u> | <u>Canada</u> \$ | <u>United States</u> \$ |
|-----------------------|---------------------|----------------------------|
| 2009 | 120,000 | - |
| 2010 | 2,000 | - |
| 2013 | 102,000 | - |
| 2014 | 210,000 | - |
| 2015 | 34,000 | - |
| 2022 | - | 2,000 |
| 2024 | - | 20,000 |
| 2025 | 431,000 | 385,000 |
| 2026 | 486,000 | 1,345,000 |
| 2027 | 844,000 | 1,793,000 |
| 2028 | <u>2,095,000</u> | <u>1,473,000</u> |
| | <u>4,324,000</u> | <u>5,018,000</u> |

11. RELATED PARTY TRANSACTIONS

- (a) Included in accounts payable and accrued liabilities as at December 31, 2008 is \$59,602 (2007 - \$80,751) owing to certain directors, officers and related persons of the Company. These amounts are due on demand, unsecured, non-interest bearing, with no fixed terms of repayment.
- (b) Included in amounts receivable, prepaids and other as at December 31, 2008 is \$32,420 (2007 - \$NIL) in expense advances for expenses incurred in the normal course of business to certain directors and officers. These amounts are due on demand, unsecured, non-interest bearing, with no fixed terms of repayment.
- (c) During the year ended December 31, 2008, the Company paid or accrued \$85,758 (2007 - \$66,274) in directors' fees.
- (d) During the year ended December 31, 2008, the Company paid or accrued \$87,918 (2007 - \$68,439) in legal fees to a firm of which an officer of the Company is a partner.
- (e) Included in amounts receivable as at December 31, 2008 is \$107,532 (2007 - \$37,721) due from two corporations which have a director in common with the Company for certain expenditures incurred by the Company on behalf of the corporations. These amounts are due on demand, unsecured, non-interest bearing, with no fixed terms of repayment.

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

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

11. RELATED PARTY TRANSACTIONS (Continued)

- (f) See Note 9(d) for information on 300,000 options granted to a director of the Company as a finder's fee.
- (g) A director of the Company subscribed for 285,000 shares for gross proceeds of \$97,486 (Cdn\$99,750) pursuant to the first tranche of the private placement described in Note 9(b)(i).

The spouse of a director of the Company and two corporations controlled by a director of the Company subscribed for 5,830,000 shares for gross proceeds of \$1,910,928 (Cdn\$2,040,500) pursuant to the second tranche of the private placement described in Note 9(b)(ii).

See Notes 9(b)(iii), (iv), (v) and (vi) for related party share subscriptions during the year ended December 31, 2007.

12. SEGMENTED INFORMATION

The Company has one operating segment, which is the exploration and development of exploration properties. Geographic segmentation of the Company's assets are as follows: Canada - \$6,086,120 (2007 - \$5,802,544) and US - \$23,570,746 (2007 - \$12,222,109).

Substantially all exploration expenditures are incurred in the United States.

13. COMMITMENTS AND CONTINGENCIES

- (a) The Company has leases for office space in: Reno, Nevada; Spokane, Washington; and Toronto, Ontario under three separate lease agreements which expire on February 28, 2009, December 31, 2010, and September 30, 2011 respectively.

Annual lease payments under the agreements are as follows for the years ending:

| | | |
|-------------------|----|---------|
| December 31, 2009 | \$ | 111,019 |
| December 31, 2010 | | 109,526 |
| December 31, 2011 | | 61,492 |
| | \$ | 282,037 |

- (b) The Company is party to management contracts whereby additional payments of up to approximately \$732,000 may need to be made upon the occurrence of certain events. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

14. FINANCIAL INSTRUMENTS

Fair value of financial instruments

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts of cash and cash equivalents, amounts receivable, and accounts payable and accrued liabilities approximate their fair values since these instruments have short term maturity dates.

Capital management

The Company considers its capital structure to consist of share capital, stock options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2008. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash equivalents, amounts receivable and other assets. The Company has no significant concentration of credit risk arising from operations. Cash equivalents consist of discount notes, money market funds and guaranteed investment certificates, which have been invested with reputable financial institutions, from which management believes the risk of loss to be remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada and receivables from unrelated companies and related parties. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is remote.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

14. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2008, the Company had a cash and cash equivalents balance of \$5,736,795 (2007 - \$5,688,376) to settle current liabilities of \$615,569 (2007 - \$369,107). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Market risk

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions including discount notes and money market funds. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's functional currency is the U.S. dollar and major purchases are transacted in U.S. dollars. The Company funds certain operations, exploration and administrative expenses in the United States on a cash call basis using U.S. dollar currency from its bank accounts held in Canada. Management closely monitors the foreign exchange risk derived from currency conversions but does not hedge its foreign exchange risk. As at December 31, 2008, the Company held cash in Canadian currency of Cdn\$3,808,013 (2007 - Cdn\$78,853).

(c) Price risk

The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2008, the carrying and fair value amounts of the Company's financial instruments are approximately the same.

Based on the Company's holdings of Canadian dollars, a 10% depreciation or appreciation of the Canadian dollar against the US dollar would result in a decrease/increase of approximately \$250,000 in the Company's earnings (loss).

Price risk is remote since the Company is not a producing entity.

NEVORO INC.

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

Years Ended December 31, 2008 and 2007

(Expressed in US\$)

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with current period financial statement presentation.

16. SUBSEQUENT EVENTS

- (a) See Note 9(b)(vi).
- (b) Subsequent to December 31, 2008, the Company granted 350,000 options to an officer of the Company, exercisable at Cdn\$0.07 per share for a period of five years.