

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")  
(AN EXPLORATION STAGE COMPANY)**

**CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
(EXPRESSED IN US\$)**

**FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2007  
(UNAUDITED)**

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**  
**(EXPRESSED IN US\$)**

	June 30, 2007	(Audited) (Note 2) December 31, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 3)	\$ 6,425,720	\$ -
Short-term investments (Note 2)	649,636	-
Amounts receivable, prepaids and other (Note 7(b)(iv))	642,423	2,771
	7,717,779	2,771
<b>MINERAL INTERESTS</b> (Note 6)	9,054,987	1
<b>EQUIPMENT</b> (Note 5)	48,657	-
	\$ 16,821,423	\$ 2,772
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 9)	\$ 170,973	\$ 34,599
Advances from shareholder	-	17,162
	170,973	51,761
<b>FUTURE INCOME TAX LIABILITY</b> (Notes 4 and 8)	2,037,700	-
	2,208,673	51,761
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 7(b))	15,004,193	524,887
<b>WARRANTS</b> (Note 7(c))	364,831	-
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	18,985	18,985
<b>DEFICIT</b>	(775,259)	(592,861)
	14,612,750	(48,989)
	\$ 16,821,423	\$ 2,772

**NATURE OF OPERATIONS** (Note 1)

**COMMITMENTS** (Note 6 and Note 12)

APPROVED ON BEHALF OF THE BOARD:

*Signed "Victor Bradley"*

Director

*Signed "Philip Martin"*

Director

see accompanying notes to the interim unaudited consolidated financial statements

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**(UNAUDITED)**  
**(EXPRESSED IN US\$)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Note 2)	2007	2006 (Note 2)
<b>EXPENSES</b>				
Travel	\$ 35,292	\$ -	\$ 47,044	\$ -
Management and consulting fees	93,034	-	98,724	-
Investor relations	8,494	-	9,689	-
Office and general	4,688	5,915	44,795	27,272
Salaries and benefits	25,436	-	25,436	-
Professional fees	8,955	-	28,343	-
Occupancy costs	6,512	-	6,512	-
Filing, listing and transfer agent fees	24,572	-	30,060	-
Foreign exchange (gain)	(127,579)	-	(22,544)	-
Insurance	7,956	-	9,692	-
Amortization	3,545	-	3,842	-
Loss before the undernoted	90,905	5,915	281,593	27,272
Interest income	(36,680)	-	(37,330)	-
General exploration (Note 6(c))	39,458	-	166,131	-
Loss before income taxes	93,683	-	410,394	27,272
Income tax (recovery) (Note 8)	(101,563)	-	(227,996)	-
<b>NET (INCOME) LOSS FOR THE PERIOD</b>	<b>(7,880)</b>	<b>5,915</b>	<b>182,398</b>	<b>27,272</b>
Other comprehensive (income) (Note 2)	-	(17,517)	-	(17,517)
<b>COMPREHENSIVE (INCOME)/LOSS</b>	<b>\$ (7,880)</b>	<b>\$ (11,602)</b>	<b>\$ 182,398</b>	<b>\$ 9,755</b>
<b>DEFICIT, beginning of period</b>	<b>\$ 783,139</b>	<b>\$ 555,205</b>	<b>\$ 592,861</b>	<b>\$ 533,848</b>
<b>NET (INCOME) LOSS</b>	<b>(7,880)</b>	<b>5,915</b>	<b>182,398</b>	<b>27,272</b>
<b>DEFICIT, end of period</b>	<b>\$ 775,259</b>	<b>\$ 561,120</b>	<b>\$ 775,259</b>	<b>\$ 561,120</b>
<b>NET INCOME (LOSS) PER SHARE</b>				
basic and diluted	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.03)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>	<b>68,235,923</b>	<b>912,485</b>	<b>24,871,583</b>	<b>912,485</b>

see accompanying notes to the interim unaudited consolidated financial statements

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")**  
**(AN EXPLORATION STAGE COMPANY)**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(EXPRESSED IN US\$)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006 (Note 2)	2007	2006 (Note 2)
<b>CASH FLOWS USED OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ 7,880	\$ (5,915)	\$ (182,398)	\$ (27,272)
Add:				
Amortization	3,545	-	3,842	-
Future income tax recovery	(101,563)	-	(227,996)	-
Changes in non-cash working capital items:				
Amounts receivable, prepaids and other	(70,631)	(647)	(90,127)	(1,750)
Accounts payable and accrued liabilities	(14,505)	8,332	(46,148)	16,997
	(175,274)	1,770	(542,827)	(12,025)
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>				
Mineral interests	(221,986)	-	(555,569)	-
Equipment	(43,541)	-	(49,491)	-
Cash acquired on business combination, net of costs (Note 4)	-	-	44,443	-
Purchase of short-term investments	(649,636)	-	(649,636)	-
	(915,163)	-	(1,210,253)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Issuance of shares, net of costs	3,429,485	-	8,195,962	-
Advances from shareholder	-	-	(17,162)	17,162
	3,429,485	-	8,178,800	17,162
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,339,048</b>	<b>1,770</b>	<b>6,425,720</b>	<b>5,137</b>
<b>CASH AND CASH EQUIVALENTS BEGINNING OF PERIOD</b>	<b>4,086,672</b>	<b>19,810</b>	<b>-</b>	<b>16,443</b>
<b>CASH AND CASH EQUIVALENTS END OF PERIOD</b>	<b>\$ 6,425,720</b>	<b>\$ 21,580</b>	<b>\$ 6,425,720</b>	<b>\$ 21,580</b>
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Common shares issued for business combination	-	-	6,100,000	-
Change in accrued exploration expenditures	11,116	-	60,732	-
Warrants issued for services rendered	113,081	-	364,831	-
Change in accrued share issue and transaction costs	-	-	100,000	-
Subscriptions receivable	548,175	-	548,175	-

see accompanying notes to the interim unaudited consolidated financial statements

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")  
(AN EXPLORATION STAGE COMPANY)  
NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2007  
(EXPRESSED IN US\$)**

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**1. NATURE OF OPERATIONS**

Nevoro Inc. (formerly "Denroy Resources Corporation") (the "Company" or "Nevoro") was incorporated under the laws of the Province of Ontario and was inactive since 1991 and was searching for new business opportunities. During the period ended June 30, 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 has an interest in a portfolio of precious metal exploration projects located in Nevada, USA (see Notes 4 and 6).

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 values.

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 6, and to fund current planned exploration programs. This ability was further enhanced with the recent financings as described in Note 7.

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They do not include all the information and disclosures required by Canadian GAAP for annual financial statements. The preparation of these interim consolidated financial statements is based on accounting principles and practices consistent with those used in the annual financial statements, except as disclosed in Note 2. In the opinion of management, all adjustments considered necessary for fair presentation have been included in these financial statements. Operating results for the three and six month periods ended June 30, 2007 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2007. For further information, see the audited financial statements including the notes thereto for the year ended December 31, 2006.

**NEVORO INC. (FORMERLY "DENROY RESOURCES CORPORATION")  
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**2. CHANGE IN ACCOUNTING POLICIES**

**Financial instruments, comprehensive income and hedges**

In January 2005, the CICA issued Handbook Sections, "Financial Instruments, Recognition and Measurement", "Comprehensive Income", and "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company has adopted these new standards effective January 1, 2007. The Financial Instruments Section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets are measured at fair value subsequent to initial recognition;
- All financial liabilities are measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method;
- All derivative financial instruments are measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

The Comprehensive Income Section introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations. For the period ended June 30, 2007, the Company did not have other comprehensive income or loss, therefore the comprehensive loss for the period was equal to the net loss for the period.

The Hedges Section provides alternative treatments for entities, which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in the section for "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

The Company has determined that the adoption of these new policies had no material impact on its consolidated financial statements as at and for the period ended June 30, 2007.

**Cash and cash equivalents**

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less.

**Short-term investments**

Short-term investments are investments with original maturities between 91 days and one year. The short-term investments as at June 30, 2007 have an average interest rate of 4.6%. The carrying value of these investments approximates fair value.

**Foreign currency translation**

The interim consolidated financial statements of the Company are presented in U.S. dollars. The operations of the subsidiary, Nevoro Nevada Inc. (formerly Goodsprings Development Corporation), are in U.S. dollars. The operations of the parent, Nevoro Inc. are translated into U.S. dollars as follows: monetary assets and liabilities are translated at exchange rates prevailing at the balance sheet date; non-monetary items and any related amortization of such items are translated at the rate of exchange in effect when the assets were acquired or obligations incurred; and all income and expense items are translated at average exchange rates prevailing during the year. Exchange gains and losses are included in net loss for the year.

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**2. CHANGE IN ACCOUNTING POLICIES (continued)**

**Change in functional and reporting currency**

Effective April 1, 2007, the functional currency of the Company changed from Canadian dollars to U.S. dollars. In general, this change resulted from the increase in the overall proportion of business activities conducted in U.S. dollars, as a result of the acquisition of Goodsprings, as well as the private placements that were denominated in U.S. dollars. Concurrent with this change in the functional currency, the Company adopted the U.S. dollar as its reporting currency.

The change was effected for prior periods as follows: assets and liabilities were translated at the spot rate on that date; income and expense items for those periods were translated at the average rate for each period; and equity transactions were translated at historic rates. The resulting net translation adjustment has been posted to the cumulative other comprehensive income account.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consisted of:

	2007	2006
Cash	\$ 837,766	\$ -
Guaranteed investment certificate, discount note and banker's acceptance (with an average interest rate of 4.82%)	5,587,954	-
	<b>\$ 6,425,720</b>	<b>\$ -</b>

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**4. BUSINESS COMBINATION**

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 24.4 million common shares of Nevoro. This acquisition closed February 15, 2007. The closing of the business combination was subject to regulatory and shareholder approvals. 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 \$2,265,696 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		8,829,674
	Accounts payable and accrued liabilities		(121,790)
	Advances		(342,962)
	Future income tax liabilities		(2,265,696)
		\$	<u>6,255,224</u>
Consideration			
	Common shares	\$	6,100,000
	Transaction costs		155,224
		\$	<u>6,255,224</u>

The interim unaudited consolidated financial statements assume the cost of acquisition is the fair value of the Nevoro shares issued based on the issuance of 24,400,000 Nevoro common shares at \$0.25, providing total purchase consideration of \$6,100,000. The value of the Nevoro common shares was calculated based on the price of the last financing completed prior to the combination.

**5. EQUIPMENT**

	Cost	Accumulated Amortization	Net Book Value June 30, 2007	Net Book Value December 31, 2006
Furniture and fixtures	\$ 20,937	\$ (1,045)	\$ 19,892	\$ -
Computer equipment	29,107	(2,183)	26,924	-
Software	2,455	(614)	1,841	-
	\$ 52,499	\$ (3,842)	\$ 48,657	\$ -

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**6. MINERAL INTERESTS**

For the period ended June 30, 2007, the Company had incurred acquisition costs and exploration expenditures on its mineral properties as follows:

	St. Elmo Project	Silver King Project	Cross Project	Eagleville Project	Other Projects	Total
Balance, December 31, 2006	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 1
<b>Additions during the period</b>						
Acquisition costs	4,939,806	995,403	778,038	786,747	1,323,048	8,823,042
Exploration costs						
Consulting	61,317	11,684	-	131	13,505	86,637
Geological	-	6,015	-	-	-	6,015
Legal	10,429	-	-	-	-	10,429
Exploration support	6,177	3,751	-	705	19	10,652
Travel	2,562	807	-	547	3,469	7,385
Field supplies	-	248	-	-	-	248
Salaries	15,930	14,580	-	8,000	4,150	42,660
Geophysical	-	58,328	-	-	-	58,328
Reclamation	29,800	8,915	-	-	-	38,715
Databases	-	875	-	-	-	875
Recoveries	-	-	-	-	(30,000)	(30,000)
Exploration costs	126,215	105,203	-	9,383	(8,857)	231,944
Exploration and acquisition costs	5,066,021	1,100,606	778,038	796,130	1,314,191	9,054,986
Balance, June 30, 2007	\$ 5,066,021	\$ 1,100,606	\$ 778,038	\$ 796,130	\$ 1,314,192	\$ 9,054,987

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**6. MINERAL INTERESTS (continued)**

**(a) St. Elmo Project**

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

On April 13, 2006, Goodsprings (See Note 4) 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
- \$40,000 due April 13, 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 \$1,075,000. 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 Track 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 royalty would cease upon acquisition of the property by Goodsprings. In addition, Goodsprings holds unpatented lode claims.

On December 1, 2006, the Goodsprings entered into a mining lease and option to purchase agreement with an arm's length individual (the "Owner"), whereby it was granted a five-year lease with an option to purchase 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.

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 3.0% 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.

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**6. MINERAL INTERESTS (continued)**

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

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

Pursuant to these agreements, the Company is responsible for the following rental payments:

- \$12,000 during the year ended December 31, 2006 (paid)
- \$34,000 during the year ended December 31, 2007
- \$51,000 during the year ended December 31, 2008
- \$68,000 during the year ended December 31, 2009
- \$73,000 during the year ended December 31, 2010
- \$98,000 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.

Goodsprings 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.

**(c) Other Projects**

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

The Dome Hill Project will have application for permits initiated for drilling to commence in 2008.

The Company has leased out the Warm Springs and Stealth Projects to arm's length third parties for cash payments and royalties.

The CD Project and Germany Canyon Projects are subject to staking, mapping and sampling.

The Black Warrior project was written off during the period due to poor results.

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**7. CAPITAL STOCK**

**(a) Authorized**

Unlimited number of common shares

**(b) Issued**

74,586,585 common shares

	Number of Shares	Amount
Balance, December 31, 2006	912,485	524,887
Private placement (i)	2,000,000	2,000
Private placement (ii)	2,500,000	62,500
Private placement (iii)	11,025,000	551,250
Private placement (iv)	16,440,000	4,110,000
Business combination (Note 4)	24,400,000	6,100,000
Private placement (iv)	14,385,000	3,596,250
Private placement (iv)	290,000	72,500
Private placement (iv)	2,592,700	648,175
Finder's fee (iv)	41,400	10,350
Share issue costs - cash	-	(298,538)
Share issue costs - warrants (iv)	-	(364,831)
Share issue costs - common shares (iv)	-	(10,350)
<b>Balance, June 30, 2007</b>	<b>74,586,585</b>	<b>\$ 15,004,193</b>

During the six month period ended June 30, 2007, the Company completed four non-brokered private placement financings for total gross proceeds of \$9,042,675. The proceeds of these private placements will be used to explore and develop gold and precious metal exploration properties in Nevada and for working capital.

- (i) 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 arm's length private placement. The private placement was sold to members of the new management team for the Company.
- (ii) 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 arm's length 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.
- (iii) 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 arm's length 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 4,450,000 common shares for gross proceeds of \$222,500 pursuant to this private placement.

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**7. CAPITAL STOCK (continued)**

(iv) 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. Included in amounts receivable at June 30, 2007, were subscriptions receivable of \$548,175 which were received subsequent to the period end. 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 \$0.25, and 950,262 common share purchase warrants. Each whole warrant entitles the holder to acquire one common share 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 each warrant 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 4.05% and 3.9% respectively; and an expected life of 2 years and 18 months respectively. The warrants were assigned a fair value of \$247,340, \$4,410 and \$113,081 respectively, and are recorded as a cost of issue.

**(c) Warrants**

	Number of Warrants	Weighted Average Exercise Price
Balance, December 31, 2006	-	\$ -
Issued (Note 7((b)(iv))	1,686,000	\$ 0.25
Issued (Note 7((b)(iv))	30,000	\$ 0.25
Issued (Note 7((b)(iv))	950,262	\$ 0.25
<b>Balance, June 30, 2007</b>	<b>2,666,262</b>	<b>\$ 0.25</b>

As at June 30, 2007, the following warrants were issued and outstanding:

Expiry Date	Fair Value	Number of Warrants	Exercise Price
October 7, 2008	\$ 107,635	904,500	\$ 0.25
December 29, 2008	5,446	45,762	\$ 0.25
February 5, 2009	247,340	1,686,000	\$ 0.25
March 7, 2009	4,410	30,000	\$ 0.25
	<b>\$ 364,831</b>	<b>2,666,262</b>	

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**8. INCOME TAXES**

Six Months Ended  
June 30,  
2007 2006

**Provision for income taxes**

The reconciliation of the income tax provision computed at federal statutory rates of 36% (2006 - 36%) to the reported income tax provision is as follows:

Income tax benefit computed at Canadian statutory rates	\$ (147,696)	\$ (9,100)
Other	(96,600)	-
Share issue costs	(204,100)	-
Change in valuation allowance	220,400	9,100
<b>Future income tax (recovery)</b>	<b>\$ (227,996)</b>	<b>\$ -</b>

**Future tax balances**

The significant components of the Company's future income tax assets and liabilities as at June 30, 2007 and December 31, 2006 are as follows:

Future tax assets (liabilities)		
Non-capital losses carried forward	\$ 176,400	\$ 36,000
Resource property expenditures	(2,138,400)	3,000
Share issue costs	183,700	-
	(1,778,300)	39,000
<b>Valuation allowance</b>	<b>(259,400)</b>	<b>(39,000)</b>
	<b>\$ (2,037,700)</b>	<b>\$ -</b>

The Company has non-capital losses of approximately \$497,900, which may be utilized to reduce future taxable income in Canada (CDN\$223,300 in Canada) and the United States. The non-capital losses, will expire as follows:

	<b>US</b>	<b>Canada</b>
2007	\$ -	\$ 3,800
2008	-	4,900
2009	-	2,500
2010	-	1,900
2014	-	4,200
2015	-	38,700
2022	2,300	-
2023	20,000	-
2026	72,500	53,300
2027	192,800	101,000
	<b>\$ 287,600</b>	<b>\$ 210,300</b>

The valuation allowance is adjusted in the period that it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

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**9. RELATED PARTY TRANSACTIONS**

- (a) Included in accounts payable and accrued liabilities as at June 30, 2007 is \$Nil (December 31, 2006 - \$23,275) owing to a corporation controlled by a former officer and director of the Company for certain expenditures incurred by the corporation on behalf of the Company.
- (b) Officers, directors, and related persons of the Company subscribed for 8,090,000 shares for gross proceeds of \$297,000 pursuant to the private placements described in Note 7(b).
- (c) Included in accounts payable and accrued liabilities as at June 30, 2007 is \$65,079 (December 31, 2006 - \$NIL) owing to certain directors and officers of the Company.

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.

**10. 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 - \$7,672,141 (December 31, 2006 - \$2,772) and US - \$9,149,282 (December 31, 2006 - \$NIL).

Substantially all of the Company's operating expenses are incurred in Canada. All exploration expenditures are incurred in the US.

**11. 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, short-term investments, amounts receivable, and accounts payable and accrued liabilities approximate their fair values since these instruments have short term maturity dates.

**Foreign exchange risk**

Certain of the Company's expenditures are incurred in Canadian currency, and are therefore subject to gains or losses due to fluctuations in these currencies. As at June 30, 2007, the Company held cash in Canadian currency of CDN\$149,833.

**Commodity price risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

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**12. SUBSEQUENT EVENTS**

The Company assumed the lease for its head office space in Toronto, Ontario, Canada, effective July 1, 2007 under a lease agreement, which expires on September 30, 2011.

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

		<b>(CDN\$)</b>
December 31, 2007	\$	42,135
December 31, 2008		84,269
December 31, 2009		84,269
December 31, 2010		84,269
December 31, 2011		63,202
		<hr/>
	\$	358,144
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