

**TERRA NOVA GOLD CORP.**

**INTERIM FINANCIAL STATEMENTS**

**OCTOBER 31, 2007**

(Unaudited – prepared by management)

These unaudited interim financial statements of Terra Nova Gold Corp. for the three months ended October 31, 2007 have been prepared by management and approved by the Board of Directors. These financial statements have not been reviewed by the Company's external auditors.

**TERRA NOVA GOLD CORP.**  
**INTERIM BALANCE SHEETS**  
(Unaudited – prepared by management)

	October 31, 2007	July 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,094,819	\$ 1,203,332
Receivables	<u>13,386</u>	<u>5,262</u>
	1,108,205	1,208,594
<b>Deferred acquisition costs</b>	5,700	20,420
<b>Mineral properties</b> (Note 4)	<u>46,420</u>	<u>-</u>
	<u>\$ 1,160,325</u>	<u>\$ 1,229,014</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	<u>\$ 36,605</u>	<u>\$ 42,182</u>
<b>Shareholders' equity</b>		
Capital stock (Note 6)	16,136,526	16,136,526
Contributed surplus (Note 6)	691,152	691,152
Deficit	<u>(15,703,958)</u>	<u>(15,640,846)</u>
	<u>1,123,720</u>	<u>1,186,832</u>
	<u>\$ 1,160,325</u>	<u>\$ 1,229,014</u>

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

**Subsequent event** (Note 11)

**On behalf of the Board:**

“William P. McLucas”

Director

“James Currie”

Director

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

**TERRA NOVA GOLD CORP.**  
**INTERIM STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited – prepared by management)

	2007	2006
<b>EXPENSES</b>		
Administration fees	\$ 10,551	\$ 7,500
Amortization	-	653
Filing and transfer agents fees	2,083	571
Management fees	30,000	-
Office and miscellaneous	8,313	42
Professional fees	14,941	-
Rent	-	7,500
Stock-based compensation (Note 8)	-	7,848
Travel and related costs	<u>5,100</u>	<u>-</u>
<b>Loss before other item</b>	(70,988)	(24,114)
<b>OTHER ITEM</b>		
Interest income	<u>7,876</u>	<u>349</u>
<b>Loss for the period</b>	(63,112)	(23,765)
<b>Deficit, beginning of period</b>	<u>(15,640,846)</u>	<u>(15,318,457)</u>
<b>Deficit, end of period</b>	\$ (15,703,958)	\$ (15,342,222)
<b>Basic and diluted loss per common share</b>		
	\$ (0.01)	\$ (0.01)
<b>Weighted average number of common shares outstanding</b>		
	38,008,050	23,508,050

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

**TERRA NOVA GOLD CORP.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited – prepared by management)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (63,112)	\$ (23,765)
Items not affecting cash:		
Amortization	-	653
Stock-based compensation	-	7,848
Change in non-cash working capital items:		
Decrease (increase) in receivables	(8,124)	341
(Increase) in prepaid expenses and deposits	-	(747)
(Decrease) in accounts payable and accrued liabilities	<u>(27,277)</u>	<u>(1,579)</u>
Net cash used in operating activities	<u>(98,513)</u>	<u>(17,249)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Equipment	-	(407)
Mineral properties	<u>(10,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(10,000)</u>	<u>(407)</u>
<b>Change in cash and cash equivalents during the period</b>	(108,513)	(17,249)
<b>Cash and cash equivalents, beginning of period</b>	<u>1,203,332</u>	<u>40,687</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 1,094,819</u>	<u>\$ 23,438</u>

**Supplemental disclosure with respect to cash flows** (Note 9)

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

**TERRA NOVA GOLD CORP.**  
NOTES TO THE INTERIM FINANCIAL STATEMENTS  
OCTOBER 31, 2007  
(Unaudited – prepared by management)

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is a public company incorporated under the British Columbia Business Corporations Act. The Company's shares are listed on the TSX Venture Exchange ("TSXV") and the Frankfurt Stock Exchange. The Company's principal business is the acquisition and exploration of mineral properties.

These interim financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on the Company's ability to acquire and develop new mineral properties, receive continued financial support, complete public equity financings, or generate profitable operations in the future.

These interim financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

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	October 31, 2007	July 31, 2007
Deficit	\$ (15,703,958)	\$ (15,640,846)
Working capital	1,071,600	1,166,412

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**2. BASIS OF PRESENTATION**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim period. Operating results for the three months ended October 31, 2007 are not necessarily indicative of the results that may be expected for the year ending July 31, 2008. These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and follow the same accounting policies as the annual financial statements. Accordingly, these financial statements should be read in conjunction with the 2007 annual financial statements and notes thereto.

**3. NEW ACCOUNTING STANDARDS**

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

**TERRA NOVA GOLD CORP.**

NOTES TO THE INTERIM FINANCIAL STATEMENTS

OCTOBER 31, 2007

(Unaudited – prepared by management)

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**3. NEW ACCOUNTING STANDARDS (cont'd...)**

The Company adopted these standards effective July 1, 2007 on a prospective basis without retroactive restatement of prior periods. Under the new standard, financial instruments designated as "held for trading" and "available for sale" will be carried at their fair value while financial instruments designated as "loans and receivables", "financial liabilities" and those classified as "held to maturity" will be carried at their amortized cost. All derivatives will be carried on the consolidated balance sheet at their fair value. Mark-to-market adjustments on these instruments will be included in net income. Transaction costs incurred to acquire financial instruments will be included in the underlying balance. As at October 31, 2007, there was no impact on the Company's financial statements.

**4. MINERAL PROPERTIES**

During the three months ended October 31, 2007, the Company entered into an option agreement to acquire up to a 100% interest in certain claims on the Pegma Lake Project in Quebec, Canada. Pursuant to the terms of the agreement, the Company is obligated to pay \$75,000 (Note 11), and issue 681,818 common shares valued at \$75,000 (Note 11) and is required to incur exploration costs of \$300,000 within the first year of the agreement to acquire a 25% interest in the property. The Company can acquire an additional 25% by paying an additional \$75,000, issuing additional common shares worth \$75,000 (at a deemed issue price equal to the greater of: (i) \$0.11 and (ii) the five-day volume weighted average closing price of the common shares on the TSXV for the five days preceding the first anniversary date of the option agreement) and incurring a further \$300,000 in exploration costs within the second year of the agreement. The Company can increase its ownership percentage to 90% by completing a bankable feasibility study and can earn the final 10% interest by providing the optionor with a 5% net smelter return royalty.

At July 31, 2007, the Company had incurred acquisition costs totalling \$20,420 and, during the three months ended October 31, 2007, the Company incurred a further \$26,000 of consulting and legal costs, in connection with the Pegma Lake option agreement.

**5. RELATED PARTY TRANSACTIONS**

Amounts due to related parties are non-interest bearing and without specific terms of repayment. The following is a summary of the related party transactions that occurred throughout the three months ended October 31, 2007:

- a) Paid or accrued management fees of \$30,000 (2006 - \$Nil) to companies with directors in common;
- b) Paid or accrued rent of \$Nil (2006 - \$7,500) to a company with a former director in common;
- c) Paid or accrued legal fees of \$9,425 (2006 - \$Nil) and deferred acquisition costs of \$5,700 (July 31, 2007-\$5,423) and mineral property acquisition costs of \$16,000 (July 31, 2007 - \$Nil) to a law firm of which a director is a partner;

As at October 31, 2007, accounts payable and accrued liabilities included \$21,700 (July 31, 2007 - \$30,305) owing to a company with a director in common.

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

**TERRA NOVA GOLD CORP.**  
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**6. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Capital Stock		Contributed Surplus
	Number of Shares	Amount	
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at July 31, 2006	23,508,050	\$ 14,832,478	\$ 532,306
Private placements	14,500,000	1,450,000	-
Share issuance costs	-	(145,952)	50,496
Stock-based compensation	-	-	108,350
Balance as at July 31, 2007 and October 31, 2007	38,008,050	\$ 16,136,526	\$ 691,152

**7. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a fixed stock option plan (the “Stock Option Plan”). Under the Stock Option Plan, the Company may grant options to directors, officers, employees, independent contractors or consultants. The number of options outstanding at any time may not be more than 4,008,840. The exercise price associated with each grant of options is determined by the Company and is subject to the policies of the TSX Venture Exchange. The maximum term of each option’s life is 5 years. As long as the Company is not classified as a Tier 1 issuer on the TSX Venture Exchange, the options will vest as follows: one-third on the award date, one-third 12 months following the award date and one-third 24 months following the award date.

As at October 31, 2007, stock options were outstanding enabling the optionees to acquire the following number of common shares:

Number of Shares	Exercise Price	Expiry Date
1,900,000	\$0.14	June 13, 2012
<u>1,150,000</u>	\$0.13	June 13, 2012
3,050,000		

**TERRA NOVA GOLD CORP.**  
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**7. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Stock options (cont'd...)**

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding as at July 31, 2006	425,000	0.35
Granted	3,050,000	0.14
Expired	<u>(425,000)</u>	0.35
Outstanding as at July 31, 2007 and October 31, 2007	3,050,000	\$ 0.14
Exercisable as at October 31, 2007	1,016,667	\$ 0.14

**Warrants**

As at October 31, 2007, the Company had outstanding share purchase warrants enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
735,000	\$0.10	March 21, 2008
12,750,000	\$0.15	March 21, 2009
<u>1,750,000</u>	\$0.15	April 20, 2009
15,235,000		

Warrant transactions were as follows:

	Number of Options	Weighted Average Exercise Price
Balance as at July 31, 2006	-	-
Issued	<u>15,235,000</u>	0.15
Balance as at July 31, 2007 and October 31, 2007	15,235,000	\$ 0.15

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NOTES TO THE INTERIM FINANCIAL STATEMENTS  
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**8. STOCK-BASED COMPENSATION**

The Company uses the fair value based method of accounting for all stock-based awards. During the three months ended October 31, 2007, the Company reported compensation cost of \$Nil (2006 - \$7,848) for previously granted stock options that vested in the period.

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

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	2007	2006
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ -	\$ -

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During the three month period ended October 31, 2007, the Company:

- (a) incurred mineral property acquisition costs of \$16,000 and deferred acquisition costs of \$5,700 included in accounts payable and accrued liabilities.
- (b) transferred \$20,420 of deferred acquisition costs to mineral property costs relating to the Pegma Lake mineral property option agreement (Note 4).

There were no significant non-cash transactions during the three months ended October 31, 2006.

**10. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of mineral properties in Canada.

**11. SUBSEQUENT EVENT**

Subsequent to October 31, 2007, the Company paid \$75,000 and issued 681,818 common shares valued at \$75,000 in conjunction with the Pegma Lake mineral property option agreement (Note 4).

## **TERRA NOVA GOLD CORP.**

### **Management Discussion and Analysis**

#### **Three Months Ended October 31, 2007**

This management discussion and analysis (“MD&A”) of financial position and results of operations is prepared as at December 18, 2007 and should be read in conjunction with the unaudited interim financial statements for the three months ended October 31, 2007 of Terra Nova Gold Corp. (“Terra Nova” or the “Company”) with the related notes thereto. Those unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the July 31, 2007 audited financial statements and the accompanying notes. All dollar amounts included therein and in the following management discussion and analysis (“MD&A”) are expressed in Canadian dollars except where noted. This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Description of Business**

The Company is a natural resource company engaged in the acquisition, exploration, and development of gold properties. The Company currently holds interests in one property in Quebec. The Company trades on the TSX Venture Exchange (“TSXV”) under the symbol TGC.

#### **Property Description**

During the three months ended October 31, 2007, the Company entered into an option agreement to acquire up to a 100% interest in certain claims on the Pegma Lake Project in Quebec, Canada. Pursuant to the terms of the agreement, the Company is obligated to pay \$75,000 (paid subsequent to October 31, 2007), and issue 681,818 common shares valued at \$75,000 (issued subsequent to October 31, 2007) and is required to incur exploration costs of \$300,000 within the first year of the agreement to acquire a 25% interest in the property. The Company can acquire an additional 25% by paying an additional \$75,000, issuing additional common shares worth \$75,000 (at a deemed issue price equal to the greater of: (i) \$0.11 and (ii) the five-day volume weighted average closing price of the common shares on the TSXV for the five days preceding the first anniversary date of the option agreement) and incurring a further \$300,000 in exploration costs within the second year of the agreement. The Company can increase its ownership percentage to 90% by completing a bankable feasibility study and can earn the final 10% interest by providing the optionor with a 5% net smelter return royalty.

At July 31, 2007, the Company had incurred acquisition costs totalling \$20,420 and, during the three months ended October 31, 2007, the Company incurred a further \$26,000 of consulting and legal costs, in connection with the Pegma Lake option agreement.

## Results of Operations

During the three months ended October 31, 2007 (“current period”), the Company incurred a loss of \$63,112 compared to a loss of \$23,765 for the three months ended October 31, 2006 (“comparative period”). The significant changes during the current period to the comparative period are as follows:

Management fees during the current period of \$30,000 (comparative period - \$Nil) were recorded as a result of the Company entering into an agreement with Willie McLucas for a monthly fee of \$10,000, commencing in February 2007.

Office and miscellaneous of \$8,313 (comparative period - \$42) have increased due to the Company pursuing new business activities.

Professional fees of \$14,941 (comparative period - \$Nil) have increased due to the Company pursuing new business activities.

Rent of \$Nil (comparative period - \$7,500) has decreased as the Company has changed its management team.

Stock-based compensation of \$Nil (comparative period - \$7,848) has decreased due to the timing of certain vesting provisions.

Travel of \$5,100 (comparative period - \$Nil) has increased due to the Company pursuing new business activities.

## Quarterly Information

The following table sets forth selected unaudited financial information prepared by management of the Company:

	Three Months Ended Oct. 31, 2007	Three Months Ended July 31, 2007	Three Months Ended April 30, 2007	Three Months Ended Jan 31, 2007
Total assets	\$ 1,160,325	\$ 1,229,014	\$ 1,344,180	\$ 16,434
Mineral properties and deferred costs	52,120	20,420	-	-
Working capital (deficiency)	1,071,600	1,166,412	1,291,413	(7,633)
Loss for the period	(63,112)	(214,568)	(56,151)	(27,905)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)

	Three Months Ended Oct. 31, 2006	Three Months Ended July 31, 2006	Three Months Ended April 30, 2006	Three Months Ended Jan 31, 2006
Total assets	\$ 38,410	\$ 55,905	\$ 75,881	\$ 114,231
Mineral properties and deferred costs	-	-	-	-
Working capital (deficiency)	19,619	34,884	62,183	100,168
Loss for the period	(23,765)	(40,831)	(89,251)	(90,916)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)

## **Liquidity and Capital Resources**

The Company is in the development stage and therefore has no regular cash flow. As at October 31, 2007, the Company had a working capital of \$1,071,660 and cash on hand of \$1,094,819 compared to a working capital of \$1,166,412 and cash on hand of \$1,203,332 at July 31, 2007.

The significant changes in cash during the three months ended October 31, 2007 were primarily due to the use of cash in operations of approximately \$98,000 and mineral property expenditures of \$10,000.

Cash flow to date has not satisfied the Company's operational requirements. The development of the Company may in the future depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the sale of equity securities to meet its cash requirements. Future developments will depend on the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Company will be successful in obtaining any such financing or in joint venturing its properties.

## **Disclosure Controls and Procedures**

The CEO and CFO acknowledge responsibility for the design of internal control over financial reporting (ICFR), and confirm that there were no changes in these controls that occurred during the three months ended October 31, 2007 which materially affected, or are reasonably likely to materially affect, the Company's internal control for financial reporting.

The President and Chief Financial Officer are also required to file certifications of our annual and interim filings under Multilateral Instrument 52-109. These certifications may be accessed at [www.sedar.com](http://www.sedar.com).

## **Risk, Uncertainties and Outlook**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, none of the Company's properties has a known commercial ore deposit. Other risks facing the Company include competition for mineral properties, environmental and insurance risks, fluctuations in metal prices, fluctuations in exchange rates, share price volatility and uncertainty of additional financing.

The Company continues its quest to identify suitable opportunities in both base metals and gold. At this time, the Company is examining projects located in Africa.

## **Related party transactions**

During the three months ended October 31, 2007, the Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$30,000 (2006 - \$Nil) to a company owned by Willie McLucas, a director of the Company.
- b) Paid or accrued rent of \$Nil (2006 - \$7,500) to a company controlled by a director of the Company.

- c) Paid or accrued legal fees of \$9,425 (2006 - \$Nil) and deferred acquisition costs of \$5,700 (July 31, 2007 - \$5,423) and mineral property acquisition costs of \$16,000 (July 31, 2007 - \$Nil) to a law firm of which a director is a partner.

Included in accounts payable is \$21,700 (July 31, 2007 - \$30,305) owed to companies controlled by directors in common.

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

### **Off Balance Sheet Arrangements**

The Company has no off Balance Sheet arrangements.

### **Subsequent event**

Subsequent to October 31, 2007, the Company paid \$75,000 and issued 681,818 common shares valued at \$75,000 in conjunction with the Pegma Lake mineral property option agreement.

### **Outstanding Share Data**

As at December 18, 2007, the Company has:

- a) 38,689,868 common shares outstanding;
- b) 3,050,000 stock options outstanding with exercise prices ranging from \$0.13 to \$0.14 and expiring on June 13, 2012; and
- c) 15,235,000 share purchase warrants outstanding with exercise prices ranging from \$0.10 to \$0.15 per share expiring between March 2008 to April 2009.

### **Disclaimer**

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

### **Change in Accounting Policy Including Initial Adoption**

#### *Financial instruments*

Effective August 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1,

2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

### **Cautionary Statement on Forward Looking Information**

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