

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

Financial Statements

August 31, 2009

(with comparative audited figures for August 31, 2008)

**Auditors' Report**

**To the Shareholders of  
International Montoro Resources Inc.**

We have audited the balance sheets of International Montoro Resources Inc. as at August 31, 2009 and 2008 and the statements of operations and deficit, comprehensive loss, accumulated other comprehensive loss and cash flows 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 financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**Vancouver, Canada.  
December 16, 2009**

***“MacKay LLP”*  
Chartered Accountants**

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Balance Sheets**

|  | <u>August 31<br/>2009</u>       | <u>August 31<br/>2008</u>          |
|--|---------------------------------|------------------------------------|
| <b>ASSETS</b>  |                                 |                                    |
| <b>Current</b>   |                                 |                                    |
| Cash   | \$ 13,443                       | \$ 27,193                          |
| Goods and services tax receivable                                | 1,099                           | 27,154                             |
| Marketable securities (Note 3)                                   | 26,175                          | 14,500                             |
| Prepaid expenses   | <u>4,540</u>                    | <u>22,542</u>                      |
|  | 45,257                          | 91,389                             |
| <b>Equipment (Note 4)</b>  | 1,023                           | 1,462                              |
| <b>Mineral Interests and Deferred Exploration Costs (Note 5)</b> | <u>1,218,115</u>                | <u>2,129,906</u>                   |
|  | <u>\$ 1,264,395</u>             | <u>\$ 2,222,757</u>                |
| <b>LIABILITIES</b>   |                                 |                                    |
| <b>Current</b>   |                                 |                                    |
| Accounts payable and accrued liabilities                         | \$ 43,740                       | \$ 25,773                          |
| Owing to related parties (Note 6)                                | <u>207,867</u>                  | <u>385,704</u>                     |
|  | <u>251,607</u>                  | <u>411,477</u>                     |
| <b>SHAREHOLDERS' EQUITY</b>                                      |                                 |                                    |
| <b>Share capital (Note 7)</b>                                    | 8,032,399                       | 7,571,263                          |
| <b>Share subscription (Note 7)</b>                               | 4,500                           | 11,250                             |
| <b>Contributed surplus (Note 7)</b>                              | 350,688                         | 331,302                            |
| <b>Accumulated other comprehensive loss</b>                      | (225)                           | (35,000)                           |
| <b>Deficit</b>   | <u>(7,374,574)</u>              | <u>(6,067,535)</u>                 |
|  | 1,012,788                       | 1,811,280                          |
|  | <u>\$ 1,264,395</u>             | <u>\$ 2,222,757</u>                |
| Going Concern (Note 1)   |                                 |                                    |
| Subsequent Events (Note 11)                                      |                                 |                                    |
| Commitments (Note 5j)  |                                 |                                    |
| <b>On behalf of the Board:</b>                                   | <u>"Gary Musil"</u><br>Director | <u>"Roger Agyagos"</u><br>Director |

The accompanying notes form an integral part of these financial statements

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Statements of Operations and Deficit**

| <b>Year Ended August 31,</b>                         | <u><b>2009</b></u>  | <u><b>2008</b></u>  |
|--|---------------------|---------------------|
| <b>Administrative expenses</b>                       |                     |                     |
| Amortization   | \$ 439              | \$ 258              |
| Bank charges and interest                            | 977                 | 804                 |
| Consulting and finder's fees (Note 6)                | 33,320              | 45,250              |
| Filing fees and transfer agent                       | 19,332              | 21,187              |
| Management fees (Note 6)                             | 44,000              | 49,000              |
| Office and miscellaneous                             | 8,351               | 18,379              |
| Professional fees                                    | 52,524              | 28,777              |
| Rent   | 9,900               | 9,780               |
| Salaries and benefits                                | 31,315              | 32,306              |
| Stock based compensation (Note 7e)                   | 19,234              | 69,416              |
| Telephone  | 2,792               | 3,084               |
| Travel and promotion                                 | 101,778             | 222,515             |
|  | <u>323,962</u>      | <u>500,756</u>      |
| <b>Loss from operations</b>                          | 323,962             | 500,756             |
| Other Items  |                     |                     |
| Interest income                                      | (38)                | (6,843)             |
| Write down of mineral interests                      | 987,974             | 1,930,059           |
| Gain on sale of marketable securities                | (2,445)             | -                   |
|  | <u>1,309,453</u>    | <u>2,423,972</u>    |
| <b>Loss before income taxes</b>                      | 1,309,453           | 2,423,972           |
| Future income tax recovery (Note 9)                  | (2,414)             | (146,146)           |
|  | <u>1,307,039</u>    | <u>2,277,826</u>    |
| <b>Net loss for the year</b>                         | 1,307,039           | 2,277,826           |
| <b>Deficit, beginning of the year</b>                | <u>6,067,535</u>    | <u>3,789,709</u>    |
| <b>Deficit, end of the year</b>                      | <u>\$ 7,374,574</u> | <u>\$ 6,067,535</u> |
| <b>Loss per share – basic and diluted</b>            | <u>\$ (0.05)</u>    | <u>\$ (0.11)</u>    |
| <b>Weighted average number of shares outstanding</b> | <u>27,668,910</u>   | <u>20,169,783</u>   |

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**INTERNATIONAL MONTORO RESOURCES INC.**  
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**Statements of Comprehensive Loss**

| <b>Year Ended August 31,</b>   | <u><b>2009</b></u>    | <u><b>2008</b></u>    |
|--|-----------------------|-----------------------|
| <b>NET LOSS FOR THE YEAR BEFORE OTHER COMPREHENSIVE LOSS</b>                                   | \$ (1,307,039)        | \$ (2,277,826)        |
| Unrealized gain (loss) on available for sale financial assets (Note 3)                         | 32,330                | (35,000)              |
| Reclassification adjustment for realized gains on marketable securities included in net income | <u>2,445</u>          | <u>-</u>              |
| <b>COMPREHENSIVE LOSS FOR THE YEAR</b>   | <u>\$ (1,272,264)</u> | <u>\$ (2,312,826)</u> |

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Statements of Accumulated Other Comprehensive Loss**

| <b>Year Ended August 31,</b>  | <u><b>2009</b></u> | <u><b>2008</b></u> |
|---|--------------------|--------------------|
| Unrealized gain (loss) on available for sale financial assets (Note 3)      | \$ <u>(225)</u>    | \$ <u>(35,000)</u> |
| <b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b><br><b>- END OF YEAR BALANCE</b> | <u>\$ (225)</u>    | <u>\$ (35,000)</u> |

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**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Statements of Cash Flows**

| Year Ended August 31,  | <u>2009</u>      | <u>2008</u>        |
|--|------------------|--------------------|
| <b>CASH PROVIDED (USED) BY</b>   |                  |                    |
| <b>Operating activities</b>  |                  |                    |
| Net loss for the year  | \$ (1,307,039)   | \$ (2,277,826)     |
| Items not requiring an outlay of cash  |                  |                    |
| Amortization   | 439              | 258                |
| Stock-based compensation   | 19,234           | 69,416             |
| Gain on disposal of marketable securities                                    | (2,445)          | -                  |
| Write down mineral property costs  | 987,974          | 1,930,059          |
| Future income tax recovery   | (2,414)          | (146,146)          |
|  | <u>(304,251)</u> | <u>(424,239)</u>   |
| Changes in non-cash working capital items                                    |                  |                    |
| Goods and services tax receivable  | 26,055           | (9,264)            |
| Prepaid expenses   | 18,002           | (10,357)           |
| Accounts payable   | 17,967           | (6,519)            |
|  | <u>(242,227)</u> | <u>(450,379)</u>   |
| <b>Financing activities</b>  |                  |                    |
| Owing to related parties   | 36,326           | 9,943              |
| Share capital issued for cash  | 178,700          | 778,075            |
| Share issuance costs   | (3,748)          | (35,843)           |
| Share subscription advances  | -                | 11,250             |
|  | <u>211,278</u>   | <u>763,425</u>     |
| <b>Investing activities</b>  |                  |                    |
| Accounts payable and amounts owing to related parties related to exploration | 25,837           | 289,215            |
| Mineral property interests and deferred exploration costs                    | (118,183)        | (1,452,058)        |
| Proceeds from sale of marketable securities                                  | 109,545          | -                  |
| Acquisition of equipment   | -                | (1,720)            |
|  | <u>17,199</u>    | <u>(1,164,563)</u> |
| <b>Change in cash for the year</b>   | (13,750)         | (851,517)          |
| <b>Cash, beginning of year</b>   | <u>27,193</u>    | <u>878,710</u>     |
| <b>Cash, end of year</b>   | <u>\$ 13,443</u> | <u>\$ 27,193</u>   |
| <b>Supplemental Information</b>  |                  |                    |
| Interest paid  | \$ -             | \$ -               |
| Income taxes paid  | \$ -             | \$ -               |

**Supplemental Cash Flow Information (Note 8)**

The accompanying notes form an integral part of these financial statements

**INTERNATIONAL MONTORO RESOURCES INC.**  
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**Schedule of Mineral Interests and Deferred Exploration Costs**

Year Ended August 31,

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| <b>PROPERTIES IN GOOD STANDING</b>                 |                     |                     |
| <b>Crackingstone Project (Saskatchewan)</b>        |                     |                     |
| Acquisition costs                                  | \$ -                | \$ 5,030            |
| Administration and travel                          | 10,212              | 112,296             |
| Assays and sampling                                | -                   | 59,414              |
| Airborne surveys                                   | -                   | 3,282               |
| Geological and geophysical                         | 1,138               | 52,419              |
| Drilling   | 4,268               | 498,459             |
| Option payment in shares                           | (84,000)            | -                   |
| Recover deferred exploration costs                 | (600,000)           | -                   |
|  | <u>(668,382)</u>    | <u>730,900</u>      |
| <b>Cup Lake Project (British Columbia)</b>         |                     |                     |
| Acquisition costs                                  | -                   | 853,425             |
| Administration and reports                         | 5,556               | 36                  |
|  | <u>5,556</u>        | <u>853,461</u>      |
| <b>Serpent River Project (Ontario)</b>             |                     |                     |
| Acquisition costs                                  | 142,000             | 140,000             |
| Administration and travel                          | 736                 | 35,952              |
| Assays and sampling                                | 98                  | 19,206              |
| Airborne surveys                                   | (7,435)             | 46,113              |
| Drilling   | -                   | 260,301             |
| Geological and geophysical                         | 2,472               | 4,900               |
| Road construction and repair                       | -                   | 1,500               |
|  | <u>137,871</u>      | <u>507,972</u>      |
| <b>Central Mineral Belt Project (Newfoundland)</b> |                     |                     |
| Acquisition costs                                  | -                   | (275)               |
|  | <u>-</u>            | <u>(275)</u>        |
| <b>Orbit Lakes Project (Saskatchewan)</b>          |                     |                     |
| Geological and geophysical                         | 1,138               | -                   |
|  | <u>1,138</u>        | <u>-</u>            |
| <b>Voisey Bay Project (Newfoundland)</b>           |                     |                     |
| Acquisition costs                                  | 600,000             | -                   |
|  | <u>600,000</u>      | <u>-</u>            |
| <b>EXPENDITURES FOR THE YEAR</b>                   | 76,183              | 2,092,058           |
| WRITEDOWN CUP LAKE COSTS                           | (5,556)             | (1,930,059)         |
| WRITEDOWN MALACHITE PROJECT COSTS                  | (184,701)           | -                   |
| WRITEDOWN RED LAKE PROJECT COSTS                   | (197,718)           | -                   |
| WRITEDOWN VOISEY BAY PROJECT COSTS                 | (599,999)           | -                   |
| DEFERRED COSTS BEGINNING OF YEAR                   | 2,129,906           | 1,967,907           |
| <b>DEFERRED COSTS END OF YEAR</b>                  | <u>\$ 1,218,115</u> | <u>\$ 2,129,906</u> |

The accompanying notes form an integral part of these financial statements

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Schedule of Mineral Interests and Deferred Exploration Costs**

| <b>Year Ended August 31,</b>                | <b>2009</b>         | <b>2008</b>         |
|---|---------------------|---------------------|
| <b>PROPERTIES IN GOOD STANDING</b>          |                     |                     |
| MALACHITE PROJECT (NEW BRUNSWICK)           | \$ 1                | \$ 184,702          |
| RED LAKE PROJECT (ONTARIO)                  | 1                   | 197,719             |
| CRACKINGSTONE RIVER PROJECT (SASKATCHEWAN)  | 169,039             | 837,421             |
| CENTRAL MINERAL BELT PROJECT (NEWFOUNDLAND) | 47,042              | 47,042              |
| CUP LAKE PROJECT (BRITISH COLUMBIA)         | 1                   | 1                   |
| ORBIT LAKES PROJECT (SASKATCHEWAN)          | (12,282)            | (13,420)            |
| SERPENT RIVER PROJECT (ONTARIO)             | 1,014,312           | 876,441             |
| VOISEY BAY PROJECT (NEWFOUNDLAND)           | 1                   | -                   |
|   | <u>\$ 1,218,115</u> | <u>\$ 2,129,906</u> |

The accompanying notes form an integral part of these financial statements



**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to the Financial Statements**  
**Years ended August 31, 2009 and 2008**

**1. GOING CONCERN CONSIDERATIONS**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. At August 31, 2009, the Company had not yet achieved profitable operations, has a working capital deficit of \$206,350, has accumulated losses of \$7,374,574 since its inception, and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

**2. ACCOUNTING POLICIES**

**Accounting changes**

Effective September 1, 2007, the Company implemented the new CICA Handbook Section 1506 "accounting changes". Under these new recommendations, voluntary changes in accounting policies are permitted only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements.

**Changes in Accounting Policies**

*Assessing going concern*

The Canadian Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400 "General Standards of Financial Statement Presentation", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008 and has been adopted by the Company effective September 1, 2008. This section relates to disclosures and does not have an impact on the Company's financial results.

*Capital disclosures*

The AcSB issued CICA Handbook Section 1535 "Capital disclosures" The section specifies the disclosure of (i) an entity's objectives, policies, and processes 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. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007 and was adopted by the Company on September 1, 2008. This section relates to disclosures and does not have an impact on the Company's financial results.

*Financial instruments*

In December 2006, the CICA issued Handbook Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" to replace Section 3861. These sections apply to interim and annual financial statements for fiscal periods beginning on or after October 1, 2007.

Section 3862 enhances standards for disclosures about financial instruments and non-financial derivatives and identifies the information that should be disclosed about them. Section 3863 carries forward from 3861 the standards for presentation of financial instruments and non-financial derivatives.

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**2. ACCOUNTING POLICIES (CONTINUED)**

**Changes in Accounting Policies (continued)**

These sections have been adopted by the Company on September 1, 2008. The effect on the Company's financial statements is not material.

Effective September 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861 Financial Instruments – Disclosure and Presentation and Section 3865, Hedges. These new Handbook Sections 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 generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are initially measured in the balance sheet at fair value except for certain related party transactions. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at their fair value with changes in fair value recorded in other comprehensive income. Loans and receivables, held-to-maturity instruments and other financial liabilities, are measured at amortized cost.

As a result of the adoption of these new standards, the Company has classified its marketable securities as available-for-sale. Cash is classified as held for trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities and amounts owing to related parties are classified as other liabilities, which are measured at amortized cost. There was no effect on the opening balances as a result of adopting these new standards.

Transactions costs on financial assets and financial liabilities classified as other than held for trading are expensed.

**a. Mineral Interests and Deferred Exploration Costs**

The Company is engaged in the exploration and development of mineral resource properties and records mineral interests at cost. The Company includes in costs the lease and option payments made on properties that are held under lease and option agreements. Costs and recoveries relating to exploration and development projects are deferred until the property is sold, abandoned or put into production.

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

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

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Exploration costs renounced due to Flow-through Share Subscription Agreements remain capitalized, however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

**2. ACCOUNTING POLICIES (CONTINUED)**

a. Mineral Interests and Deferred Exploration Costs (continued)

The amounts shown for mineral interests and deferred exploration costs represent accumulated or minimal costs and do not represent present or future values. The properties and carrying values are subject to periodic review for permanent impairment. The recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon subsequent profitable production. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Certain of the Company's exploration activities related to mineral properties are conducted jointly with the others. The accounts reflect only the Company's proportionate interest in such activities.

The Company records mineral exploration tax credits on an accrual basis.

b. Asset Retirement Obligations

Asset retirement obligations are recognized for the legal obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. An asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made with a corresponding asset retirement cost recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value.

c. Estimates and Fair Values

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

d. Flow-Through Common Shares

The Company provides certain share subscribers with a flow-through component for tax benefits available on qualifying Canadian exploration, development and related provincial grants. Upon renunciation forms being filed with the appropriate tax authorities, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

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**2. ACCOUNTING POLICIES (CONTINUED)**

e. Stock-Based Compensation Plans

The Company has adopted an incentive stock option plan which is described in Note 7d.

The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

f. Income Taxes

The Company accounts for income taxes whereby the cost (benefit) of current and future income taxes is recognized as income tax expense in the determination of results of operations for the period. Future income tax liabilities (assets) are the amount of income taxes arising from taxable temporary differences between the tax bases of an asset or liability and losses carried forward and its carrying amount in the balance sheet. Income tax assets are recognized when they are more likely than not to be realized and are measured using the income tax rates and laws that are expected to apply at the time of settlement or realization. To the extent that future income tax assets are not considered more likely than not to be realized a valuation allowance is recorded.

g. Loss per Share

Basic loss per share is computed by dividing net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period.

Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share are the same.

h. Share Issue Costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

i. Equipment

Equipment is amortized using the declining-balance method at a rate of 30% per annum for computer equipment.

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**2. ACCOUNTING POLICIES (CONTINUED)**

j. Valuation of warrants

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

**Recent accounting pronouncements**

*Goodwill and Intangible Assets*

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 and is not expected to have an impact on the Company's financial results at adoption on September 1, 2009.

*International financial reporting standards ("IFRS")*

In 2006, the 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 date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. The Company has begun assessing the adoption of IFRS for 2011, however, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**3. MARKETABLE SECURITIES**

|   | August 31<br>2009 | August 31<br>2008 |
|---|-------------------|-------------------|
| Ultra Uranium Corp. (37,500 shares; cost of \$18,000) | \$ 3,375          | \$ 4,875          |
| Crosshair Exploration and Mining Corp.                | -                 | 9,625             |
| Merrex Gold Inc. (60,000 shares; cost of \$8,400)     | 22,800            | -                 |
|   | <u>\$ 26,175</u>  | <u>\$ 14,500</u>  |

The valuation of the above shares has been determined in whole by reference to the bid price of the shares on the appropriate exchange on August 31, 2009. At that date, the bid price of Ultra Uranium Corp. was \$0.09 and Merrex Gold Inc. was \$0.38. All shares of Crosshair Exploration and Mining Corp. and 540,000 shares of Merrex Gold were sold during the year.

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**4. EQUIPMENT**

| <b>2009</b>        | <u>Cost</u>     | <u>Accumulated<br/>Amortization</u> | <b>August 31</b><br><u>Net Book<br/>Value</u> |
|--------------------|-----------------|-------------------------------------|---|
| Computer equipment | \$ <u>1,720</u> | \$ <u>697</u>                       | \$ <u>1,023</u>                               |
| <b>2008</b>        |                 |                                     | <b>August 31</b><br><u>Net Book<br/>Value</u> |
| Computer equipment | \$ <u>1,720</u> | \$ <u>258</u>                       | \$ <u>1,462</u>                               |

**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS**

The Company has acquired mineral interests in various properties located in Canada.

a. Malachite Project (New Brunswick)

The Company acquired a 100% interest in the project for \$27,000 and a contingent payment of \$40,000 should the Company dispose of any portion of the properties to a major producing mining company, 300,000 common shares (issued for \$33,000) and exploration and staking expenditures of \$124,702 on the properties.

During the current year the management of the Company resolved to write down the value of this project to a nominal value.

b. Red Lake Project (Ontario)

The Company acquired a 50% interest in the project for \$15,500, 300,000 common shares (issued for \$25,000) and exploration expenditures of \$15,000 on the property. The property is subject to a 2% net smelter royalty and a 1% buy-out for consideration of \$500,000.

The Company acquired a 50% interest in additional claim blocks in the project for \$5,000, 90,000 common shares (issued for \$7,000) and exploration expenditures of \$2,500. The property is subject to a 2% net smelter royalty.

The Company acquired a 50% interest in certain patented claim mineral rights for \$5,000 and 100,000 common shares (issued for \$10,000). The property is subject to a 3% net smelter royalty.

The Company and Belmont Resources Inc. ("Belmont") (a public company with common directors) have entered into a 50:50 joint venture for all the Red Lake properties and mineral rights.

The Company together with Belmont entered into an option agreement with International Alliance Resources Inc. ("Alliance"), whereby Alliance could have acquired a 51% interest in the aforementioned claims. The agreement with Alliance has been terminated.

During the current year the management of the Company resolved to write down the value of this project to a nominal value.

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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

c. South Trend – Ungava Project (Quebec)

The Company entered into an option agreement to acquire a 100% interest in the project. Subsequently, the Company has granted an option to a third party to acquire its interest in the property. The Company has retained a 1% net smelter interest.

d. Crackingstone River Project (Saskatchewan)

The Company and Belmont has entered into an agreement to acquire a 100% interest (50% interest for the Company) in a 750 hectare claim block in northern Saskatchewan near Uranium City. Terms of the agreement include cash payment of \$15,000 (paid) and issuance of 50,000 shares (issued for \$12,500). The property is subject to a 2% net smelter royalty.

The Company and Belmont have entered into a 50:50 joint venture for this project.

The Company together with Belmont has entered into an additional agreement to acquire a 100% interest (50% interest for the Company) in an adjoining 232 hectare claim block for \$5,000 (\$2,500 paid by the Company).

The Company and Belmont have agreed to option to Merrex Gold Inc. ("Merrex") a 50% interest in their jointly owned Crackingstone uranium property. Terms of the option agreement include the issuance by Merrex of a total of 1,200,000 common shares (600,000 shares to each of Montoro and Belmont - received) and to incur a total of \$1,200,000 of exploration expenditures in the first year (incurred by refunding \$600,000 of exploration expenses to Montoro and Belmont each) and incurring an additional \$2,400,000 of exploration expenditures in the second year to earn up to 50% interest in the Crackingstone property.

e. Central Mineral Belt Project (Labrador)

The Company and Belmont have entered into an agreement to acquire a 100% interest (50% interest for the Company) in three claim blocks (128 units approximately 4,000 hectares) in the Central Mineral Belt Uranium District, Labrador. Terms of the agreement include cash payments totaling \$30,000 (paid \$15,000) and issuance of 100,000 shares (issued for \$25,000). The property is subject to a 2% net smelter royalty with a one percent buy-out for \$500,000.

The Company and Belmont have entered into a 50:50 joint venture for this project.

In April 2007 the Company and Belmont staked an additional one claim block (11 units) adjacent to its eastern (Stormy Lake) group.

The Company, together with Belmont, entered into an option agreement with Crosshair Exploration & Mining Corp. ("Crosshair"), whereby Crosshair can acquire a 75% interest in the Central Mineral Belt Project (Stormy Lake & Partridge River) claims by incurring \$800,000 in exploration expenditures, issuing to the Companies up to 175,000 common shares (received 25,000 shares) over a three-year period and assuming cash payments to the vendor. Crosshair has decided not to continue with this project and all interests reverted to the Company and Belmont.

The Company and Belmont have decided not to earn any further interest in the CMB properties at this time and have earned a 75% (each as to 37-1/2% ) interest in these claims.

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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

f. Cup Lake Project (British Columbia)

The Company has entered into an agreement to acquire a 100% interest in two uranium prospect claims located in the Greenwood Mining District of British Columbia. Terms of the agreement include a cash payment of \$75,000 (paid) and issuance of 300,000 units (issued for \$120,000). Finder's fees in the amount of \$7,500 cash and 30,000 units (issued for \$12,000) have also been paid. Each unit was comprised of one common share and one share purchase warrant. Each warrant was exercisable for an additional share at an exercise price of \$0.40 in the first year and \$0.50 in the second year. The warrants expired unexercised on June 28, 2008.

The Company has entered into an agreement to acquire a 100% interest in nine additional claims in the Cup Lake area. Terms of the agreement include the issuance of a total of 6,000,000 common shares at prescribed intervals up to December 1, 2008 (issued 4,000,000 for \$1,200,000); staged cash payments of \$1,000,000 (paid \$500,000) to December 1, 2009; and minimum exploration expenditures of \$800,000 over four years to December 1, 2010.

On April 24, 2008, the B.C. Government imposed a ban on uranium exploration and development, constructively halting the development of the Cup Lake uranium project. The ban has negatively impaired the property. Consequently, the capitalized mineral property acquisition costs and expenditures of \$1,930,059 have been written down to a nominal value of \$1.

On May 31, 2008 the Company notified the vendors of the property of initiating the force majeure clause and suspension of obligations including further cash, share payments, and exploration expenditures. In the interim, the Company will keep the Cup Lake claims in good standing until the Company can assess its legal recourse in the property.

On July 16, 2009 the Company filed a statement of claim in the Supreme Court of British Columbia alleging that the Province of British Columbia (the "Province of B.C.") by imposing a uranium and thorium reserve under the Mineral Tenure Act on April 24, 2008, has prevented the Company from exploring for, developing, or producing uranium or thorium from the Cup Lake/Donen uranium property and that the Province of B.C. has expropriated the Company's interest in the property. The statement of claim seeks compensation for the property expropriated and damages for the loss of value of the interests taken, damages arising from disruption of the Company's business and expenses incurred in relation to the Claims as a result of the expropriation, as well as other costs. The outcome of this claim is not determinable at this time.

g. Orbit Lakes Project (Saskatchewan)

The Company has a 50% interest in 11,109 hectares staked in an adjoining claim block to the Crackingstone Project in northern Saskatchewan. The Company and Belmont have entered into a 50:50 joint venture for this project.

The Company and Belmont (its joint venture partner) have entered into an option agreement with Ultra Uranium Corp. ("Ultra"), whereby Ultra could have acquired a 65% interest in the Orbit Lake claims by making cash payments totaling \$150,000 (received \$25,000 each), issuing 175,000 common shares of Ultra (received 37,500 shares each) and completing \$2 million in exploration expenditures over three years, with a minimum of \$300,000 (incurred by Ultra) in exploration to occur in the first year. Upon earning its 65% interest, Ultra also had the right to acquire an interest in the adjoining Crackingstone uranium property located in the Uranium City, Saskatchewan area.

The Company was unable to renegotiate the agreement with Ultra and announced termination of the agreement on April 29, 2009.



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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

h. Serpent River Project (Ontario)

The Company has acquired a 100% interest in ten mining claims in the Sault Ste. Marie Mining Division, Elliot Lake area, in Northern Ontario. Terms of the agreement include the issuance of a total 500,000 common shares (300,000 issued for \$120,000) and \$500,000 in cash payments at prescribed intervals up to December 12, 2010 (paid \$200,000). In addition, there is a 2.0% net smelter return relating to the acquisition. The Company may at any time purchase 1.0% of the NSR for \$1.5 million. A finders fee of a total of 25,000 common shares (15,000 issued for \$6,000) and \$25,000 cash (paid/accrued \$15,000) is also payable.

i. West Voisey Bay Project (Newfoundland)

The Company and Belmont have agreed to acquire one-half of Merrex Gold Inc.'s 50% interest (net 25%) interest in the West Voisey's Bay Joint Venture ("WVBJV") in Labrador for \$1,200,000 (paid). Merrex will retain a net 25% participating interest in the WVBJV. The West Voisey's Bay ("WVB") Property is a joint venture between the Company (12.5%), Belmont (12.5%), Merrex (25%) and Celtic Minerals Ltd. (50%). Celtic is the WVBJV operator.

During the current year the management of the Company resolved to write down the value of this project to a nominal value.

j. Commitments

In order for the Company to maintain its interest in its mineral properties, it will be required to make the following option payments:

|               |           |   |
|---------------|-----------|---|
| Malachite     | \$40,000  | Should the Company dispose of any portion of the property to a major producing mining company |
| Cup Lake      | \$750,000 | By December 1, 2009 (See Note 5(f) re Force Majeure in effect)                                |
| Serpent River | \$200,000 | By December 12, 2010  |

**6. RELATED PARTY TRANSACTIONS AND MANAGEMENT**

The Company shares office facilities and has common management and directorships with a number of public and private corporations. The Company is charged for office rentals and administrative services on a proportional cost basis. Charges of \$22,618 (2008 - \$24,142) were made in the year by related companies.

The Company and Belmont Resources Inc. (a public company related through common directors), are 50:50 joint venture partners in the Red Lake Project, Ontario, Crackingstone and Orbit Lake Projects, Saskatchewan, and the Central Mineral Belt Project, Labrador. Belmont Resources Inc. is acting as the operator and incurs the expenditures for the project and bills the Company 50% cost plus a 5% administration fee. Charges of \$4,674 (2008 - \$739,735) were incurred in the year.

During the year the Company settled a total of \$240,000 of related party debt in consideration of 6,000,000 shares at \$0.04. Amounts owing to related parties are unsecured, have no fixed terms of repayment and are non-interest bearing, accordingly, fair value cannot be determined.

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**6. RELATED PARTY TRANSACTIONS AND MANAGEMENT (CONTINUED)**

The Company has entered into an agreement with the Chief Executive Officer, a director to pay \$4,500 per month for management fees. During the year a total of \$54,000 (2008 - \$49,000) was accrued of which \$44,000 was allocated to management fees and \$10,000 to the Crackingstone project administration. The agreement expires on February 1, 2010.

The Company paid \$nil (2008 - \$1,500) for consulting fees to a director.

Management is of the opinion that these transactions were undertaken in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties).

**7. SHARE CAPITAL**

a. Authorized: Unlimited common shares without par value

b. Issued and Outstanding

|  | <b>SHARES</b>            | <b>VALUE</b>               |
|--|--------------------------|----------------------------|
| Balance August 31, 2007                            | 17,338,526               | \$ 6,302,839               |
| Shares issued for cash, private placement of units | 3,130,000                | 490,750                    |
| Shares issued on the exercise of options           | 290,000                  | 47,325                     |
| Shares issued on the exercise of warrants          | 800,000                  | 240,000                    |
| Shares for mineral interests                       | 2,100,000                | 640,000                    |
| Transfer from contributed surplus                  | -                        | 34,018                     |
| Share issue costs                                  | -                        | (35,843)                   |
| Fair value of brokers warrants                     | -                        | (1,680)                    |
| Tax benefits renounced                             | -                        | (146,146)                  |
| Balance August 31, 2008                            | <u>23,658,526</u>        | <u>7,571,263</u>           |
| Shares issued for cash, private placement of units | 4,270,000                | 185,450                    |
| Shares issued for mineral interests                | 105,000                  | 42,000                     |
| Shares issued for debt                             | 6,000,000                | 240,000                    |
| Share issue costs                                  | -                        | (3,748)                    |
| Fair value of brokers warrants                     | -                        | (152)                      |
| Tax benefits renounced                             | -                        | (2,414)                    |
| Balance August 31, 2009                            | <u><u>34,033,526</u></u> | <u><u>\$ 8,032,399</u></u> |

On June 25, 2009, the Company issued 1,180,000 units at \$0.04 per unit for gross proceeds of \$47,200. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.06 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.12 in year two and \$0.20 in year three. The warrants expire June 25, 2012. Finders fees of \$1,600 in cash were paid.

On May 11, 2009, the Company issued 2,975,000 units at \$0.04 per unit for gross proceeds of \$119,000. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.06 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.12 in year two

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and \$0.20 in year three. The warrants expire May 11, 2012.

**7. SHARE CAPITAL (CONTINUED)**

b. Issued and Outstanding –continued

Finders fees of \$1,248 in cash were paid in connection with the above private placement and 4,000 broker's warrants with a fair value of \$106 were issued on the above financing. The broker's warrants contain the same terms as the private placement warrants. Broker's warrants were valued using an expected volatility of 108.091%, a risk-free interest rate of 1.84%, an expected life of 3.0 years, and an expected dividend yield of 0.00%; resulting in a fair value of \$0.0264 per warrant.

On March 20, 2009, the Company issued a total of 6,000,000 shares at \$0.04 per share pursuant to a shares for debt settlement for a value of \$240,000.

On December 12, 2008, the Company issued a total of 105,000 shares at an agreed price of \$0.40 per share pursuant to a property acquisition agreement for a value of \$42,000.

On September 17, 2008, the Company issued 75,000 units at \$0.15 per unit for gross proceeds of \$11,250. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for a period of 180 days (March 16, 2009) at a price of \$0.30 per share. For the following 365 days, two share purchase warrants will be required to purchase one additional share of the Company at a price of \$0.30 per share. The warrants expire March 17, 2010. Finders fees of \$900 in cash were paid and 4,000 broker's warrants were issued with a fair value of \$46. Broker's warrants were valued using an expected volatility of 100.812%, a risk free interest rate of 1.11%, an expected life of 1.5 years, and an expected dividend yield of 0.00%, resulting in a fair value of \$0.0116.

On September 17, 2008, the Company issued 40,000 flow-through units at \$0.20 per unit for gross proceeds of \$8,000. The unit financing consisted of one flow-through common share and one non-transferable common share purchase warrant. The warrant terms and price are the same as those attached to the non flow-through units indicated above. The warrants expire March 17, 2010.

On June 3, 2008, the Company issued 2,705,000 units at \$0.15 per unit for gross proceeds of \$405,750. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for a period of 180 days (December 3, 2008) at a price of \$0.30 per share. For the following 365 days, two share purchase warrants will be required to purchase one additional share of the Company at a price of \$0.30 per share. The warrants expire December 3, 2009.

On June 3, 2008, the Company issued 425,000 flow-through units at \$0.20 per unit for gross proceeds of \$85,000. The unit financing consisted of one flow-through common share and one non-transferable common share purchase warrant. The warrant terms and price are the same as those attached to the non flow-through units indicated above. The warrants expire December 3, 2009.

Finders fees of \$31,000 in cash were paid, \$4,843 in share issue costs were incurred, and 48,000 broker's warrants with a fair value of \$1,680 were issued on the above financing. The broker's warrants contain the same terms as the private placement warrants. Broker's warrants were valued using an expected volatility of 88.39%, a risk-free interest rate of 2.85%, an expected life of 1.5 years, and an expected dividend yield of 0.00%; resulting in a fair value of \$0.035 per warrant.

On January 4, 2008, the Company issued a total of 2,000,000 shares at an agreed price of \$0.30 per share pursuant to a property acquisition agreement for a value of \$600,000.

On December 12, 2007, the Company issued a total of 100,000 shares at an agreed price of \$0.40 per

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share pursuant to a property acquisition agreement for a total value of \$40,000.

**7. SHARE CAPITAL (CONTINUED)**

c. Share Issue Commitments - Share Purchase Warrants

| <u>August 31</u><br><u>2008</u> | <u>Issued</u> | <u>(Expired)</u> | <u>(Exercised)</u> | <u>August 31</u><br><u>2009</u> | <u>Terms</u>                            |
|---------------------------------|---------------|------------------|--------------------|---------------------------------|---|
| 492,000                         | -             | (492,000)        | -                  | -                               | \$.40 and 1 warrant to January 19, 2009 |
| 478,878                         | -             | (478,878)        | -                  | -                               | \$.35 and 1 warrant to June 26, 2009    |
| 440,922                         | -             | (440,922)        | -                  | -                               | \$.35 and 1 warrant to July 14, 2009    |
| 122,300                         | -             | (122,300)        | -                  | -                               | \$.35 and 1 warrant to August 1, 2009   |
| 3,178,000                       | -             | (1,589,000)      | -                  | 1,589,000                       | \$.30 and 1 warrant to December 3, 2009 |
| -                               | 119,000       | (59,500)         | -                  | 59,500                          | \$.30 and 1 warrant to March 17, 2010   |
| -                               | 2,979,000     | -                | -                  | 2,979,000                       | \$.06 and 1 warrant to May 11, 2010     |
|                                 |               |                  |                    |                                 | \$.12 and 2 warrants to May 11, 2011    |
|                                 |               |                  |                    |                                 | \$.20 and 2 warrants to May 11, 2012    |
| -                               | 1,180,000     | -                | -                  | 1,180,000                       | \$.06 and 1 warrant to June 25, 2010    |
|                                 |               |                  |                    |                                 | \$.12 and 2 warrants to June 25, 2011   |
|                                 |               |                  |                    |                                 | \$.20 and 2 warrants to June 25, 2012   |
| 4,712,100                       | 4,278,000     | (3,782,600)      | -                  | 5,807,500                       |   |

d. Incentive Stock Options

The Company has an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to the options granted under the Plan may not exceed 10% of the number of issued shares of the Company at the time of granting of the options. Options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price per share of the Company's common shares on the trading day immediately preceding the day on which the Company announces the grant of the options, less the maximum discount permitted under TSX Venture Exchange policies), or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. Options granted under the plan vest immediately, except for consultants conducting investor relations activities which will become vested with the right to exercise one-fourth of the option upon the conclusion of each three month period subsequent to the date of the grant of the option.

Details of directors, employee and consultant share purchase options are as follows:

|   | <u>Number of</u><br><u>Shares</u> | <u>Weighted Average</u><br><u>Exercise Price</u> |
|---|-----------------------------------|--|
| Outstanding and exercisable August 31, 2007 | 1,395,000                         | \$ .28   |
| Granted                                     | 1,110,000                         | .27  |
| Exercised                                   | (290,000)                         | .16  |
| Expired                                     | (25,000)                          | .25  |
| Outstanding August 31, 2008                 | 2,190,000                         | .29  |
| Granted                                     | 100,000                           | .10  |
| Expired                                     | (1,080,000)                       | .15  |
| Outstanding August 31, 2009                 | 1,210,000                         | \$ .10   |
| Exercisable August 31, 2009                 | 1,210,000                         | \$ .10   |

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**7. SHARE CAPITAL (CONTINUED)**

d. Incentive Stock Options (continued)

| August 31,<br>2008     | Granted | (Expired)   | (Exercised) | August 31,<br>2009 | Terms                      |
|------------------------|---------|-------------|-------------|--------------------|----------------------------|
| 350,000                | -       | (350,000)   | -           | -                  | \$.25 to October 31, 2008  |
| 730,000 <sup>(1)</sup> | -       | (730,000)   | -           | -                  | \$.10 to July 31, 2009     |
| 100,000 <sup>(1)</sup> | -       | -           | -           | 100,000            | \$.10 to October 22, 2009  |
| 130,000 <sup>(1)</sup> | -       | -           | -           | 130,000            | \$.10 to November 15, 2009 |
| 130,000 <sup>(1)</sup> | -       | -           | -           | 130,000            | \$.10 to November 15, 2009 |
| 550,000 <sup>(1)</sup> | -       | -           | -           | 550,000            | \$.10 to April 16, 2010    |
| 200,000 <sup>(1)</sup> | -       | -           | -           | 200,000            | \$.10 to July 16, 2011     |
|                        | 100,000 | -           | -           | 100,000            | \$.10 to February 25, 2011 |
| 2,190,000              | 100,000 | (1,080,000) | -           | 1,210,000          |                            |

<sup>(1)</sup> Effective February 25, 2009, the above stock options were repriced from exercise prices ranging from \$0.20 - \$0.50 per option to an exercise price of \$0.10 per option. All other terms remain the same.

| August 31,<br>2007 | Granted   | (Expired) | (Exercised) | August 31,<br>2008 | Terms                      |
|--------------------|-----------|-----------|-------------|--------------------|----------------------------|
| 265,000            | -         | -         | (265,000)   | -                  | \$.155 to January 31, 2008 |
| 400,000            | -         | (25,000)  | (25,000)    | 350,000            | \$.25 to October 31, 2008  |
| 730,000            | -         | -         | -           | 730,000            | \$.35 to July 31, 2009     |
| -                  | 100,000   | -         | -           | 100,000            | \$.35 to October 22, 2009  |
| -                  | 130,000   | -         | -           | 130,000            | \$.40 to November 15, 2009 |
| -                  | 130,000   | -         | -           | 130,000            | \$.50 to November 15, 2009 |
| -                  | 550,000   | -         | -           | 550,000            | \$.20 to April 16, 2010    |
| -                  | 200,000   | -         | -           | 200,000            | \$.20 to July 16, 2011     |
| 1,395,000          | 1,110,000 | (25,000)  | (290,000)   | 2,190,000          |                            |

e. Stock-Based Compensation

The fair values of options granted and repriced during the current period was estimated at the grant and repricing dates using the Black-Scholes option pricing model with the following weighted average assumptions:

|  | August 31, 2009 |           | August 31, 2008 |
|--|-----------------|-----------|-----------------|
|  | Granted         | Repriced  | Granted         |
| Expected volatility                            | 109.56 %        | 153.64 %  | 107.49 %        |
| Risk-free interest rate                        | 1.12 %          | 1.39 %    | 3.33 %          |
| Expected life                                  | 2.00 years      | .92 years | 2.18 years      |
| Expected dividend yield                        | 0.00 %          | 0.00 %    | 0.00 %          |
| Fair value of options granted to employees     | \$ 0.00         | \$ 0.00   | \$ 0.08         |
| Fair value of options granted to non-employees | \$ 0.02         | \$ 0.01   | \$ 0.15         |

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

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**7. SHARE CAPITAL (CONTINUED)**

f. Contributed surplus

|                                       | <u>August 31<br/>2009</u> | <u>August 31<br/>2008</u> |
|---------------------------------------|---------------------------|---------------------------|
| Opening balance                       | \$ 331,302                | \$ 294,224                |
| Value of agents warrants              | 152                       | 1,680                     |
| Exercise of options                   | -                         | (34,018)                  |
| Arising from stock-based compensation | 19,234                    | 69,416                    |
|                                       | <u>\$ 350,688</u>         | <u>\$ 331,302</u>         |

**8. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred non-cash financing and investing activities during the years ended August 31, 2009 and 2008 as follows:

|  | <u>2009</u>         | <u>2008</u>         |
|--|---------------------|---------------------|
| Non-cash financing activities:   |                     |                     |
| Items affecting share capital:   |                     |                     |
| Shares issued for mineral interests  | \$ 42,000           | \$ 640,000          |
| Shares issued for debt   | 240,000             | -                   |
| Transfer from contributed surplus  | -                   | 34,017              |
| Fair value of brokers warrants   | 152                 | (1,680)             |
| Share issue costs  | (152)               | -                   |
| Option proceeds received   | 600,000             |                     |
| Contributed surplus  | -                   | (32,337)            |
|  | <u>\$ 882,000</u>   | <u>\$ 640,000</u>   |
| Non-cash investing activities:   |                     |                     |
| Acquisition of mineral properties  | \$ (642,000)        | \$ (640,000)        |
| Accounts payable and amounts owing to related parties related to exploration | (240,000)           | -                   |
|  | <u>\$ (882,000)</u> | <u>\$ (640,000)</u> |

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**9. INCOME TAXES**

Income tax expense varies from the amount that would be computed from applying the combined federal and provincial income tax rate to loss before taxes as follows:

|   | <u>August 31,<br/>2009</u> | <u>August 31,<br/>2008</u> |
|---|----------------------------|----------------------------|
| Net loss before income taxes for the year | \$ (1,309,453)             | \$ (2,423,972)             |
| Statutory Canadian corporate tax rate     | 30.17%                     | 32.21%                     |
| Anticipated tax expense (recovery)        | (395,062)                  | (780,681)                  |
| Effect of tax rate change                 | 105,648                    | 227,389                    |
| Unrecognized items for tax purposes       | 5,338                      | 22,468                     |
| Non-capital losses expired                | 22,685                     | 13,667                     |
| Tax benefit not realized                  | 258,977                    | 371,011                    |
| Actual income tax recovery                | <u>\$ (2,414)</u>          | <u>\$ (146,146)</u>        |

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

|  | <u>August 31,<br/>2009</u> | <u>August 31,<br/>2008</u> |
|--|----------------------------|----------------------------|
| Exploration and development deductions | \$ 894,471                 | \$ 675,456                 |
| Share issue costs                      | 11,509                     | 16,517                     |
| Non-capital loss carry forwards        | 404,904                    | 367,290                    |
| Net capital loss carry forwards        | 5,738                      | 1,313                      |
| Marketable securities                  | 356                        | 9,864                      |
| Equipment                              | 174                        | 67                         |
|  | 1,317,152                  | 1,070,507                  |
| Valuation allowance                    | <u>(1,317,152)</u>         | <u>(1,070,507)</u>         |
| Net future tax assets                  | <u>\$ -</u>                | <u>\$ -</u>                |

The Company has available non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized the non-capital losses in the amount of \$1,599,124 expire as follows:

|      |                     |
|------|---------------------|
| 2010 | \$ 89,029           |
| 2014 | 161,649             |
| 2015 | 92,804              |
| 2016 | 174,020             |
| 2027 | 368,141             |
| 2028 | 409,383             |
| 2029 | 324,589             |
|      | <u>\$ 1,619,615</u> |

At August 31, 2009 the Company has unclaimed resource and other deductions that do not expire in the amount of \$4,795,997 (2008 - \$4,727,815) which may be deducted against future taxable income on a discretionary basis.

In addition, the Company has available capital losses for Canadian income tax purposes totaling \$45,905 (2008 - \$10,100) which may be carried forward indefinitely to reduce capital gains in future years.

In addition, the Company has share issue costs totaling \$46,034 which have not been claimed for income tax purposes.

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**9. INCOME TAXES (CONTINUED)**

Future tax benefits, which may arise as a result of applying these deductions to taxable income have not been recognized in these accounts, except for a recovery created by the renouncement of a benefit on the issuance of flow through shares.

**10. FINANCIAL INSTRUMENTS**

**Capital risk management**

The Company manages its capital to ensure it will be able to continue as a going concern largely through equity financing. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus, accumulated other comprehensive loss, and deficit.

**Financial risk management**

The Company monitors and manages the financial risks relating to operations through analysis of exposures by degree and magnitude of risks. These risks include credit risk, market risk and liquidity risk.

*Credit risk*

Credit risk refers to the risk that another entity will default on its contractual obligations resulting in financial loss to the Company. The Company has minimal accounts receivable exposure, and its various refundable credits are due from Canadian governments.

*Market risk*

Market risk includes currency risk, interest rate risk and price risk. The Company's activities expose it primarily to the financial risks of changes in the price of resources. The Company is also exposed to price risk related to potential fluctuations in the market prices of its marketable securities. The Company does not currently hold any financial instruments that mitigate these risks.

*Liquidity risk*

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. The Company currently has a working capital deficit. The Company's current resources are insufficient to settle its current liabilities and meet its other business requirements. Therefore, the Company will be required to raise additional capital in order to fund its operations in the coming year.

**11. SUBSEQUENT EVENTS**

- a. Subsequent to the year end, the Company issued 102,500 units at \$0.04 pursuant to a private placement for total proceeds of \$4,100. Each unit consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.06 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.12 in year two and \$0.20 in year three. The warrants expire October 2, 2012.
- b. Subsequent to the year end, a total of 360,000 options exercisable at \$0.10 expired unexercised.
- c. Subsequent to year end, a total of 1,589,000 warrants exercisable at \$0.30 expired unexercised.



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**11. SUBSEQUENT EVENTS (CONTINUED)**

- d. Subsequent to the year end, the Company returned to treasury 200,000 shares issued at \$0.04 pursuant to a private placement closed on May 11, 2009. The Company was unable to complete Delivery Against Payment ("DAP") with the brokerage firm on behalf of the clients, and the clients decided not to proceed with the subscriptions. 200,000 warrants were also cancelled.
- e. Subsequent to the year end, the Company issued a total of 100,000 shares at an agreed value of \$0.40 per share pursuant to a property acquisition agreement for a total value of \$40,000. Finders fee in the amount of 5,000 shares at an agreed value of \$0.40 were also issued.