



COMMERCE RESOURCES CORP.

COMMERCE RESOURCES CORP.

REPORT AND FINANCIAL STATEMENTS

October 31, 2008 and 2007



BDO Dunwoody LLP
Chartered Accountants

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AUDITORS' REPORT

To the Shareholders of
Commerce Resources Corp.

We have audited the balance sheets of Commerce Resources Corp. as at October 31, 2008 and 2007 and the statements of net loss and comprehensive loss, shareholders' equity 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 October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) 'BDO Dunwoody LLP'

Chartered Accountants

Vancouver, Canada
February 25, 2009

COMMERCE RESOURCES CORP.
BALANCE SHEETS
October 31, 2008 and 2007

	<u>ASSETS</u>	<u>2008</u>	<u>2007</u>
Current			
Cash and cash equivalents		\$ 16,001,022	\$ 29,189,043
Marketable securities – Note 3		10,700	48,110
Amounts receivable		66,904	4,439
Goods and services tax receivable		387,282	184,956
Prepaid expenses		<u>116,125</u>	<u>2,694</u>
		16,582,033	29,429,242
Investments in asset-backed commercial paper – Note 4		3,593,698	6,559,643
Reclamation bonds		57,000	24,500
Equipment – Note 5		96,239	-
Resource properties – Notes 6, 7 and Schedule I		<u>20,880,416</u>	<u>7,779,101</u>
		<u>\$ 41,209,386</u>	<u>\$ 43,792,486</u>

LIABILITIES

Current			
Accounts payable and accrued liabilities – Note 8		<u>\$ 2,193,738</u>	<u>\$ 233,898</u>

SHAREHOLDERS' EQUITY

Share capital – Note 7		49,595,611	49,555,396
Share subscriptions receivable – Note 7		-	(112,500)
Contributed surplus – Note 7		3,729,480	3,729,480
Accumulated other comprehensive loss		(62,765)	(1,668,651)
Deficit		<u>(14,246,678)</u>	<u>(7,945,137)</u>
		<u>39,015,648</u>	<u>43,558,588</u>
		<u>\$ 41,209,386</u>	<u>\$ 43,792,486</u>

Commitments – Notes 6 and 7
Subsequent Events – Notes 4 and 11

APPROVED BY THE DIRECTORS:

<u>“Shaun Ledding”</u> Shaun Ledding	Director	<u>“David Hodge”</u> David Hodge	Director
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SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
for the years ended October 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Administrative costs		
Administration fees and rent – Note 8	\$ 1,080,000	\$ 570,000
Advertising and website	353,942	453,217
Bank charges and interest	1,655	3,075
Consulting fees – Note 8	249,582	5,994
Filing and transfer agent fees	45,864	26,852
Investor relations	460,662	408,512
Office, telephone and miscellaneous	102,080	25,712
Professional fees	75,331	79,183
Property investigation	-	9,742
Stock-based compensation – Note 7	-	2,323,458
Travel and promotion	271,466	210,054
Wages and benefits	<u>195</u>	<u>142,690</u>
Loss before other items and income taxes	(2,640,777)	(4,258,489)
Other items:		
Interest income	880,128	523,147
Provision for impairment of investments in asset-backed commercial paper – Note 4	(4,541,957)	-
Gain on disposition of marketable securities	1,065	1,310
Gain on disposal of resource properties	<u>-</u>	<u>17,660</u>
Loss before income taxes	(6,301,541)	(3,716,372)
Recovery of future income taxes – Note 9	<u>-</u>	<u>42,256</u>
Net loss for the year	<u>(6,301,541)</u>	<u>(3,674,116)</u>
Other comprehensive loss		
Write-down of asset-backed commercial paper – Note 4	-	(1,639,911)
Reclassification of unrealized losses on investments – Note 4	1,639,911	-
Unrealized loss on marketable securities – Note 3	<u>(34,025)</u>	<u>(28,740)</u>
	<u>1,605,886</u>	<u>(1,668,651)</u>
Comprehensive loss for the year	<u>\$ (4,695,655)</u>	<u>\$ (5,342,767)</u>
Basic and diluted loss per share	<u>\$ (0.04)</u>	<u>\$ (0.05)</u>
Weighted average number of shares outstanding	<u>111,512,301</u>	<u>77,903,070</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF SHAREHOLDERS' EQUITY
for the years ended October 31, 2008 and 2007

	<u>Share Capital</u>		<u>Share Subscriptions Receivable</u>	<u>Contributed Surplus</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Deficit</u>	<u>Total</u>
	<u>Number</u>	<u>Amounts</u>					
Balance, October 31, 2006	53,310,351	\$9,156,025	\$(166,100)	\$722,895	-	\$(4,271,021)	\$5,441,799
Issuance of share capital	28,877,442	33,257,580	53,600	-	-	-	33,311,180
Share issue costs	263,212	(2,705,666)	-	926,153	-	-	(1,779,513)
Exercise of warrants	25,366,760	7,970,383	-	-	-	-	7,970,383
Exercise of stock options:							
Cash proceeds	2,885,500	615,730	-	-	-	-	615,730
Ascribed value	-	419,628	-	(419,628)	-	-	-
Shares and warrants for property	735,000	1,014,300	-	176,602	-	-	1,190,902
Stock-based compensation	-	-	-	2,323,458	-	-	2,323,458
Future tax recovery on flow-through shares (net)	-	(172,584)	-	-	-	-	(172,584)
Net loss	-	-	-	-	-	(3,674,116)	(3,674,116)
Write-down of asset-backed commercial paper	-	-	-	-	(1,639,911)	-	(1,639,911)
Unrealized losses on available-for-sale financial assets	-	-	-	-	(28,740)	-	(28,740)
Balance, October 31, 2007	<u>111,438,265</u>	<u>\$ 49,555,396</u>	<u>\$ (112,500)</u>	<u>\$ 3,729,480</u>	<u>\$ (1,668,651)</u>	<u>\$ (7,945,137)</u>	<u>\$ 43,558,588</u>
Issuance of share capital	-	-	112,500	-	-	-	112,500
Exercise of warrants	95,750	40,215	-	-	-	-	40,215
Net loss	-	-	-	-	-	(6,301,541)	(6,301,541)
Reclassification of unrealized losses on investments.	-	-	-	-	1,639,911	-	1,639,911
Unrealized losses on available-for-sale financial assets	-	-	-	-	(34,025)	-	(34,025)
Balance, October 31, 2008	<u>111,534,015</u>	<u>\$ 49,595,611</u>	<u>\$ -</u>	<u>\$ 3,729,480</u>	<u>\$ (62,765)</u>	<u>\$ (14,246,678)</u>	<u>\$ 39,015,648</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
STATEMENTS OF CASH FLOWS
for the years ended October 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Activities		
Net loss for the year	\$ (6,301,541)	\$ (3,674,116)
Add (deduct) items not affecting cash:		
Gain on sale of marketable securities	(1,065)	(997)
Gain on disposal of resource properties	-	(17,760)
Stock-based compensation	-	2,323,458
Recovery of future income taxes	-	(42,256)
Provision for impairment of investments in asset-backed commercial paper	4,541,957	-
Changes in non-cash working capital items related to operations:		
Amounts receivable	1,434	3,061
Goods and services tax receivable	(202,326)	(124,451)
Prepaid expenses	(113,431)	87,016
Accounts payable and accrued liabilities	<u>(162,390)</u>	<u>127,414</u>
Cash used in operating activities	<u>(2,237,362)</u>	<u>(1,318,531)</u>
Financing Activities		
Issue of share capital for cash, net	40,215	39,933,852
Share subscriptions receivable	<u>112,500</u>	<u>53,600</u>
Cash provided by financing activities	<u>152,715</u>	<u>39,987,452</u>
Investing Activities		
Acquisition of resource properties	(104,600)	(124,411)
Reclamation bonds	(32,500)	(7,500)
Acquisition of equipment	(118,619)	-
Purchases in Asset-backed commercial paper	-	(8,199,554)
Proceeds from property option agreements	-	10,000
Proceeds from sale of marketable securities	4,450	-
Deferred exploration and development costs, net of mining credits	<u>(10,852,105)</u>	<u>(4,341,207)</u>
Cash used in investing activities	<u>(11,103,374)</u>	<u>(12,662,672)</u>
Increase (decrease) in cash and cash equivalents during the year	(13,188,021)	26,006,249
Cash and cash equivalents, beginning of year	<u>29,189,043</u>	<u>3,182,794</u>
Cash and cash equivalents, end of year	<u>\$ 16,001,022</u>	<u>\$ 29,189,043</u>
Cash paid during the year for:		
Interest expense	<u>\$ Nil</u>	<u>\$ Nil</u>
Income taxes	<u>\$ Nil</u>	<u>\$ Nil</u>

Non-cash Transactions – Note 10

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
SCHEDULE OF RESOURCE PROPERTIES
for the year ended October 31, 2008

Schedule I

	<u>Blue River</u> <u>Claims</u>	<u>Eldor</u> <u>Property</u>	<u>Other</u> <u>Claims</u>	<u>Totals</u>
Acquisition costs				
Balance, beginning of the year	\$ 114,411	\$ 1,190,901	\$ 28,927	\$ 1,334,239
Staking	<u>86,954</u>	<u>17,646</u>	-	<u>104,600</u>
Balance, end of the year	<u>201,365</u>	<u>1,208,547</u>	<u>28,927</u>	<u>1,438,839</u>
Deferred exploration and development costs				
Balance, beginning of the year	<u>5,653,480</u>	<u>681,485</u>	<u>109,897</u>	<u>6,444,862</u>
Drilling	4,535,650	940,879	-	5,476,529
Drafting and engineering – Note 8	1,682,685	892,683	-	2,575,368
Environmental consulting fees	931,603	-	-	931,603
Geological consulting fees – Note 8	15,560	81,668	226	97,454
Lab analysis	647,349	216,767	-	864,116
Overhead – Note 8	3,534	92,973	-	96,507
Supplies – Note 8	473,929	952,251	-	1,426,180
Travel – Note 8	<u>391,769</u>	<u>1,332,695</u>	<u>-</u>	<u>1,724,464</u>
	<u>8,682,079</u>	<u>4,509,916</u>	<u>226</u>	<u>13,192,221</u>
Less: Mining tax credits	(195,506)	-	-	(195,506)
Balance, end of the year	<u>14,140,053</u>	<u>5,191,401</u>	<u>110,123</u>	<u>19,441,577</u>
Balance, October 31, 2008	<u>\$ 14,341,418</u>	<u>\$ 6,399,948</u>	<u>\$ 139,050</u>	<u>\$ 20,880,416</u>

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SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
SCHEDULE OF RESOURCE PROPERTIES
for the year ended October 31, 2007

	<u>Blue River</u> <u>Claims</u>	<u>Eldor</u> <u>Property</u>	<u>Other</u> <u>Claims</u>	<u>Totals</u>
Acquisition costs				
Balance, beginning of the year	\$ -	\$ -	\$ 33,767	\$ 33,767
Cash	45,000	-	10,000	55,000
Staking	69,411	-	-	69,411
Shares	-	1,190,901	-	1,190,901
Less: option proceeds	<u>-</u>	<u>-</u>	<u>(14,840)</u>	<u>(14,840)</u>
Balance, end of the year	<u>114,411</u>	<u>1,190,901</u>	<u>28,927</u>	<u>1,334,239</u>
Deferred exploration and development costs				
Balance, beginning of the year	<u>2,036,759</u>	<u>-</u>	<u>66,896</u>	<u>2,103,655</u>
Drilling	833,260	-	-	833,260
Drafting and engineering	1,136,451	532,129	-	1,668,580
Environmental consulting fees	973,523	-	-	973,523
Geological consulting fees – Note 8	324,151	13,122	21,917	359,190
Lab analysis	163,013	-	-	163,013
Overhead	98,368	76,672	824	175,864
Recording fees and staking	3,250	2,652	20,260	26,162
Travel	<u>84,705</u>	<u>56,910</u>	<u>-</u>	<u>141,615</u>
	<u>3,616,721</u>	<u>681,485</u>	<u>43,001</u>	<u>4,341,207</u>
Balance, end of the year	<u>5,653,480</u>	<u>681,485</u>	<u>109,897</u>	<u>6,444,862</u>
Balance, October 31, 2007	<u>\$ 5,767,891</u>	<u>\$ 1,872,386</u>	<u>\$ 138,824</u>	<u>\$ 7,779,101</u>

SEE ACCOMPANYING NOTES

COMMERCE RESOURCES CORP.
NOTES TO THE FINANCIAL STATEMENTS
October 31, 2008 and 2007

Note 1 Nature of Operations

Commerce Resources Corp. (the “Company”) is a public company listed on the TSX Venture Exchange in Canada and on the Frankfurt Stock Exchange in Germany. The Company was incorporated on May 19, 1999, under the Company Act of British Columbia and is in the business of acquiring, exploring, developing and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company is in the exploration stage and has interests in properties located in British Columbia (“B.C.”) and Quebec, Canada.

The recoverability of amounts shown for resource properties is dependent upon the discovery of economically recoverable reserves, continuation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain financing to complete their development, and future profitable production or disposition thereof.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results could vary from these estimates.

The financial statements have in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Cash and Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash within 90 days when purchased.

b) Resource Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

Note 2 Summary of Significant Accounting Policies – (cont'd)

b) Resource Properties – (cont'd)

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

c) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful lives using the declining balance method at the following rates:

Furniture and equipment	20%
Computer equipment	30%
Field equipment	3 year straight-line

Additions during the year other than field equipment are amortized at one-half the annual rates.

d) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities are exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Fully dilutive amounts are not presented when the effect of the computations is anti-dilutive due to the losses incurred. Common equivalent shares, consisting of shares issuable on exercise of stock options and warrants, totalling 36,742,543 (2007: 36,985,793) were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

Note 2 Summary of Significant Accounting Policies – (cont'd)

e) Financial Instruments

The Company adopted the Canadian Institute of Chartered Accountants (“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 sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity, from transactions and other events and circumstances 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. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current or comparative period balances on the financial statements.

Under these standards, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of changes in the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, investments held to maturity and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately.

The Company has classified its financial instruments as follows:

- Cash and cash equivalents is classified as held-for-trading and is measured at fair value.
- Marketable securities and asset-backed commercial paper (“ABCP”) are classified as available for sale. They are recorded at fair value at initial recognition. Subsequent revaluation resulting in gains or losses is recorded in the statements of comprehensive income (loss).

Note 2 Summary of Significant Accounting Policies – (cont'd)

e) Financial Instruments – (cont'd)

- Amounts receivable is classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

f) Income Taxes

Income taxes are calculated using the asset and liability method of accounting. Future income tax assets and liabilities relate to the expected future tax consequences of temporary differences between the carrying value of balance sheet items and their corresponding tax values. Future income tax assets and liabilities are calculated using tax rates anticipated to apply in periods that the temporary differences are expected to reverse and are adjusted for the effects of changes in tax law and rates on the date of enactment or substantive enactment. Future income tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the net future income tax assets will be realized.

g) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization of the related asset. The Company has estimated the fair value of the resource properties' site restoration costs, if any, are insignificant.

h) Mining Tax Credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in B.C. and Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Note 2 Summary of Significant Accounting Policies – (cont'd)

i) Stock-based Compensation

The Company uses Black-Scholes option valuation model to estimate the fair value of share purchase options at the date of grant. The fair value of stock options granted to non-employees is re-measured on each balance sheet date. Compensation expense for employees is generally amortized using the straight line method over the period from the grant date to the date the options vest. Compensation expense for non-employees is recognized immediately for past services and pro-rata for future services over the service provision period.

j) Flow-through Shares

Effective March 19, 2004, CICA issued additional guidance on the accounting treatment of Canadian flow-through shares through its Emerging Issues Committee Abstract (“EIC”) No. 146. All flow-through shares issued by the Company on or after March 19, 2004 are accounted for in accordance with this Abstract. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and recognize a temporary future income tax liability for the amount of tax reduction renounced to the shareholders. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deduction is more likely-than-not able to utilize these tax losses before expiring, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

k) Adoption of New Accounting Standards

Effective November 1, 2007, the Company adopted the new CICA accounting standards: (a) Handbook Section 1535, *Capital Disclosures*; (b) handbook Section 3862, *Financial Instruments – Disclosures*; (c) Handbook Section 3863, *Financial Instruments – Presentation*; and (d) Handbook Section 1506, *Accounting Changes*. The main requirements of these new standards and the resulting financial statement impact are described below.

Consistent with the requirements of the new accounting standards, the Company has not restated any prior period amounts as a result of adopting the accounting changes. The effect of the adoption of these standards is summarized below:

i) Capital Disclosure, Section 1535

The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders’ equity.

Note 2 Summary of Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

i) Capital Disclosure, Section 1535 – (cont'd)

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favorable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

The Company's investment policy is to hold excess cash in interest bearing bank accounts.

The Company is not subject to externally imposed capital requirements. There has been no change in the Company's approach to capital management during the period ended October 31, 2008.

ii) Financial Instruments – Disclosure and Presentation, Section 3862 and 3863

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents and investments in asset-backed commercial papers are subject to credit risk. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

Note 2 Summary of Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

ii) Financial Instruments – Disclosure and Presentation, Section 3862 and 3863
– (cont'd)

a) Credit Risk – (cont'd)

At October 31, 2008, cash and cash Equivalents of \$16 million consisted of cash balances of \$5 million on deposit with Canadian chartered banks and \$11 million in short-term bonds issued by Canadian chartered banks. The maximum exposure to credit risk on these financial instruments is their carrying value.

Investments in asset-backed commercial papers of \$3.6 million net of impairment charges represents the maximum exposure to credit risk at October 31, 2008 (Note 4).

The Company mitigates credit risk on these financial instruments by adhering to its Investment Policy that outlines credit risk parameters and concentration limits.

b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future equity placements.

As at October 31 2008, the Company's financial liabilities were comprised of accounts payable and accrued liabilities.

c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

Note 2 Summary of Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

ii) Financial Instruments – Disclosure and Presentation, Section 3862 and 3863
– (cont'd)

c) Market Risk – (cont'd)

i) Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is considered to be in the development stage and has not yet developed commercial mineral interests, the underlying commodity price for minerals is impacted by changes in the exchange rate between the Canadian and United States dollar. As all of the Company's transactions are denominated in Canadian dollars, the Company is not significantly exposed to foreign currency exchange risk at this time.

ii) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk on its cash and cash equivalents and investments in asset-backed commercial paper. The sensitivity analysis on ABCP providing the effect on net income if interest rates were to increase by 100 basis point for the year ended October 31, 2008 is included in Note 4.

Note 2 Summary of Significant Accounting Policies – (cont'd)

k) Adoption of New Accounting Standards – (cont'd)

iii) Accounting Changes, Section 1506:

Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact of this new standard cannot be determined until such time as the Company makes a change in accounting policy, other than the changes resulting from the implementation of the new CICA Handbook standards discussed in this note.

iv) Transaction Costs

On June 1, 2007, the Emerging Issues Committee of the CICA issued abstract No. 166, Accounting Policy Choice for Transaction Costs (“EIC-166”). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial liabilities that are classified as other than held-for-trading to its initial carrying cost measured upon the adoption of CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”). Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective for the year ended October 31, 2008. The Company has chosen to recognize all transaction costs in operations on all financial instruments that have been designated as other than held-for-trading. The adoption of this policy had no material effect on the Company’s financial statements.

v) Cash Distributions

CICA Handbook Section 1540, Cash Flow Statements, has been amended to require additional disclosures where cash distributions are made in accordance with a contractual obligation for cash distributions. The adoption of this section has not resulted in any changes on the disclosure within the financial statements.

Note 2 Summary of Significant Accounting Policies – (cont'd)

1) Recent Released Canadian Accounting Standards

Assessing Going Concern

The Accounting Standards Board (“AcSB”) AcSB amended CICA Handbook Section 1400, 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. The adoption of this Section is not expected to result in any changes on the disclosure within the financial statements.

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. Accordingly, the Company will adopt the new standards for its fiscal year beginning November 1, 2008. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new section on its financial statements.

International financial reporting standards (“IFRS”)

In 2006, 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 GAAP in Canada. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2012. While the Company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Note 3 Marketable Securities

	<u>Cost</u>	<u>Unrealized Loss</u>	<u>Fair Value October 31, 2008</u>	<u>Fair Value October 31, 2007</u>
Available-for-sale	\$ 73,465	\$ 62,765	\$ 10,700	\$ 48,110

Note 4 Investments in Asset-Backed Commercial Paper

As at October 31, 2008, the Company held ABCP issued by a number of trusts with an original cost of \$8,135,655 (2007: \$8,135,655). At the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”). These investments matured in during the year ended October 31, 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. As a result, the Company has classified its ABCP as long-term investments.

On March 17, 2008, the Pan-Canadian Investors Committee (the “Committee”) for ABCP filed proceedings for a plan of compromise and arrangement (the “Plan”) under the Companies’ Creditors Arrangement Act (Canada) (“CCAA”) with the Ontario Superior Court (the “Court”). At the meeting of ABCP noteholders on April 25, 2008, noteholders approved the Plan by the required majorities. On June 5, 2008, the Court issued a sanction order and reasons for the decision approving the Plan as amended. On August 18, 2008, that decision was upheld by the Ontario Court of Appeal and, on September 19, 2008, the Supreme Court of Canada denied leave to appeal. On December 24, 2008, the Committee announced that an agreement had been reached with all key stakeholders, including the governments of Canada, Quebec, Ontario and Alberta, to provide additional margin facilities to support the Plan and finalized certain enhancements to the Plan.

On January 12, 2009, the Ontario Superior Court issued the final implementation order in the ABCP restructuring process. The restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009. A first installment of interest (to August 31, 2008) was also paid on the same day. The balance of the interest is to be paid in subsequent installments, and the amounts and timing are still to be determined. Restructuring fees already incurred and a reserve for additional restructuring fees were deducted from this first interest payment.

Subsequent to October 31, 2008, the Company received upon completion of the restructuring in January 2009 the following:

Note 4 Investments in Asset-Backed Commercial Paper – (cont'd)

- \$7.35 million of senior Master Asset Vehicle MAV II Class A-1 and A-2 Notes and subordinated Class B and Class C Notes
 - \$4.83 million of Class A-1 Notes
 - \$1.95 million of Class A-2 Notes
 - \$0.35 million of Class B Notes
 - \$0.22 million of Class C NotesClass A-1, Class A-2 and Class B Notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C Notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated "A" by DBRS while the subordinated notes (Class B and C) are unrated.
- \$0.78 million of MAV II Ineligible Asset ("IA") Notes
The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. These notes will not be rated.

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at October 31, 2008, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the pan-Canadian restructuring committee and the risks associated with the long-term floating rate notes. The interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses modeled are:

Probability weighted average interest	10.81%
Weighted average discount rate	11.46%
Maturity of long-term floating rate notes	8 years to 30 years
Credit losses	Rated notes: Nil to 30% Unrated notes: 20% to 100%

If these assumptions were to change, the fair value of ABCP could change significantly. The Company recorded a fair value adjustment of \$1,639,911 during the year ended October 31, 2007 to other comprehensive income as it perceived that the decline in fair value was not long-term and concluded that ABCP was not impaired. In accordance with CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement" the Company concluded that the decline in fair value is other than temporary and recognized recorded an impairment charge of \$1,639,911 previously recorded in other comprehensive income in the statement of loss during the year ended October 31, 2008. The valuation model was updated at October 31, 2008 with revised assumptions based on current market conditions and, as a result, the Company recorded an additional provision for impairment of ABCP of \$2,902,046 bringing the total impairment charge to \$4,541,957.

As at October 31, 2008, an increase in the estimated discount rates of 100 basis points would reduce net income by \$275,000.

Note 5 Equipment

	<u>Cost</u>	<u>Amortization</u>	Net Book Value October 31, <u>2008</u>	Net Book Value October 31, <u>2007</u>
Field equipment	\$ <u>118,619</u>	\$ <u>22,380</u>	\$ <u>96,239</u>	\$ <u>-</u>

Note 6 Resource Properties

Blue River Claims – (formerly Verity and Fir Claims)

The Company has a 100% interest in its Verity and Fir claims, located in the Blue River region of the Kamloops Mining District of B.C., Canada, which were previously acquired by staking. During the year ended October 31, 2007, the Company acquired a 100% interest in three additional Fir claims. During the year ended October 31, 2008, the Company acquired a further 13 claims.

Eldor Property

The Company acquired by staking and a purchase agreement with Virginia Mines Inc. (“Virginia Mines”) a 100% interest in the Eldor Carbonatite Complex, located in the Labrador Trough area of Quebec, Canada. During the year ended October 31, 2007, the Company has agreed to purchase 8 mineral claims covering a portion of the Eldor Carbonatite. The claims are adjacent to the approximately 88 claims staked previously. Pursuant to the terms of the purchase agreement, the Company issued 710,000 common shares and 290,000 share purchase warrants to Virginia Mines. The share purchase warrants are exercisable at \$1.12 per share with an expiry date of two years from date of issuance. In connection with this transaction, the Company also issued 25,000 common shares as a finder’s fee. The total of 735,000 common shares issued for this transaction was valued at \$1,014,300 which was determined by the closing price of the Company’s shares on the date of the execution of the option agreement. A charge of \$176,602 had been recorded in resource properties acquisition costs in respect to the share purchase warrants. The fair value of these warrants was determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2007</u>
Weighted average fair value of warrants issued	\$ 0.61
Expected dividend yield	0.0%
Expected volatility	62.1%
Risk-free interest rate	4.50%
Expected term in years	2 years

Virginia Mines will also be entitled to a 1% net smelter royalty. A total of 5 claims noted above are subject to an underlying 5% net profit royalty, which can be purchased for \$500,000.

Note 6 Resource Properties – (cont'd)

Other Claims

Other claims consist of mineral claims located in B.C., Canada known as the Cable Creek, Mud Lake, Carbo and Au/WEN claims. During the year ended October 31, 2007 the Company sold all of its interest in the Au/WEN claims.

Note 7 Share Capital

Authorized:

Unlimited common shares without par value

Issued:

		<u>Number</u>	<u>Amount</u>
Balance, October 31, 2006		53,310,351	\$ 9,156,025
Issued for Eldor property:	- at \$1.38	735,000	1,014,300
Issued for cash:			
– Private placements	- at \$0.32	1,585,625	507,400
	- at \$1.20	27,291,817	32,750,180
Less: share issuance costs		263,212	(2,705,666)
– Exercise of warrants	- at \$0.12	2,083,333	250,000
	- at \$0.18	10,195,450	1,835,181
	- at \$0.42	146,250	61,425
	- at \$0.45	12,941,727	5,823,777
– Exercise of options	- at \$0.10	600,000	60,000
	- at \$0.15	500,000	75,000
	- at \$0.18	700,000	126,000
	- at \$0.20	100,000	20,000
	- at \$0.21	113,000	23,730
	- at \$0.30	500,000	150,000
	- at \$0.35	135,000	47,250
	- at \$0.40	50,000	20,000
	- at \$0.50	187,500	93,750
Transfer of contributed surplus on exercise of options		-	419,628
Less: future income tax recovery on flow-through shares		-	(172,584)
Balance, October 31, 2007		111,438,265	49,555,396
Issued for cash:			
– Exercise of warrants	- at \$0.42	95,750	40,215
Balance, October 31, 2008		<u>111,534,015</u>	<u>\$ 49,595,611</u>

Note 7 Share Capital – (cont'd)

During the year ended October 31, 2007, the Company issued 28,877,442 common shares pursuant to the following private placements:

- a) Issued 1,585,625 common shares pursuant to a non-brokered private placement of units at \$0.32 per unit for total proceeds of \$507,400. Each unit consists of one flow-through common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.42 per share until January 9, 2009. Of the 1,585,625 common shares issued pursuant to the private placement, 640,625 common shares were issued to directors of the Company.
- b) Issued 27,291,817 common shares pursuant to a private placement of units at \$1.20 per unit for total proceeds of \$32,750,180. Each unit consists of one common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$1.50 per share until July 24, 2009. Of the 27,291,817 common shares issued pursuant to the private placement, 145,000 common shares were issued to directors of the Company and a company with a common director. Finders' fees relating to this offering were 263,212 common shares (valued at \$1.20 per share, which is the offering price of the private placement) cash of \$1,909,841 and 1,232,101 brokers warrants entitling the holders to purchase one unit at \$1.20 per unit for each warrant held up to August 1, 2009. The units have the same terms as in this private placement. The fair value of the brokers' warrants issued is \$926,153 which has been determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2007</u>
Weighted average fair value of warrants issued	\$ 0.75
Expected dividend yield	0.0%
Expected volatility	103%
Risk-free interest rate	4.73%
Expected term in years	2 years

During the year ended October 31, 2008, the Company received payment in respect to the subscriptions receivable of \$112,500.

All proceeds from the above private placements were allocated to share capital with no amounts allocated to the attached warrants.

Stock Options

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than 25% of the Company's stock price on the date of the grant. All stock options vest immediately, except for those granted to employees and/or consultants engaged in investor relations activities, of which no more than one-quarter of the options granted may vest in any three month period.

Note 7 Share Capital – (cont'd)

Stock Options – (cont'd)

A summary of the stock option as of October 31, 2008 is presented below:

	<u>2008</u>		<u>2007</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of year	6,847,500	\$0.70	4,593,000	\$0.24
Granted	-	-	5,100,000	\$0.84
Exercised	-	-	(2,885,500)	\$0.19
Expired/forfeited	<u>(262,500)</u>	<u>\$1.03</u>	<u>(75,000)</u>	<u>\$0.10</u>
Outstanding, end of year	<u>6,585,000</u>	<u>\$0.70</u>	<u>6,847,500</u>	<u>\$0.70</u>
Exercisable, end of year	<u>6,585,000</u>	<u>\$0.70</u>	<u>5,532,500</u>	<u>\$0.63</u>

During the year ended October 31, 2008, a compensation charge associated with stock-based compensation in the amount of \$nil (2007: \$2,323,458) has been recorded in the statements of net loss. The fair value of the compensation charges has been determined using the Black-Scholes option pricing model with the following assumptions:

	<u>2008</u>	<u>2007</u>
Weighted average fair value of options granted	\$ Nil	\$0.84
Expected dividend yield	-	0.0%
Expected volatility	-	58% - 63%
Risk-free interest rate	-	4.00% -4.50%
Expected term in years	-	2 - 5 years

At October 31, 2008, the Company had 6,585,000 (2007: 6,847,500) share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

Note 7 Share Capital – (cont'd)

Stock Options – (cont'd)

	<u>Number</u>		<u>Exercise</u>	
	<u>2008</u>	<u>2007</u>	<u>Price</u>	<u>Expiry Date</u>
	-	62,500	\$0.50	June 9, 2008
	500,000	500,000	\$0.55	March 31, 2009
	500,000	500,000	\$0.75	March 31, 2009
	250,000	250,000	\$0.15	February 6, 2011
	20,000	20,000	\$0.18	February 20, 2011
	250,000	250,000	\$0.21	February 20, 2011
	500,000	500,000	\$0.30	March 15, 2011
	550,000	550,000	\$0.35	September 27, 2011
	2,000,000	2,000,000	\$0.67	March 16, 2012
	550,000	550,000	\$1.15	April 16, 2012
	115,000	215,000	\$1.25	April 17, 2012
	250,000	250,000	\$1.12	June 6, 2012
	1,000,000	1,000,000	\$1.00	September 20, 2012
	<u>100,000</u>	<u>200,000</u>	\$1.15	October 3, 2012
	<u>6,585,000</u>	<u>6,847,500</u>		

At October 31, 2008, the 6,585,000 share purchase options outstanding have exercise prices between \$0.15 and \$1.25 and a weighted average remaining contractual life of 2.8 (2007: 3.82 years) years.

During the year ended October 31, 2007, a total of 2,885,500 stock options were exercised at prices ranging from \$0.10 - \$0.50 per share for proceeds of \$615,730.

Share Purchase Warrants

	<u>2008</u>			<u>2007</u>		
	<u>Number of</u>	<u>Weighted</u>	<u>Weighted</u>	<u>Number of</u>	<u>Weighted</u>	<u>Weighted</u>
	<u>Warrants</u>	<u>Average</u>	<u>Average</u>	<u>Warrants</u>	<u>Average</u>	<u>Average</u>
		<u>Exercise</u>	<u>Life</u>		<u>Exercise</u>	<u>Life</u>
		<u>Price</u>	<u>(Years)</u>		<u>Price</u>	<u>(Years)</u>
Balance, beginning of year	28,731,192	\$1.45	2.0	25,243,260	\$0.31	1.0
Issued	-		-	28,877,442	\$1.44	2.0
Exercised	(95,750)	\$0.42	1.2	(25,364,510)	\$0.31	1.0
Expired	-	=	=	(25,000)	\$0.23	1.0
Balance, October 31, 2008	<u>28,635,442</u>	<u>\$1.45</u>	<u>0.7</u>	<u>28,731,192</u>	<u>\$1.45</u>	<u>2.0</u>

Note 7 Share Capital – (cont'd)

Share Purchase Warrants – (cont'd)

The following share purchase warrants are outstanding entitling the holder thereof the right to purchase one common share for each warrant held:

<u>2008</u>	<u>Number</u> <u>2007</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
*1,343,625	1,439,375	\$0.42	January 9, 2009
3,761,003	3,761,003	\$1.50	June 26, 2009
14,674,600	14,674,600	\$1.50	July 24, 2009
<u>8,856,214</u>	<u>8,856,214</u>	\$1.50	August 1, 2009
<u>28,635,442</u>	<u>28,731,192</u>		

* A total of 95,750 share purchase warrants were exercised at \$0.42 for total proceeds of \$40,215. Subsequent to October 31, 2008, the remaining 1,343,625 warrants expired unexercised.

Flow-through Shares

In December, 2006 the Company issued 1,585,625 flow-through common shares at \$0.32 per share for proceeds of \$507,400. The Company has spent the proceeds on exploration and development activities and renounced the expenditures to the flow-through shareholders. A reduction in share capital of \$172,584 was recognized during the year ended October 31, 2007 as a result of this renunciation.

Brokers Units and Warrants

The following brokers units and warrants are also outstanding entitling the holder thereof the right to purchase one common share for each unit or warrant held:

<u>2008</u>	<u>Number</u> <u>2007</u>	<u>Description</u>	<u>Exercise</u> <u>Price</u>	<u>Expiry Date</u>
290,000	290,000	Warrants	\$1.12	June 19, 2009
1,232,101	1,232,101	Brokers' units	\$1.20	August 1, 2009
<u>1,232,101</u>	<u>1,232,101</u>	Warrants*	\$1.50	August 1, 2009
<u>2,754,202</u>	<u>2,754,202</u>			

*Exercisable only if Broker Units are exercised into units.

Note 8 Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following transactions with directors of the Company and companies with a common director:

	<u>2008</u>	<u>2007</u>
Administration fees	\$ 1,080,000	\$ 20,000
Deferred exploration and development costs	3,941,358	1,519,564
Consulting	164,372	-
Property investigation	-	8,762
Wages and benefits	<u>-</u>	<u>106,840</u>
	<u>\$ 5,185,730</u>	<u>\$ 1,655,166</u>

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At October 31, 2008, accounts payable includes \$1,059,605 (2007: \$104,903) due to a company with a common director of the Company for geological consulting work. In addition, the Company has a receivable of \$nil (2007: \$2,364) from a director of the Company.

Administrative fees include management fees, rental expenses and accounting services received during the year.

Note 9 Corporation Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	<u>2008</u>	<u>2007</u>
Statutory tax rate	<u>31.60%</u>	<u>34.12%</u>
Loss before income taxes	<u>\$(4,695,655)</u>	<u>\$(5,342,767)</u>
Expected income tax recovery on net loss, before income tax	1,484,000	1,823,000
Differences due to recognition of items for tax purposes:		
Effect of reduction in statutory rate	(811,000)	-
Expiry of loss carryforward	(100,000)	(10,000)
Increase in valuation allowance	(570,000)	(974,000)
Permanent difference	<u>(3,000)</u>	<u>(797,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ 42,000</u>

Note 9 Corporation Income Taxes – (cont'd)

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

	<u>2008</u>	<u>2007</u>
Non-capital losses carry forward	\$ 1,568,000	\$ 1,449,000
Canadian development and exploration expenditures	(207,000)	(272,000)
Share issue costs	318,000	561,000
Other comprehensive loss	1,181,000	560,000
Other	<u>16,000</u>	<u>8,000</u>
	2,876,000	2,306,000
Less: valuation allowance	<u>(2,876,000)</u>	<u>(2,306,000)</u>
	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded a valuation allowance against its net future income tax assets based on the extent to which it is more-likely-than-not that sufficient taxable income will not be realized during the carry-forward period to utilize all the net future tax assets.

During the year ended October 31, 2008, the Company renounced exploration expenditures relating to flow-through shares totalling \$nil (2007: \$507,400). These amounts are not available to the Company for future deduction from taxable income.

Subject to certain restrictions, the Company has accumulated \$20,062,000 of Canadian development and exploration expenditures available to reduce taxable income of future years. In addition, the Company has accumulated capital losses totalling \$14,000 and non-capital losses totalling \$6,033,000 that are available to reduce taxable income of future years. The non-capital losses expire as follows:

2009	\$ 387,000
2010	255,000
2014	296,000
2015	336,000
2026	703,000
2027	1,884,000
2028	<u>2,172,000</u>
	<u>\$ 6,033,000</u>

Note 10 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statement of cash flows:

During the year ended October 31, 2008:

- a) Deferred exploration and development costs in the investing activities were net of mining tax credits of \$195,506.
- b) Deferred exploration expenditures of \$2,122,230 was included in accounts payable at October 31, 2008.
- c) Accrued interest receivable on ABCP of \$63,899 was reclassified as amounts receivable.

During the year ended October 31, 2007:

- a) The Company received 50,000 common shares of another public company, having a market value of \$15,000, pursuant to an agreement to sell certain mineral claims.
- b) The Company issued 263,212 shares as finders' fees valued at \$315,854 (Note 7).
- c) The Company issued 735,000 common shares and 290,000 warrants on the acquisition of the Eldor Property, valued at \$1,190,902 (Note 6).

Note 11 Subsequent Events

- a) In January 2009, the Company entered into an agreement with an unrelated party whereby the purchaser is entitled to the 75% interest in the Carbo property by paying \$30,000 in cash, issuing 1,500,000 common shares to the Company and incurring total expenditures of \$198,000 on the property over a three year period.
- b) The ABCP restructuring Plan (Note 4) was implemented on January 21, 2009. The ABCP held by the Company with a par value of \$8,135,655 at October 31, 2008 was exchanged for restructured notes on January 21, 2009. The par values of the restructured notes received by the Company on January 21, 2009 corresponded with the notes that were expected to be received at October 31, 2008 as disclosed in Note 4, Investments in Asset-Backed Commercial Paper.

The restructured notes represent new financial instruments as they are new notes issued in exchange for existing ABCP positions. The closing of the restructuring transaction is not expected to have a significant financial impact on the Company's operations or financial condition

Note 12 Comparative Figures

Certain of the prior year's figures for October 31, 2007 have been reclassified to conform with the presentation adopted in the current year.