

**YANKEE HAT MINERALS LTD.**

**FINANCIAL STATEMENTS**

**July 31, 2007 and 2006**

**AUDITORS' REPORT**

To the Shareholders of  
Yankee Hat Minerals Ltd.

We have audited the balance sheet of Yankee Hat Minerals Ltd. as at July 31, 2007 and the statements of operations and deficit and cash flows for the year 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 audit.

We conducted our audit 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 July 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at July 31, 2006 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those financial statements in their report dated December 3, 2006.

Vancouver, British Columbia  
November 26, 2007

**"AMISANO HANSON"**  
Chartered Accountants

**YANKEE HAT MINERALS LTD.**

**Balance Sheets**  
**July 31, 2007 and 2006**

	<u>2007</u>	<u>(Restated - Note 13) 2006</u>
<b>ASSETS</b>		
Current:		
Cash and cash equivalents	\$ 373,832	\$ 647,759
Accrued interest receivable	1,436	2,850
Goods and Services Tax receivable	123,967	37,920
Advance and prepaid expenses (note 9)	<u>37,614</u>	<u>9,178</u>
	536,849	697,707
Equipment (note 4)	10,007	14,841
Resource properties (schedule 1 and notes 5 and 12)	<u>3,263,023</u>	<u>1,655,752</u>
	<u>\$ 3,809,879</u>	<u>\$ 2,368,300</u>

**LIABILITIES**

Current:		
Accounts payable and accrued liabilities (note 9)	<u>\$ 326,214</u>	<u>\$ 135,538</u>

**SHAREHOLDERS' EQUITY**

Share capital (notes 6 and 12)	13,411,072	11,741,813
Contributed surplus (notes 6 and 7)	306,052	130,136
Deficit	<u>(10,233,459)</u>	<u>(9,639,187)</u>
	<u>3,483,665</u>	<u>2,232,762</u>
	<u>\$ 3,809,879</u>	<u>\$ 2,368,300</u>

Nature of Operations (note 1)  
Basis of Presentation (note 2)  
Commitments (notes 5, 6, 8 and 12)  
Subsequent Events (notes 5, 6 and 12)

APPROVED BY THE DIRECTORS:

<u>"Donald Gee"</u>	Director	<u>"Bradley Kitchen"</u>	Director
Donald Gee		Bradley Kitchen	

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

**YANKEE HAT MINERALS LTD.**

**Statements of Operations and Deficit  
Years Ended July 31, 2007 and 2006**

	<b>2007</b>	(Restated - Note 13) <b>2006</b>
General and administrative expenses		
Accounting and audit fees	\$ 56,750	\$ 51,000
Amortization	5,470	6,692
Bank charges and interest	4,526	541
Business development	9,749	11,682
Consulting fees (note 9)	44,168	16,000
Directors fees (note 9)	2,500	3,000
Filings and transfer agent fees	36,090	12,955
Legal fees	57,643	71,621
Management fees (note 9)	162,000	108,000
Office (note 9)	21,002	21,793
Rent (note 9)	12,960	7,000
Shareholder communications	130,860	55,337
Telephone	13,041	9,907
Travel	<u>7,109</u>	<u>3,493</u>
Loss before other items and income tax provision:	(563,868)	(379,021)
Other items:		
Interest income	27,446	9,844
Foreign exchange loss	-	(2,375)
Property investigation costs	-	(700)
Resource property written-off (note 5)	(344,794)	(242,423)
Write-down of loan receivable	-	(30,744)
Stock-based compensation (notes 6 and 7)	<u>(184,195)</u>	<u>(64,546)</u>
Loss for the year before income tax provision	(1,065,411)	(709,965)
Recovery of future income tax asset (note 8)	<u>471,139</u>	<u>-</u>
Net loss for the year	<u>(594,272)</u>	<u>(709,965)</u>
Deficit, beginning of year, as previously reported	(9,575,866)	(8,929,222)
Prior period restatement (note 13)	<u>(63,321)</u>	<u>-</u>
Deficit, beginning of the year, as restated	<u>(9,639,187)</u>	<u>(8,929,222)</u>
Deficit, end of year	<u>\$ (10,233,459)</u>	<u>\$ (9,639,187)</u>
Basic and diluted loss per share	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>
Weighted average number of shares	<u>38,705,043</u>	<u>26,092,467</u>

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

**YANKEE HAT MINERALS LTD.**

**Statements of Cash Flows**  
**Years Ended July 31, 2007 and 2006**

	<u>2007</u>	<u>(Restated - Note 13) 2006</u>
Cash flows from (used in) operating activities		
Net loss for the year	\$ (594,272)	\$ (709,965)
Add items not affecting cash		
- amortization	5,470	6,692
- resource property written-off	344,794	242,423
- write-down of loan receivable	-	28,272
- foreign exchange loss	-	2,375
- stock-based compensation	184,195	64,546
- recovery of future income tax assets	<u>(471,139)</u>	<u>-</u>
	(530,952)	(365,657)
Changes in non-cash working capital items		
Accrued interest receivable	1,414	10,297
Goods and Services Tax receivable	(86,047)	24,685
Advance and prepaid expenses	(28,436)	(9,178)
Accounts payable and accrued liabilities	<u>13,688</u>	<u>43,368</u>
	<u>(630,333)</u>	<u>(296,485)</u>
Investing activities		
Acquisition of equipment	(636)	(5,510)
Acquisition of resource properties	(145,000)	(75,000)
Deferred exploration costs	<u>(1,536,327)</u>	<u>(820,281)</u>
	<u>(1,681,963)</u>	<u>(900,791)</u>
Financing activities		
Loan receivable collected	-	16,072
Issuance of common shares	2,208,329	949,750
Share issuance costs	<u>(169,960)</u>	<u>(8,606)</u>
	<u>2,038,369</u>	<u>957,216</u>
Decrease in cash	(273,927)	(240,060)
Cash and cash equivalents, beginning of year	<u>647,759</u>	<u>887,819</u>
Cash and cash equivalents, end of year	<u>\$ 373,832</u>	<u>\$ 647,759</u>
Cash and cash equivalents consist of:		
Cash balances	\$ 297,332	\$ 201,259
Short-term investments	<u>76,500</u>	<u>446,500</u>
	<u>\$ 373,832</u>	<u>\$ 657,759</u>
Supplementary information:		
Cash paid during the year for:		
Interest paid	<u>\$ -</u>	<u>\$ 29</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>

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

# YANKEE HAT MINERALS LTD.

## Notes to Financial Statements

July 31, 2007 and 2006

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### 1. NATURE OF OPERATIONS

The Company is in the process of exploring its resource properties and has not yet determined whether the resource properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for the resource properties and related deferred exploration costs are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

### 2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principals applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the Company's next fiscal year. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders and ultimately, the attainment of profitable operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

At July 31, 2007, the Company has an accumulated operating deficit of \$10,233,459 (2006 as restated - \$9,639,187) and working capital of \$210,635 (2006 - \$572,169).

### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

#### Resource Property Interests

All costs related to the acquisition, exploration and development of resource property interests are capitalized on a property-by-property basis. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit-of-production method. When a property is abandoned, all related costs are written-off to operations. If, after management review, it is determined that the carrying amount of a property is impaired, that property is written down to its estimated value. Resource properties are reviewed annually for impairment or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for resource properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

# YANKEE HAT MINERALS LTD.

## Notes to Financial Statements

July 31, 2007 and 2006

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### Long-Lived Assets Impairment

Long-lived assets of the Company are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the future projected cash flows from related operations (undiscounted and without interest charges). If impairment is deemed to exist, the assets will be written down to fair value.

#### Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

#### Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis over their estimated useful lives at the following annual rates:

Computer equipment	- 30% - 45%
Exploration equipment	- 20%

#### Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the tax rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets recognized is limited to the amount of the benefit that is more likely than not to be realized.

#### Basic and Diluted Earnings (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 loss per share reflects the potential dilution that could occur if potentially dilutive securities were 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 and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

# YANKEE HAT MINERALS LTD.

## Notes to Financial Statements

July 31, 2007 and 2006

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Actual results could differ from those estimates. The significant areas requiring management estimates include the estimated useful life of equipment and the recoverability of resource properties.

#### Stock-Based Compensation

The Company follows CICA Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" to account for stock-based compensation expense using the fair value based method with respect to all stock based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004. Under this standard, stock-based payments are recorded as an expense over the vesting period with a corresponding increase to contributed surplus. When stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

#### Flow-Through Common Shares

Under the terms of flow-through share agreements, the related expenditures are renounced to the subscribers of such shares. In March 2004, the CICA issued Emerging Issue Committee Abstract No. 146, Flow-through Shares, which clarifies the recognition of previously unrecorded future income tax assets caused by renouncement of expenditures relating to flow-through shares. For flow-through shares issued after March 19, 2004, the Company records the tax effect related to the renounced deductions as a reduction of income tax expense (recovery of future income tax asset) in the statement of operations and as a reduction in share capital in the balance sheet on the date that the Company renounces the deductions for investors.

#### Financial Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents and accounts payable and accrued liabilities approximate their fair value due to the short-term maturity of such instruments.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

#### Foreign Currency Translation

The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at the average exchange rate for the period except for amortization which is translated at the historical rate. Exchange gains and losses arising on translation are included in the statement of operations.

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

3. SIGNIFICANT ACCOUNTING POLICIES, continued

Cash and Cash Equivalents

Cash and cash equivalents consist of all highly liquid investments that are readily convertible to cash.

4. EQUIPMENT

	2007		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
		\$	\$
Computer Equipment	20,672	13,763	6,909
Exploration Equipment	5,740	2,642	3,098
	<u>26,412</u>	<u>16,405</u>	<u>10,007</u>
	2006		
	Cost	Accumulated	Net Book
	\$	Amortization	Value
		\$	\$
Computer Equipment	20,035	9,067	10,968
Exploration Equipment	5,740	1,867	3,873
	<u>25,775</u>	<u>10,934</u>	<u>14,841</u>

5. RESOURCE PROPERTIES (note 12)

	2007			
	Acquisition	Deferred		Net Book
	Cost	Exploration	Written-off	Value
	\$	Cost	\$	\$
		\$		
Fran Property	243,000	2,796,487	-	3,039,487
Lever Lake Property	82,368	202,446	(284,814)	-
Thelon Basin Property	44,868	15,112	(59,980)	-
Union Mine Property	116,000	94,036	-	210,036
Reclamation bonds	-	13,500	-	13,500
	<u>486,236</u>	<u>3,121,581</u>	<u>(344,794)</u>	<u>3,263,023</u>

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

5. RESOURCE PROPERTIES (note 12), continued

	2006			Net Book Value \$
	Acquisition Cost \$	Deferred Exploration Cost \$	Written-off \$	
Fran Property	150,250	1,177,209	-	1,327,459
Lever Lake Property	62,368	202,445	-	264,813
Shanghai Creek Property	204,811	37,612	(242,423)	-
Thelon Basin Property	34,868	15,112	-	49,980
Reclamation bonds	-	13,500	-	13,500
	452,297	1,445,878	(242,423)	1,655,752

a) Fran Property:

By agreement dated March 31, 2004, the Company has earned a 70% interest in three mineral claims located in the Omineca Mining Division, Province of British Columbia and has the right to earn an additional 30% interest.

In consideration, the Company agreed to:

- i) pay \$30,000 (paid) and issue 50,000 common shares on or before October 28, 2004 (issued);
- ii) pay \$30,000 (paid) and issue 75,000 common shares on March 31, 2005 (issued);
- iii) pay \$40,000 (paid) and issue 75,000 common shares on March 31, 2006 (issued);
- iv) pay \$80,000 (paid) and issue 75,000 common shares on March 31, 2007 (issued);
- v) pay \$100,000 and issue 150,000 common shares on March 31, 2008 and an additional \$30,000 by each subsequent anniversary as an advance against future royalty payments; and
- vi) a 2% net smelter return royalty.

Upon completion of the cash payment of \$100,000 and the issuance of \$150,000 as per (v), the Company will earn the remaining 30% interest.

The Company may reduce the royalty by 1% by paying \$2,000,000 in cash.

During the year ended July 31, 2007, the Company staked an additional 12 mineral claims.

b) Lever Lake Property:

By agreement dated June 5, 2005 the company acquired a right to earn an 80% undivided interest in four mineral claims located near the Northern Great Bear Magmatic Zone in the Northwest Territories.

In consideration, the Company agreed to:

- i) pay \$5,000 as a deposit (paid) and an additional \$15,000 upon execution of the Agreement (paid);
- ii) issue 200,000 common shares on or before June 24, 2005 (issued);

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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5. RESOURCE PROPERTIES (note 12), continued

b) Lever Lake Property: continued

- iii) granting 200,000 warrants to acquire 200,000 common shares of the company at \$0.20 per share exercisable for a twelve month period expiring June 14, 2006 (granted).
- iv) incur exploration expenditures as follows:
  - a) a minimum of \$100,000 on or before June 14, 2006;
  - b) additional exploration expenditures of \$500,000 on or before June 14, 2007;
  - c) additional exploration expenditures of \$600,000 on or before June 14, 2008;
  - d) additional exploration expenditures of \$800,000 on or before June 14, 2009;
- v) a 2% net smelter return royalty and a 2% gross overriding royalty (on diamonds);
- vi) issue 100,000 common shares as a finders' fee

Because the commitment for exploration expenditures were not complied with, the Company abandoned their interest in the property and the property costs were fully written off during the year ended July 31, 2007.

c) Thelon Basin Property:

By agreement dated June 5, 2005, the company acquired a right to earn an 80% undivided interest in two mineral claims located near the southern lobe of the Proterozoic Thelon Basin in the Northwest Territories.

In consideration the Company agreed to:

- i) pay \$5,000 as a deposit (paid), and an additional \$5,000 upon execution of the Agreement (paid);
- ii) issue 100,000 common shares on or before June 24, 2005 (issued);
- iii) granting 100,000 warrants to acquire 100,000 common shares of the company at \$0.20 per share exercisable for a twelve month period expiring June 14, 2006 (granted).
- iv) incur exploration expenditures as follows:
  - a) a minimum of \$100,000 on or before June 14, 2006;
  - b) additional exploration expenditures of \$200,000 on or before June 14, 2007;
  - c) additional exploration expenditures of \$300,000 on or before June 14, 2008;
  - d) additional exploration expenditures of \$400,000 on or before June 14, 2009;
- v) a 2% net smelter return royalty and a 2% gross overriding royalty (on diamonds);
- vi) issue 100,000 common shares as a finders' fee (issued).

Because the commitment for exploration expenditures were not complied with, the Company abandoned their interest in the property and the property costs were fully written off during the year ended July 31, 2007.

d) Union Mine Property

By agreement dated September 11, 2006, the Company acquired an option to earn a 100% interest in 27 mineral claims located in the Greenwood Mining Division, Province of British Columbia.

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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5. RESOURCE PROPERTIES (note 12), continued

d) Union Mine Property, continued

In consideration, the Company agreed to:

- i) pay \$30,000 (paid) and issue 175,000 common shares on the fifth business day after the granting of regulatory approval (issued);
- ii) pay \$15,000 on or before September 11, 2007 (paid subsequent to July 31, 2007);
- iii) pay \$15,000 on or before September 11, 2008;
- iv) pay \$15,000 on or before September 11, 2009;
- v) pay \$15,000 on or before September 11, 2010;
- vi) incurring exploration expenditures of not less than \$100,000 on or before October 31, 2008. In the event the exploration expenditures spent are less than \$100,000 the Company may pay the difference before October 31, 2008.

This agreement is subject to a 1.5% net smelter return royalty, subject to a maximum of \$1,000,000.

By agreement dated September 8, 2006, the Company acquired an undivided 100% interest in one mineral claim located in the Greenwood Mining Division, Province of British Columbia. In consideration, the Company agreed to pay \$5,000 (paid) and issue 100,000 common shares (issued). This agreement is subject to a 1.5% net smelter return royalty.

By agreement dated September 11, 2006, the Company acquired an undivided 100% interest in eleven mineral claims located in the Greenwood Mining Division, British Columbia. In consideration, the Company agreed to issue 125,000 common shares (issued). This agreement is subject to a 1.5% net smelter return royalty, subject to a maximum of \$250,000.

By agreement dated September 11, 2006, the Company acquired an undivided 100% interest in four mineral claims located in the Greenwood Mining Division, British Columbia. In consideration, the Company agreed to issue 50,000 common shares on the fifth business day after the granting of regulatory approval (issued).

e) Shanghai Creek Property

By agreement dated April 12, 2004, the Company acquired the right to earn a 100% interest in six mineral claims located in the McQueston River Valley, Yukon Territory.

In consideration, the Company agreed to:

- i) pay \$31,500 (paid) within one week upon execution of the agreement;
- ii) issue 100,000 common shares on or before October 28, 2004 (issued);
- iii) spend \$100,000 on exploration of the Shanghai Creek Property by April 12, 2005 (not fully spent);
- iv) spend an additional \$150,000 on exploration of the Shanghai Creek Property by April 12, 2006 (not spent);
- v) spend an additional \$150,000 on exploration of the Shanghai Creek Property, pay \$25,000 and issue 100,000 common shares by April 12, 2007;

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

5. RESOURCE PROPERTIES (note 12), continued

e) Shanghai Creek Property, continued

- vi) pay \$35,000 and issue 150,000 common shares on April 12, 2008;
- vii) pay \$50,000 and issue 150,000 common shares on April 12, 2009;
- viii) issue 300,000 common shares once \$3,000,000 has been spent on exploration of the shanghai Creek Property;
- ix) issue 300,000 common shares once \$5,000,000 has been spent on the exploration of the Shanghai Creek Property;
- x) a 2% net smelter return royalty; and
- xi) issue 86,000 common shares as a finder's fee.

Because the commitment for exploration expenditures were not complied with, the Company abandoned its interest in the property and the property costs were fully written off during the year ended July 31, 2006.

6. SHARE CAPITAL (note 12)

a) Issued and fully paid

Authorized:

Unlimited number of common and preferred shares

Common shares issued and fully paid:

	2007		2006	
	Number of Shares	Amount \$	Number of Shares	Amount \$
<b>Balance, beginning of year</b>	31,581,262	11,741,813	24,437,009	10,755,084
Issued during the year				
- for cash	15,671,276	2,180,830	6,333,333	950,000
- for exercise of stock options	275,000	27,500	75,000	7,500
- reclassification from contributed surplus on exercise of stock options	-	8,278	-	1,335
- for exercise of share purchase warrants	-	-	75,000	15,000
- for acquisition of resource properties	525,000	93,750	225,000	44,250
- for finder's fee	-	-	435,920	65,388
Receivable on sale of shares	(151,666)	-	-	(22,750)
Recovery of future income tax asset (note 8)	-	(471,139)	-	-
Share issuance costs	-	(169,960)	-	(73,994)
<b>Balance, end of year</b>	<b>47,900,872</b>	<b>13,411,072</b>	<b>31,581,262</b>	<b>11,741,813</b>

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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6. SHARE CAPITAL (note 12), continued

a) Issued and fully paid, continued

- i) During the year ended July 31, 2007 the Company completed a flow-through private placement for 6,277,775 units at \$0.18 per unit for cash proceeds of \$1,130,000. Each unit consists of one flow-through common share of the Company and one share purchase warrant entitling the holder to purchase one non flow-through common share at \$0.30 per share if exercised within the first year up to and including September 27, 2007, and at \$0.40 per share if exercised within the second year, from September 28, 2007 up to and including September 27, 2008. The Company paid a finder's fee and a due diligence fee in cash in connection with this placement, totaling \$104,412.
- ii) During the year ended July 31, 2007 the Company completed a flow-through private placement for 1,393,501 units at \$0.18 per unit for cash proceeds of \$250,830. Each unit consists of one flow-through common share of the Company and one share purchase warrant entitling the holder to purchase one additional share of the Company at \$0.30 per share up to and including December 5, 2007 and thereafter at \$0.40 per share up to and including December 5, 2008. The Company paid \$13,086 in cash as a finder's fee.
- iii) During the year ended July 31, 2007 the Company completed a private placement for 8,000,000 units at \$0.10 per unit for cash proceeds of \$800,000. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional share of the Company at \$0.15 per share up to and including July 10, 2008. The Company paid a total of \$18,850 in cash as finders' fees.
- iv) During the year ended July 31, 2007 the Company issued 525,000 common shares with a fair value of \$93,750 for acquisition of resource properties.
- v) During the year ended July 31, 2006 the Company completed a private placement for 6,333,333 units, at \$0.15 per unit for cash proceeds of \$950,000. Each unit consists of one common share of the Company and one-half of a share purchase warrant. One whole warrant entitling the holder thereof to purchase one additional share of the Company at \$0.30 per share up to and including November 4, 2006. The Company issued an additional 435,920 shares at a deemed price of \$65,388 in payment of finders' fees.
- vi) During the year ended July 31, 2006 the Company issued 225,000 common shares with a fair value of \$44,250 for acquisition of resource properties.
- vii) During the year ended July 31, 2006, the Company issued 151,666 common shares at \$0.15 per common share to an investor. As these shares were never fully paid, the Company held these shares and on September 12, 2007 the shares were cancelled and returned to treasury.

Proceeds from the issue of units is allocated to share capital and none is allocated to warrants.

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

6. SHARE CAPITAL (note 12), continued

b) Stock Options

Under the Company's stock option plan, the Company may grant options to purchase common shares up to a maximum number permitted by the TSX Venture Exchange to directors, officers and employees. Options granted at the market price, less permitted discounts on the grant date, vest according to privileges set at the time the option is granted and must expire no later than five years from the date of grant. The options outstanding below are fully vested except as noted.

As at July 31, 2007, the following stock options are outstanding that are exercisable into an equal number of common shares:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry</u>
100,000	\$0.10	November 17, 2007
75,000	\$0.10	January 28, 2009
225,000	\$0.10	March 12, 2009
1,500,000*	\$0.14	July 27, 2009
600,000	\$0.15	September 20, 2009
450,000*	\$0.16	January 21, 2010
700,000*	\$0.16	August 3, 2011
660,000*	\$0.12	October 13, 2011
<u>950,000*</u>	<u>\$0.10</u>	<u>June 21, 2012</u>
<u>5,260,000</u>		

\* These options vest as to 1/3 every six months from the date granted.

The Company applies the fair value method of accounting for stock-based compensation awards. The total fair value of all stock-based compensation awards granted during the year ended July 31, 2007 is \$599,139 (2006: \$4,990) of which the vested portion of the stock-based compensation expense is \$184,195 (2006: \$1,225).

The fair value of stock options was determined using the Black-Scholes Option Pricing Model with assumptions as follows:

	<u>2007</u>	<u>2006</u>
Risk-free interest rate	3.89 – 4.18%	4.18%
Estimated volatility	101 – 154%	101%
Expected life	2 – 5 years	1 year
Expected dividend yield	0%	0%

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

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

6. SHARE CAPITAL (note 12), continued

b) Stock Options, continued

A summary of the movements in stock options during the years ended July 31, 2007 and 2006 are as follows:

	2007		2006	
	Shares #	Weighted Average Exercise price	Shares #	Weighted Average Exercise price
Stock options outstanding, beginning of year	1,925,000	\$0.14	1,450,000	\$0.12
Granted	3,910,000	\$0.13	550,000	\$0.18
Exercised	(275,000)	\$0.10	(75,000)	\$0.10
Expired	(300,000)	\$0.15	-	-
Stock options outstanding, end of year	5,260,000	\$0.13	1,925,000	\$0.17
Stock options exercisable, end of year	1,803,333		1,850,000	

c) Share Purchase Warrants

As at July 31, 2007 the following share purchase warrants are outstanding that are exercisable into an equal number of common shares:

Number of Warrants	Exercise Price	Expiry
6,277,775	\$0.30 or \$0.40	September 27, 2007 September 27, 2008
1,393,501	\$0.30 or \$0.40	December 5, 2007 December 5, 2008
4,000,000	\$0.15	July 10, 2008

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

6. SHARE CAPITAL (note 12), continued

c) Share Purchase Warrants, continued

A summary of the movements in share purchase warrants during the years ended July 31, 2007 and 2006 are as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life (Years)	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life (Years)
Share purchase warrants outstanding, beginning of year	3,166,667	\$0.30	0.50	9,584,144	\$0.33	0.66
Expired	(3,166,667)	\$0.30	0.50	(9,509,144)	\$0.33	0.66
Exercised	-	-	-	(75,000)	\$0.20	1.00
Issued	12,299,053	\$0.25	1.67	3,166,667	\$0.30	0.50
Share purchase warrants outstanding, end of year	12,299,053	\$0.25	1.67	3,166,667	\$0.30	0.50

7. CONTRIBUTED SURPLUS (note 13)

Balance, July 31, 2005	\$ 66,925
Stock-based compensation for stock options vested (restated)	64,546
Reclassification to common shares on exercise of stock options	<u>(1,335)</u>
Balance, July 31, 2006 (restated)	130,136
Stock-based compensation for stock options vested	184,195
Reclassification to common shares on exercise of stock options	<u>(8,279)</u>
Balance, July 31, 2007	<u>\$ 306,052</u>

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

8. INCOME TAXES

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

	2007	2006
Loss before income taxes	\$ 1,065,411	\$ 709,965
Statutory income tax rate	34.12%	34.25%
Expected tax recovery on loss	\$ 363,518	\$ 243,163
Differences due to recognition of items for tax purposes		
Share issue costs	11,598	-
Stock-based compensation	(62,847)	(22,107)
Write-off of resource properties	(117,644)	(83,030)
Other	907	(2,292)
Non-capital losses carry forward	(195,532)	(135,734)
Recovery of valuation allowance on exploration expenditures renounced	471,139	-
Actual income tax recovery	\$ 471,139	\$ -

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	2007	2006
Future income tax assets (liabilities)		
Non-capital loss carry-forwards	\$ 1,000,995	\$ 808,532
Share issue costs	47,072	-
Exploration and development expenses	(265,379)	93,296
Capital assets	2,865	3,785
Valuation allowance for future income tax assets	(785,553)	(905,613)
	\$ -	\$ -

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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8. INCOME TAXES, continued

The Company has a non-capital tax loss carry forward of \$2,933,749 available to reduce future taxable income. The loss expires as follows:

	\$
2008	807,547
2009	334,042
2010	196,082
2014	192,215
2015	434,487
2026	396,304
2027	573,072
	<hr/> 2,933,749 <hr/>

The Company has capital losses of \$2,476,554 to be applied against future capital gains. These losses can be carried forward indefinitely.

The Company has Canadian Exploration Expenditures totaling \$1,781,926 that are available to reduce future taxable income.

The Company has Canadian Development Expenditures totaling \$714,548 that is available to reduce future taxable income.

The tax benefits of these losses are not reflected in these financial statements.

**Commitment**

During the year ended July 31, 2007, the Company issued 7,671,276 (2006: Nil) flow-through shares for proceeds of \$1,380,830 (2006: \$Nil). The proceeds from these share issues must be used for qualifying exploration expenditures, which will be renounced by the Company in favour of the investors purchasing such shares, and such expenditures are not available to the Company. As at July 31, 2007, cash included funds to be used for qualifying exploration expenditures. During the year ended July 31, 2007, the Company renounced \$1,380,830 (2006: \$Nil) of qualifying expenditures. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$471,139 (2006: \$Nil) with respect to the renunciation.

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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9. RELATED PARTY TRANSACTIONS (note 12)

Related parties are directors and companies controlled by the directors. The following summarizes the Company's related party transactions for the year:

	<u>2007</u>	<u>2006</u>
Consulting fees paid to companies controlled by directors or officers of the Company	\$ 20,000	\$ -
Directors fees paid to directors of the Company	2,500	3,000
Management fees paid to companies controlled by directors or officers of the Company	162,000	108,000
Office expenses paid to a relative of a director of the Company	5,353	-
Rent paid to a company with a common director or to a spouse of an officer of the Company	<u>12,960</u>	<u>5,000</u>
	<u>\$ 202,813</u>	<u>\$ 116,000</u>

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

Advance and prepaid expenses include \$nil (2006 – \$7,924) prepayment to an officer of the Company for management fees.

Accounts payable and accrued liabilities include \$67,799 (2006 – \$1,707) due to companies controlled by directors and officers of the Company, officers and directors of the Company and a spouse of an officer of the Company.

10. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation

11. 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 as follows:

Year ended July 31, 2007

- a) The Company issued 450,000 common shares valued at \$93,750 pursuant to the acquisition of resource properties.
- b) Deferred exploration costs in accounts payable and accrued liabilities amounted to \$176,988.
- c) Upon the exercise of stock options, \$8,279 was reclassified from contributed surplus to share capital.

# YANKEE HAT MINERALS LTD.

## Notes to Financial Statements

July 31, 2007 and 2006

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### 11. NON-CASH TRANSACTIONS, continued

#### Year ended July 31, 2006

- a) The Company issued 225,000 common shares valued at \$44,250 pursuant to the acquisition of resource properties.
- b) The Company issued 435,920 common shares valued at \$65,388 as payment with respect to finders' fees.
- c) Upon the exercise of stock options, \$1,335 was reclassified from contributed surplus to share capital.

### 12. SUBSEQUENT EVENTS (notes 5 and 6)

- a) By a letter of intent dated November 9, 2007, the Company is prepared to enter into an option agreement to earn up to a 70% interest in eight mineral claims located in La Ronge, Saskatchewan.

In consideration, the Company agreed to incur a total of \$1,500,000 in expenditures on the mineral claims as follows:

- i) \$750,000 on or before December 31, 2008 to earn a 50% interest in the mineral claims;
- ii) an additional \$375,000 on or before December 31, 2009 to earn an additional 10% interest in the mineral claims; and
- iii) an additional \$375,000 on or before December 31, 2010 to earn an additional 10% interest in the mineral claims.

This letter of intent is subject to an existing 0.5% net smelter return royalty and a 10% carried interest owned by an unrelated party. The letter of intent is also subject to the completion of a definitive agreement to be negotiated within 90 days of this letter of intent, regulatory approval and other due diligence by the Company.

This letter of intent was entered into with a related company. The Company is related by virtue of a common director.

- b) Subsequent to July 31, 2007, the Company issued to former directors of the Company 165,000 common shares at \$0.10 per share pursuant to the exercise of share purchase options outstanding at July 31, 2007.

On November 17, 2007, 35,000 share purchase options exercisable at \$0.10 per share expired.

### 13. PRIOR PERIOD ADJUSTMENT

During the year ended July 31, 2006, the Company did not disclose that additional share purchase options were granted to acquire up to 450,000 common shares at \$0.16 per share exercisable to January 21, 2010. The financial statements for the year ended July 31, 2006 have been restated to reflect an adjustment to the amount recognized for stock-based compensation relating to the year ended July 31, 2006 due to the share purchase options that were granted. As a result, stock-based compensation previously reported as \$1,225 was restated to \$64,546. The effect of the correction of the financial statements for the year ended July 31, 2006 is summarized as follows:

**YANKEE HAT MINERALS LTD.**

**Notes to Financial Statements**

**July 31, 2007 and 2006**

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13. PRIOR PERIOD ADJUSTMENT, continued

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Restated</u>
Net loss	\$ (646,644)	\$ (63,321)	\$ (709,965)
Contributed surplus	\$ 66,815	\$ 63,321	\$ 130,136
Deficit	\$ (9,575,866)	\$ (63,321)	\$ (9,639,187)

The amount of the restatement increased basic and diluted loss per share from \$(0.02) to \$(0.03) for the year ended July 31, 2006.

## YANKEE HAT MINERALS LTD.

## Schedule of Deferred Exploration Costs

Years Ended July 31, 2007 and 2006

	<i>2007</i>	<i>2006</i>
<b><i>Fran Property:</i></b>		
Balance, beginning of year	\$ 1,177,209	\$ 574,486
Assay	84,261	35,672
Geological	965,260	402,457
Mapping	2,500	1,806
Drilling	567,257	137,240
Report preparation	<u>-</u>	<u>25,548</u>
Balance, end of year	<u>2,796,487</u>	<u>1,177,209</u>
<b><i>Lever Lake Property:</i></b>		
Balance, beginning of year	202,445	-
Geological	-	15,384
Survey	<u>-</u>	<u>187,061</u>
	202,445	202,445
Resource property written off	<u>(202,445)</u>	<u>-</u>
Balance, end of year	<u>-</u>	<u>202,445</u>
<b><i>Thelon Basin Property:</i></b>		
Balance, beginning of year	15,112	-
Geological	<u>-</u>	<u>15,112</u>
	15,112	15,112
Resource Property written off	<u>(15,112)</u>	<u>-</u>
Balance, end of year	<u>-</u>	<u>15,112</u>
<b><i>Union Mine Property:</i></b>		
Balance, beginning of year	-	-
Assay	992	-
Geological	82,146	-
Legal	<u>10,899</u>	<u>-</u>
Balance, end of year	<u>94,037</u>	<u>-</u>
Total	<u>\$ 2,890,524</u>	<u>\$ 1,394,766</u>