YANKEE HAT MINERALS LTD.

AUDITED ANNUAL FINANCIAL STATEMENTS

For the years ended July 31, 2009 and 2008

BDO Dunwoody LLP
Chartered Accountants

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AUDITORS' REPORT

To the Shareholders,
Yankee Hat Minerals Ltd.

We have audited the balance sheets of Yankee Hat Minerals Ltd. as at July 31, 2009 and 2008 and the statements of operations and deficit 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 July 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

(signed) “BDO Dunwoody LLP”

Chartered Accountants

Vancouver, Canada
December 3, 2009

YANKEE HAT MINERALS LTD.
BALANCE SHEETS
July 31, 2009 and 2008

	2009	2008
ASSETS		
CURRENT		
Cash and cash equivalents	$ 257,393	$ 119,895
Amounts receivable	3,000	311,064
Goods and Services Tax recoverable	21,811	59,699
Prepaid expenses	68,833	18,907
	351,037	509,565
Exploration advances (note 6(d))	144,219	-
Equipment and exploration database (note 4)	81,738	147,513
Mineral properties (note 6)	4,569,876	5,270,830
	$ 5,146,870	$ 5,927,908
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (note 9)	$ 659,348	$ 1,112,247
Exploration advances received (note 6(d))	361,684	-
Loans payable (notes 5 and 9)	184,607	305,000
Subscriptions received	50,000	-
	1,255,639	1,417,247
SHAREHOLDERS' DEFICIENCY		
Share capital (notes 6 and 7)	16,641,944	15,711,481
Contributed surplus (note 8)	918,296	894,020
Commitment to issue shares (note 6(g))	-	135,000
Deficit	(13,669,009)	(12,229,840)
	3,891,231	4,510,661
	$ 5,146,870	$ 5,927,908

Nature of Operations (note 1)
Basis of Presentation and Ability to Continue as a Going Concern (note 2)
Commitments (notes 6 and 7)
Subsequent Events (note 6)
Contingencies (note 15)

APPROVED BY THE DIRECTORS:

"Terence Schorn" Director — Terence Schorn

"Bradley Kitchen" Director — Bradley Kitchen

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

YANKEE HAT MINERALS LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
For the years ended July 31, 2009 and 2008

	2009	2008
Operating expenses		
Amortization	$ 20,111	$ 5,934
Bad debts	4,382	-
Commissions and finder's fees	38,520	25,830
Consulting (note 9)	122,000	121,927
Filing and transfer agent fees	31,480	59,525
Interest expense	54,174	-
Investor relations	60,724	126,701
Management fees (note 9)	236,896	242,750
Occupancy costs (note 9)	24,388	23,350
Office administration and miscellaneous	35,636	87,894
Professional fees (note 9)	52,037	152,940
Stock-based compensation (note 7)	24,276	586,885
Travel	21,896	57,279
	726,520	1,491,015
Other (income) and expenses		
Gain on debt settlement (note 6)	(206,450)	-
Interest income	(9,644)	(1,581)
Equipment rental income	(22,000)	-
Operator fees	(34,916)	(10,549)
Reconnaissance	38,854	131,216
Write off of fixed assets (note 4)	4,281	-
Write off of mineral property (note 6)	1,270,417	386,280
Loss before income tax provision	(1,767,062)	(1,996,381)
Future income tax recovery (note 11)	327,893	-
Net loss and comprehensive loss for the year	(1,439,169)	(1,996,381)
Deficit, beginning of year	(12,229,840)	(10,233,459)
Deficit, end of year	$ (13,669,009)	$ (12,229,840)
Basic and diluted net loss per share for the year	$ (0.02)	$ (0.04)
Weighted average number of shares outstanding	71,879,900	51,710,643

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

YANKEE HAT MINERALS LTD.
STATEMENTS OF CASH FLOWS
For the years ended July 31, 2009 and 2008

	2009	2008
Cash provided by (used in) Operating Activities		
Net loss for the year before income tax provision	$ (1,767,062)	$ (1,996,381)
Operating items not involving cash:		
Amortization	21,736	5,934
Bad debt expense	4,382	
Fixed assets written off	2,656	-
Mineral properties written off	1,270,417	386,280
Gain on settlement of debt	(206,450)	-
Stock-based compensation	24,276	586,885
	(650,045)	(1,017,282)
Changes in non-cash operating working capital:		
Amounts receivable	303,681	(309,628)
Goods and services tax payable	37,888	64,268
Exploration advances	(144,219)	-
Prepaid expenses	(23,143)	18,707
Accounts payable and accrued liabilities	181,867	180,063
Exploration advances received	361,684	-
Loans payable	(120,393)	305,000
	(52,680)	(758,872)
Financing Activities		
Issuance of common shares for cash	343,986	1,766,500
Share subscriptions received	50,000	-
Share issuance costs	(7,000)	(101,730)
	386,986	1,664,770
Investment Activities		
Equipment costs	(615)	(73,440)
Mineral property costs net of recoveries	(196,193)	(1,086,395)
	(196,808)	(1,159,835)
Net increase (decrease) in cash	137,498	(253,937)
Cash and cash equivalents, beginning of year	119,895	373,832
Cash and cash equivalents, end of year	$ 257,393	$ 119,895
Supplemental cash flow information		
Interest paid	$ 24,026	$ -
Income taxes paid	$ -	$ -
Cash and cash equivalents consist of:		
Cash	$ 237,393	$ 99,895
Term deposits	16,500	16,500
Reclamation bonds	3,500	3,500
	$ 257,393	$ 119,895

Non-cash Transactions (note 12)

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

YANKEE HAT MINERALS LTD.
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
For the years ended July 31, 2009 and 2008

Note 1 Nature of Operations

The Company is in the process of exploring its mineral properties and has not yet determined whether the mineral properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for the mineral 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.

Note 2 Basis of Presentation and Ability to Continue as a Going Concern

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At July 31, 2009, the Company had not yet achieved profitable operations, had a working capital deficiency of $904,602, has accumulated losses of $13,669,009 since inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 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.

Mineral Properties

The Company capitalizes 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 include all expenditures made with respect to maintaining on site administration of exploration projects. Cost 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.

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.

Note 3 Significant Accounting Policies – (cont'd)

Long-Lived Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

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. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

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 rates for the related asset. The Company does not have any asset retirement obligations as at July 31, 2009 and 2008.

Equipment and Exploration Data

Equipment and exploration data 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	- 45%
Exploration database	- 6%
Exploration equipment	- 20%
Motor vehicle	- 30%

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 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. 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.

For the years ended July 31, 2009, and 2008, potentially dilutive common shares (relating to options outstanding at year-end) totaling 2,730,000 (2008: 15,019,420) were not included in the computation of loss per share because their effect was anti-dilutive.

Note 3 Significant Accounting Policies – (cont'd)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting 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. Significant estimates used in the preparation of these financial statements include, but are not limited to, recoverability of receivables, accounting for stock-based compensation, expected economic lives of and the estimated future operating results and net cash flows from mineral properties and plant and equipment and valuation allowances applied against future tax assets.

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. Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the measurement date and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to common share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date unless there is a specific contractual term.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at fair value and recognized over the vesting period. Changes in fair value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

Flow-Through Common Shares

The Canadian Institute of Chartered Accountants has issued guidance on the accounting treatment for Canadian flow-through shares through its Emerging Issues Committee Abstract ("EIC") No. 146. Upon renunciation of exploration expenditures to the shareholders for flow-through shares issued by the Company, the Company reduces share capital and recognizes a 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 and is more-likely-than-not able to utilize either these tax losses or other deductible temporary differences before expiry, the Company recognizes future tax assets, with a corresponding credit to operations, for an amount equal to the future income tax liability.

Note 3 Significant Accounting Policies – (cont'd)

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 year except for amortization which is translated at the historical rate. Exchange gains and losses arising on translation are included in the statement of operations.

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts, which are not subject to withdrawal restrictions or penalties, and all short-term highly-liquid investments with an original maturity to the holder of three months or less.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities. The future tax assets or liabilities are calculated using the tax rates for the period in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

Share Issue Costs

Share issue costs, which include commissions, professional and regulatory fees are charged directly to share capital.

Financial Instruments

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. Transaction costs related to debt financings will be expensed in the period incurred.

The Company's financial instruments consist of cash and cash equivalents, which are classified as held-for-trading, and accounts payable, exploration advances received, loans payable and subscriptions received, which are classified as other financial liabilities, and amounts receivable which are classified as loans and receivables. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments (Note 13).

Note 3 Significant Accounting Policies – (cont'd)

Accounting Changes

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 consolidated 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 consolidated financial statements.

Comprehensive Income

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translating of financial statements of self-sustaining foreign operations. As at June 30, 2009 and 2008, the Company has no items that represent comprehensive income, and therefore, has not included a schedule of comprehensive income in these consolidated financial statements.

Recently Adopted Canadian Accounting Standards

Going Concern

Effective August 1, 2008, the Company adopted the amendments to the guidelines of CICA Handbook Section 1400, General Standards of Financial Statement Presentation. The Canadian Accountability Standards Board amended Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The adoption of these amendments resulted in no disclosure changes to the Company's financial statements.

Financial Instruments

Effective August 1, 2008, the Company adopted the new guidelines of CICA Handbook Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation. These standards replace CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation.

These standards increase the disclosures previously required, enabling users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, qualitative and quantitative disclosure is required about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. The quantitative disclosures must provide information about the extent to which the Company is exposed to such risk, based on information provided internally to the entity's key management personnel. The disclosure required under this accounting standard is contained within Note 13.

Capital Disclosures

Effective August 1, 2008, the Company adopted the new guidelines of CICA Handbook Section 1535, Capital Disclosures, which requires companies to disclose their objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, and whether they have complied with externally imposed capital requirements and, if not in compliance, the consequences of such non-compliance. The disclosure required under this accounting standard is contained within Note 14.

Note 3 Significant Accounting Policies – (cont'd)

Future Accounting Changes

Financial Statement Concepts

Handbook section 1000 has been amended to focus on the capitalization of costs that meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of the adoption of this change on its financial statements.

Goodwill and Intangible Assets

The Canadian Accounting Standards Board ("AcSB") issued 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 August 1, 2009. 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, the Canadian Accounting Standards Board ("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 generally accepted accounting principles with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The effective date for the Company is for interim and annual financial statements relating to fiscal years beginning on or after June 1, 2011. This transition will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended July 31, 2011. The Company continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

Note 4 Equipment and Exploration Data

	As at July 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 615	$ 111	$ 504
Exploration database	28,000	4,106	23,894
Exploration equipment	49,755	12,930	36,825
Motor vehicle	29,425	8,910	20,515
	$ 107,815	$ 26,058	$ 81,738

Note 4 Equipment and Exploration Data – (cont'd)

During the year ended July 31, 2009, computer equipment no longer in use was written off in the amount of $4,281 which represented $20,672 in acquisition costs and $16,391 in accumulated amortization.

	As at July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 20,672	$ 16,391	$ 4,280
Exploration database	70,000	-	70,000
Exploration equipment	49,755	4,545	45,211
Motor vehicle	29,425	1,403	28,022
	$ 169,852	$ 22,339	$ 147,513

Note 5 Loans Payable

Loans payable of $184,606 (2008: $305,000) are unsecured, non-interest bearing except for an amount of $84,606 which bears interest at 12% per annum, and have no specified terms of repayment.

Note 6 Resource Properties

	Balance July 31, 2008	Acquisition Costs	Deferred Exploration Costs	Recoveries	Written-off	Balance July 31, 2009
Achtung and Birdtung	$ 5,000	$ 14,667	$ -	$ -	$ (19,667)	$ -
Fran Property	3,353,735	30,000	9,679	-	-	3,393,414
Kidlark Property	-	661,126	145,565	(538,742)	-	267,949
Lancer Property	288,889	288,889	-	-	-	577,778
Selwyn Properties	143,629	-	43,712	(112,000)	-	75,341
Tungsten Properties	135,000	-	-	-	(135,000)	-
Union Mine Property	232,321	22,573	500	-	-	255,394
WAU Property	558,333	-	-	(17,785)	(540,548)	-
Whitehorse Copper Property	553,923	685	20,594	-	(575,202)	-
	$5,270,830	$1,017,940	$ 220,050	$ (668,527)	$ (1,270,417)	$ 4,569,876

Note 6 Resource Properties – (cont'd)

	Balance July 31, 2007	Acquisition Costs	Deferred Exploration Costs	Recoveries	Written-off	Balance July 31, 2008
Achtung and Birdtung	$ -	$ 5,000	$ -	$ -	$ -	$ 5,000
Fran Property	3,039,487	116,500	197,748	-	-	3,353,735
George's Lake Property	-	137,500	248,780	-	(386,280)	-
Lancer Property	-	288,889	-	-	-	288,889
Selwyn Properties	-	44,823	116,536	(17,730)	-	143,629
Tungsten Properties	-	135,000	-	-	-	135,000
Union Mine Property	210,036	15,092	7,193	-	-	232,321
WAU Property	-	233,333	325,000	-	-	558,333
Whitehorse Copper Property	-	128,000	425,923	-	-	553,923
Reclamation bonds	13,500	-	-	(13,500)	-	-
	$3,263,023	$1,104,137	$1,321,180	$ 31,3230)	$ (386,280)	$ 5,270,830

a) Achtung and Birdtung Properties:

On June 30, 2008, the company entered into two separate option agreements to earn an undivided 100% interest in two mineral properties, one located in northern British Columbia and the other located in southern Yukon Territory. The property vendor will retain a 2% net smelter return royalty along with the right to collect surface gemstones and crystals.

In consideration, the Company agreed to:

i) pay $5,000 (paid) upon signing of the agreements;
ii) pay an additional $5,000 (paid) and issue 66,666 common shares (issued) by November 1, 2008;
iii) pay an additional $10,000 (not paid) and issue 66,666 common shares (not issued) by November 1, 2009;
iv) pay an additional $20,000 and issue 133,334 common shares by November 1, 2010;
v) pay an additional $20,000 and issue 133,334 common shares by November 1, 2011;
vi) pay an additional $40,000 and issue 266,666 common shares by November 1, 2012; and
vii) pay an additional $100,000 and issue 266,666 common shares by November 1, 2013.

During the year ended July 31, 2009, the Company decided not to continue with this option agreement and has written off costs incurred to date of $19,667.

b) 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. With the March 31, 2008 cash and share payment, the Company has earned 100% of the property.

Note 6 Resource Properties – (cont'd)

b) Fran Property: – (cont'd)

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 (paid) and issue 150,000 common shares on March 31, 2008 (issued) and an additional $30,000 by each subsequent anniversary as an advance against future royalty payments; and
vii) a 2% net smelter return royalty to the optionor.

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

At July 31, 2009 the $30,000 cash advance for future royalty payments due March 31, 2009 has not been paid. The operator has agreed that although the advance was not yet paid, the claims and option agreement are still in good standing despite the late payment and this amount has been accrued.

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

On April 15, 2009 the Company entered into a Letter of Intent with a company that has a director and an officer in common with the Company, whereby the Company could grant an option to the other company to acquire up to a 51% interest in the Fran property by making a payment of $100,000 (received) to the Company upon execution of the Definitive Agreement (the "Effective Date") or a date no later than December 31, 2009.

The definitive agreement on this transaction was not completed and the optionee has stated that it does not intend to complete the agreement. The $100,000 received is included in loans payable (Note 5).

c) George's Lake Property:

By a Letter of Intent dated November 9, 2007, the Company intended to enter into an option agreement with a company having a director in common to earn up to a 70% interest in eight mineral claims located in La Ronge, Saskatchewan.

Management decided not to enter into an option agreement and as a result of this decision, the costs incurred of $386,280 were written off during the year ended July 31, 2008. During the year ended July 31, 2009, an amount payable of $196,450 related to the costs incurred was forgiven by the creditor.

Note 6 Resource Properties – (cont'd)

d) Kidlark Property:

On January 31, 2009, the Company entered into an asset purchase agreement to purchase a 100% interest in a group of 102 mineral claims located in the Pelly Mountains approximately 90km northeast of Whitehorse, Yukon from a company having a common director and officer for consideration of $662,000.

The Company has also entered into an agreement with a Japanese government corporation ("JOGMEC") for exploration of these properties with costs to be shared as to 40% by the company and 60% by JOGMEC. The Company is the operator of the exploration program with JOGMEC paying the Company a 10% operator fee on costs allocated to JOGMEC. Exploration advances received represents cash that JOGMEC has paid in advance of expenditures incurred and exploration advances paid represents cash deposits that the Company has provided to subcontractors for future work.

Under the agreement with JOGMEC, either parties' interest can be amended if expenditures are not shared as stated and if a respective interest is diluted to below 10% that parties' interest will be converted to a 1% net smelter return royalty. During the year ended July 31, 2009, the Company determined that JOGMEC would pay 100% of the summer 2009 exploration season expenses. Management expects that this will cause a dilution of the share of ownership in the property down to approximately 25%. JOGMEC's share will move to approximately 75%. The ownership percentages will be determined subsequent to July 31, 2009 after the current exploration program currently in progress is completed and costs paid by each party are determined.

e) Lancer Property:

On May 7, 2008, the Company received final approval on an agreement to acquire up to a 100% interest in two contiguous rare earth element properties located in south central Yukon. The REE property and the Lancer property have been optioned from two separate vendors, through this one agreement, and are both subject to a 2% net smelter return royalty to the vendors. The REE and Lancer properties consist of 32 mineral claims located in the Watson Lake region of the Yukon Territory.

Under the terms of the agreement, to earn the 100% interest, the Company is required to issue a total of 6,666,666 common shares according to the following schedule:

i) issue 2,222,222 common shares upon regulatory approval of the agreement (issued);
ii) issue 2,222,222 common shares by February 10, 2009 (issued); and
iii) issue 2,222,222 common shares on February 10, 2010.

f) Selwyn Properties:

The Company entered into an assignment agreement dated July 18, 2008 to purchase a 40% interest in a group of 299 mineral claims for a total of $44,823, net of reimbursements. These claims are located in several property groups throughout mid-central Yukon Territory. The claims include the Molly, Joey, Suki, and Tommy properties, staked in cooperation with JOGMEC, which is the holder of the other 60% interest.

Note 6 Resource Properties – (cont'd)

f) Selwyn Properties: – (cont'd)

The Company has also entered into an agreement with a Japanese government corporation ("JOGMEC") for exploration of these properties with costs to be shared as to 40% by the company and 60% by JOGMEC. The Company is the operator of the exploration program with JOGMEC paying the Company a 10% operator fee on costs allocated to JOGMEC. Exploration advances received represents cash that JOGMEC has paid in advance of expenditures incurred and exploration advances paid represents cash deposits that the Company has provided to subcontractors for future work.

Under the agreement with JOGMEC, either parties' interest can be amended if expenditures are not shared as stated and if a respective interest is debited to below 10% that parties' interest will be converted to net smelting return royalty. During the year ended July 31, 2009, the Company determined that JOGMEC would pay 100% of the summer 2009 exploration season expenses. Management expects that this will cause a dilution of the share of ownership in the property down to approximately 25%. JOGMEC's share will move to approximately 75%. The ownership percentages will be determined subsequent to July 31, 2009 after the current exploration program currently in progress is completed and costs paid by each party are determined.

g) Tungsten Properties:

On July 31, 2008, the Company received TSX Venture exchange approval on an agreement to purchase five Tungsten properties located in the Yukon Territory including Boot, Hidden, Track, Meloy and Obvious. Each of the properties is subject to a 1% net smelter return royalty, except for the Track property which is subject to a 2% royalty.

Under the terms of the agreement, to earn the 100% interest the Company is required to issue a total of 10,000,000 common shares to the vendor according to the following schedule:

i) issue 1,000,000 common shares upon regulatory approval of the agreement (As at July 31, 2008, an obligation to issue these shares was recorded. The shares were issued during the year ended July 31, 2009 and were valued at their trading price when issued);
ii) issue 2,000,000 common shares by December 31, 2008 (not issued);
iii) issue 3,000,000 common shares by December 31, 2009; and
iv) issue 4,000,000 common shares by December 31, 2010.

The agreement also specifies that in order to earn the 100% interest, the Company will undertake exploration expenditures of a total of $5,000,000 according to the following schedule:

i) $1,000,000 by December 31, 2008;
ii) $1,500,000 by December 31, 2009; and
iii) $2,500,000 by December 31, 2010.

During the year ended July 31, 2009, the Company decided not to continue with its option under this agreement and has written off the costs incurred to date of $135,000.

Note 6 Resource Properties – (cont'd)

h) 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.

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);
iii) pay $15,000 on or before September 11, 2008 (paid);
iv) pay $15,000 on or before September 11, 2009 (paid subsequent to July 31, 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 (incurred).

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

By agreements dated September 8 and 11, 2006, the Company acquired an undivided 100% interest in sixteen mineral claims located in the Greenwood Mining Division, Province of British Columbia. In consideration, the Company agreed to pay $5,000 (paid) and issue 275,000 common shares (issued). One of these claims is subject to a 1.5% net smelter return royalty. Another eleven claims are subject to a 1.5% net smelter royalty subject to a maximum of $250,000.

i) WAU Property:

On May 13, 2008, the Company received TSX Venture exchange approval on an agreement to acquire up to a 51% interest in a tungsten-polymetallic property located in central Yukon.

Under the terms of the agreement, to earn a 50% interest, the Company was required to issue a total of 6,666,666 common shares according to the following schedule:

i) issue 2,222,222 common shares upon regulatory approval of the agreement (issued);
ii) issue 2,222,222 common shares by May 13, 2009 (not issued); and
iii) issue 2,222,222 common shares on May 13, 2010.

The Company was also required to complete a total of $2,000,000 in exploration expenditures on the property in accordance with the following schedule:

i) $500,000 on or before December 31, 2008 ($325,000 expended);
ii) An additional $500,000 on or before December 31, 2009; and
iii) An additional $1,000,000 on or before December 31, 2010.

After the Company completed these obligations, it would have had the option to acquire an additional 1% interest in the Property for a total interest of 51% in exchange for a $1,000,000 cash payment to the optionor.

During the year ended July 31, 2009, the Company decided not to pursue the option on this property and has written off the costs incurred to date of $540,548.

Note 6 Resource Properties – (cont'd)

j) Whitehorse Copper Property (Formerly Lobo Del Norte):

On June 24, 2008, the Company received final approval on an agreement to acquire up to a 100% interest (subject to a 2% net smelter return royalty) in the Whitehorse Copper Property. This property consists of 27 mineral claims and is located in the Whitehorse copper belt 20 kilometers southwest of Whitehorse, Yukon.

The terms of the letter of intent required consideration of $1,050,000 in cash and 2,700,000 common shares to be paid according to the following schedule:

i) $30,000 upon execution of the letter of intent (paid);
ii) $170,000 (not paid) and 700,000 (issued) shares upon receipt of regulatory approval for the transaction including completion of a NI 43-101 report on the property;
iii) $350,000 (not paid) and 1,000,000 (not issued) shares upon June 24, 2009; and
iv) $500,000 and 1,000,000 shares upon June 24, 2010.

The Company was also to complete a total of $1,250,000 in exploration expenditures on the property in accordance with the following schedule:

i) $100,000 on or before June 24, 2008 (expended);
ii) An additional $250,000 on or before June 24, 2009 (expended);
iii) An additional $400,000 on or before June 24, 2010 (of which $97,000 has been expended); and
iv) An additional $500,000 on or before June 24, 2011.

Also, the Company, at its option, was to issue 2,000,000 common shares or $2,000,000 in cash in accordance with the following performance milestones:

i) 1,000,000 common shares or $1,000,000 cash upon completion of a feasibility study; and
ii) 1,000,000 common shares or $1,000,000 cash upon commencement of commercial production.

The Company would have earned a 50% interest in the property once the Company had incurred a total of $350,000 of exploration expenditures and a 100% interest after incurring an additional $700,000 of expenditures on the property.

During the year ended July 31, 2009, the Company decided not to continue with this option and has written off the costs incurred to date of $575,202.

Note 7 Share Capital

a) Authorized:

Unlimited number of common and preferred shares

Note 7 Share Capital – (cont'd)

b) Issued:

	July 31, 2009		July 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	65,038,650	$ 15,711,481	47,900,872	$ 13,411,072
Issued during the period				
- for cash	8,045,888	343,986	11,643,334	1,746,500
- for exercise of stock Options	-	-	200,000	20,000
- reclassification from contributed surplus on exercise of stock options	-	-	-	21,815
- for settlement of debt	9,636,298	481,815	-	-
- for acquisition of resource properties	3,388,888	439,555	5,294,444	636,722
Share issuance costs	-	(7,000)	-	(124,628)
Future income taxes on flow-through shares	-	(327,893)	-	-
Balance, end of period	86,109,724	$ 16,641,944	65,038,650	$ 15,711,481

i) During the year ended July 31, 2009 the Company announced a non-brokered flow-through private placement for up to 10,000,000 common shares priced at $0.04 per share. The Company has closed a portion of this private placement for 5,830,888 shares and gross proceeds of $233,235, of which 1,050,000 common shares were issued to two officers of the Company, one of whom is also a director. A total of $7,000 in finders' fees were paid in connection with this placement.

ii) During the year ended July 31, 2009, the Company issued 2,824,298 common shares valued at $141,215, being the market price of the shares on the date of the transaction, in the settlement of various debts payable as a result of exploration and general expenses.

iii) During the year ended July 31, 2009 the Company completed a flow-through private placement for 2,215,000 common shares priced at $0.05 per share for gross proceeds of $110,750, of which 1,165,000 common shares were issued to an officer of the Company, and a company controlled by a director of the Company.

iv) During the year ended July 31, 2009, the Company issued 6,812,000 common shares valued at $340,600, being the market price of the shares on the date of the transaction, in the settlement of a debt payable as a result of the purchase of a mineral property (note 9).

v) During the year ended July 31, 2009, the Company issued 3,388,888 common shares valued at $439,555, being the market price of the shares on the date of the transaction, for acquisition of various resource properties.

vi) During the year ended July 31, 2008, the Company completed a flow-through private placement for 7,666,667 common shares at $0.15 per share for gross proceeds of $1,150,000, of which 443,333 common shares were issued to directors and officers of the Company, and a company controlled by a director of the Company. The Company paid finder's fees in cash in connection with this placement of $60,745.

Note 7 Share Capital – (cont'd)

b) Issued: – (cont'd)

vii) During the year ended July 31, 2008, the Company completed a private placement for 3,976,667 units at $0.15 per unit for gross proceeds of $596,500. Each unit consisted of one common share of the Company and one half of a share purchase warrant entitling the holder to purchase one common share at $0.22 per share for up to one year from the date of closing. The Company paid finder's fees in cash in connection with this placement of $40,985 and issued 262,033 finder's warrants. Each warrant enabled the holder to purchase one common share at $0.15 per share exercisable until December 31, 2008. The fair value of the warrants of $22,898 was determined using the Black-Scholes model with the same assumptions as used for stock options as noted below. The warrants expired unexercised.

viii) During the year ended July 31, 2008, the Company issued 5,294,444 common shares valued at $636,722 for acquisition of resource properties. The value of common shares issued on acquisition of resource properties was determined by the trading price of the Company's shares on the date they were issued.

ix) During the year ended July 31, 2008, the Company issued 200,000 shares on the exercise of stock options at $0.10 per share for total proceeds of $20,000. In addition, a reclassification of $21,815 from contributed surplus to share capital was recorded on the exercise of these options.

c) 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, 2009, the following stock options are outstanding and are exercisable into an equal number of common shares:

Number of Options	Exercise Price	Expiry Date
100,000	$0.16	January 21, 2010
625,000	$0.15	March 16, 2010
375,000[1]	$0.15	July 1, 2010
330,000	$0.12	October 13, 2011
750,000	$0.10	June 21, 2012
550,000	$0.15	March 16, 2013
2,730,000		

[1] These options vest as to 25% on the date of grant, 25% every three months thereafter and became fully vested on July 1, 2009

Note 7 Share Capital – (cont'd)

c) Stock Options: – (cont'd)

During the year ended July 31, 2009, the stock-based compensation expense was $24,276 (2008: $586,885), calculated based on the vesting provisions relating to options granted during the year ended July 31, 2008. The fair value of stock options was determined using the Black-Scholes Option Pricing Model with assumptions as follows:

	Year ended July 31, 2008
Risk-free interest rate	2.7% - 4.18%
Estimated volatility	69% - 98%
Expected life	1 year – 5 years
Expected dividend yield	0%

A summary of stock option activity during the years ended July 31, 2009 and 2008 is as follows:

	Year ended July 31, 2009		Year ended July 31, 2008	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Stock options outstanding, beginning of year	4,470,000	$0.14	5,260,000	$0.13
Granted	-	-	1,790,000	$0.15
Exercised	-	-	(200,000)	$0.10
Expired	(1,740,000)	$0.15	(2,380,000)	$0.14
Stock options outstanding, end of year	2,730,000	$0.13	4,470,000	$0.14
Stock options exercisable, end of year	2,730,000		4,095,000	

The weighted average life remaining of the options outstanding at July 31, 2009 is 3.06 years (2008: 2.24).

d) Share Purchase Warrants:

As at July 31, 2009 there were no share purchase warrants outstanding.

A summary of share purchase warrant activity during the years ended July 31, 2009 and 2008 is as follows:

Note 7 Share Capital – (cont'd)

d) Share Purchase Warrants: – (cont'd)

	Year ended July 31, 2009		Year ended July 31, 2008	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Share purchase warrants outstanding, beginning of period	10,549,420	$0.29	12,299,053	$0.30
Expired	(10,549,420)	$0.29	4,000,000	$0.15
Issued	-	-	2,250,367	$0.22
Share purchase warrants outstanding, end of period	-		10,549,420	$0.29

Note 8 Contributed Surplus

Balance, July 31, 2007	$ 306,052
Stock-based compensation for stock options vested	586,885
Finders' warrants on private placement	22,898
Reclassification to common shares on exercise of stock options	(21,815)
Balance, July 31, 2008	894,020
Stock-based compensation for stock options vested	24,276
Balance, July 31, 2009	$ 918,296

Note 9 Related Party Transactions

The following transactions were incurred with directors and companies controlled by the directors:

	2009	2008
Management fees paid to officers and former officers of the Company	$ 216,000	$ 158,250
Management fees paid to companies controlled by directors or officers of the Company	-	76,500
Consulting fees paid to a company with a common director	40,000	-
Professional fees paid to an officer of the Company	-	26,750
Administrative fees paid to a relative of a director of the Company	-	14,000
Interest paid to officers of the Company	5,300	-
Rent paid to a company with a common director	31,118	5,671
	$ 292,418	$ 281,171

Note 9 Related Party Transactions – (cont'd)

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

Prepaid expenses includes a rent deposit of $28,641 (2008 - $Nil) paid to a company with a director in common with the Company.

Loans payable includes $184,606 (2008: $Nil) due to a company with directors in common with the Company.

Accounts payable and accrued liabilities includes $12,592 (2008 - $715,622) due to directors and officers of the Company and companies with directors in common with the Company.

During the year ended July 31, 2009, the Company issued 6,812,000 common shares valued at $340,600 to a company with a director and an officer in common, in the settlement of a debt payable as a result of the purchase of a mineral property. On April 30, 2009, the Company settled a further $306,538 of debt with this company by assuming an equal value of that company's payables that pertained to work done in the Yukon on properties that the Company later purchased.

During the year ended July 31, 2009, another public company having a director in common forgave a debt of $196,450 owed to them (Note 6(c)).

During the year ended July 31, 2009 the Company purchased mineral properties from a company with a common director for $662,000 (2008: $340,600).

Note 10 Comparative Figures

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

Note 11 Income Tax

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

	2009	2008
Income (loss) before income taxes	$ (1,767,062)	$ (1,996,381)
Statutory income tax rate	30.21%	32.51%
Expected tax recovery on loss	$ (533,800)	$ (649,000)
Differences due to recognition of items for tax purposes		
Share issue costs	(1,800)	(32,000)
Stock-based compensation	7,400	191,000
Effect of reduction in statutory income tax rate	120,500	379,000
Non-capital losses carry forward	83,500	210,000
Change in valuation allowance	(3,800)	(99,000)
Future income tax recovery	$ (328,000)	$ -

Note 11 Income Tax – (cont'd)

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

	2009	2008
Future income tax assets (liabilities)		
Non-capital loss carry-forwards	$ 848,000	$ 833,000
Capital loss carry-forwards	310,000	322,000
Share issue costs	44,000	64,000
Exploration and development expenses	(107,000)	(114,000)
Capital assets	12,000	6,000
Valuation allowance for future income tax assets	$ (1,107,000)	$ (1,111,000)

The Company has a non-capital tax loss carry forward of $3,391,000 available to reduce future taxable income. The loss expires as follows:

	Amount
2010	196,000
2014	192,000
2015	434,000
2026	396,000
2027	559,000
2028	1,091,000
2029	523,000
	$ 3,391,000

The Company has capital losses of $2,477,000 to be applied against future capital gains. These losses can be carried forward indefinitely.

The Company has Canadian Exploration and Development Expenditures totaling $4,142,000 that are available to reduce future taxable income.

Flow-Through Offerings

During the year ended July 31, 2009, the Company issued 2,215,000 flow-through shares for total proceeds of $110,750 (2008 total flow-though share proceeds: $1,150,000) The Company is committed to spending the flow-through unit proceeds on exploration and development activities and to renouncing these funds on eligible Canadian exploration expenditures to the subscribers of the flow-through units. Expenditures related to the use of flow through share proceeds are not available as a tax deduction to the Company as the benefits of these expenditures have been renounced to the investors.

Note 11 Income Tax – (cont'd)

During the year ended July 31, 2009, the Company renounced $1,260,750 (2008: $Nil) of qualifying expenditures of which $772,000 were under the look-back rule which allows renunciation in advance of actual expenditures incurred. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of $327,893 (2008: $Nil) with respect to the renunciation. As at July 31, 2009, the Company was required to incur $772,000 in additional qualifying expenditures by December 31, 2009. Expenditures of $591,195 to be incurred by December 31, 2008 were subsequently met by June 30, 2009. Expenditures to be incurred are subject to Part XII.6 tax and possible penalties. As a result, thue Company provided a provision for Party XII.6 tax payable of $13,000 as at July 31, 2009.

Note 12 Non-cash Transactions

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

During the year ended July 31, 2009, the Company issued shares valued at $439,555 (2008 :$636,722) for resource property acquisition costs in relation to the Tungsten property, the Achtung and Birdtung properties, the Lancer property and the Union property.

During the year ended July 31, 2009, the Company issued 9,636,298 shares to settle debts of $481,815

During the year ended July 31, 2009, the Company settled $306,538 of debt with a company by assuming an equal value of that company's payables (note 9).

During the year ended July 31, 2009, the Company accrued $30,000 for a royalty payment due on the Fran property.

During the year ended July 31, 2009, $348,317 in accounts payable relates to mineral property exploration costs (note 6).

Note 13 Financial Instruments

Credit and liquidity risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at July 31, 2009 the Company is not exposed to any significant credit risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rate. The Company does not believe it is exposed to significant currency risk as funds are held in Canadian currency and there are no significant foreign currency transactions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates The Company is exposed to the risk that the value of financial instruments will change due to movement in market interest rates. The Company does not hold interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

Note 13 Financial Instruments – (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liability. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options.

Note 14 Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

Note 15 Contingencies

a) The Company has been named in claim commenced in the Supreme Court of British Columbia by Manto Resources Ltd. ("Manto") against the Company and various vendors of the Fran property (Note 6(b)) alleging that the Company breached its duties owed to Manto in entering into the option agreement while negotiating a joint venture with Manto. No amount has been specified in the claim, however it is expected to be in excess of $200,000. Management believes the claim is without merit and intends to defend the action.