



YANKEE HAT MINERALS LTD.

INTERIM FINANCIAL STATEMENTS

For the three month period ended October 31, 2008

(Prepared by management without audit)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

"Brad Kitchen"

P. Bradley Kitchen
President and Director

YANKEE HAT MINERALS LTD.

Interim Balance Sheets

(Prepared by management without audit)

	<u>October 31, 2008</u>	<u>July 31, 2008</u>
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 22,994	\$ 119,895
Amounts receivable (note 6e)	102,936	311,064
Goods and Services Tax receivable	6,944	59,699
Prepaid expenses	22,641	18,907
	<u>155,516</u>	<u>509,565</u>
Equipment (note 4)	72,764	77,513
Exploration data (note 4)	68,941	70,000
Resource properties (note 6)	5,446,891	5,270,830
	<u>\$ 5,744,111</u>	<u>\$ 5,927,908</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (note 9)	\$ 1,033,447	\$ 1,112,247
Short term loans payable (note 5)	336,575	305,000
	<u>1,370,022</u>	<u>1,417,247</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (notes 6, 7 and 12)	15,846,481	15,711,481
CONTRIBUTED SURPLUS (notes 7 and 8)	900,089	894,020
COMMITMENT TO ISSUE SHARES (note 6f)	-	135,000
DEFICIT	(12,372,481)	(12,229,840)
	<u>4,374,089</u>	<u>4,510,661</u>
	<u>\$ 5,744,111</u>	<u>\$ 5,927,908</u>

Nature of Operations (note 1)

Basis of Presentation and Ability to Continue as a Going Concern (note 2)

Commitments (note 6)

Subsequent events (notes 6 and 7)

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.

Interim Statements of Operations and Deficit

For the three month period ended October 31, 2008 and 2007
(Prepared by management without audit)

	For the three months ended October 31,	
	2008	2007
OPERATING EXPENSES		
Amortization	\$ 5,808	\$ 940
Commissions and finder's fees	11,798	116
Consulting (note 9)	30,000	4,000
Filing and transfer agent fees	4,911	3,811
Investor relations	28,570	43,786
Management fees (note 9)	62,250	44,750
Occupancy costs (note 9)	2,952	3,210
Office administration & miscellaneous	11,887	5,367
Professional fees	3,718	29,597
Stock based compensation (note 7)	6,069	179,484
Travel	11,220	21,089
	179,183	336,149
OTHER (INCOME) AND EXPENSES		
Interest income	(9,351)	(1,272)
Equipment rental income	(22,000)	-
Operator fees	(20,028)	-
Reconnaissance	14,834	-
	(142,639)	(334,877)
NET LOSS FOR THE PERIOD	(142,639)	(334,877)
DEFICIT, START OF PERIOD	(12,229,841)	(10,233,459)
DEFICIT, END OF PERIOD	\$ 12,372,481	\$ 10,568,335
BASIC AND DILUTED NET LOSS PER SHARE FOR THE PERIOD	\$ (0.002)	\$ (0.007)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	65,973,433	47,907,937

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

YANKEE HAT MINERALS LTD.

Interim Statements of Cash Flows

**For the three month period ended October 31, 2008 and 2007
(Prepared by management without audit)**

	For the three months ended October 31,	
	2008	2007
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss for the period	\$ (142,639)	\$ (334,877)
Operating items not involving cash:		
Amortization	5,808	940
Stock based compensation	6,069	179,484
	(130,762)	(154,455)
 Change in non-cash operating working capital	 209,924	 104,434
	79,162	(50,021)
 FINANCING ACTIVITIES		
Issuance of common shares for cash	-	6,500
 INVESTMENT ACTIVITIES		
Resource property acquisition costs	(23,379)	(15,092)
Deferred exploration costs	(152,681)	(118,504)
	(176,060)	(133,596)
 NET INCREASE (DECREASE) IN CASH	 (96,901)	 (177,114)
 CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	 119,895	 373,832
 CASH AND CASH EQUIVALENTS, END OF PERIOD	 \$ 22,994	 \$ 196,718
 SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 5,300	\$ -
Income taxes paid	\$ -	\$ -
 CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	\$ 2,994	\$ 176,718
Term Deposits	16,500	16,500
Reclamation bonds	3,500	3,500
	\$ 22,994	\$ 196,718

Non-cash transactions (note 12)

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

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

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 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 October 31, 2008, the Company had not yet achieved profitable operations, had a working capital deficiency of \$1,214,506, has accumulated losses of \$12,372,481 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.

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

The Company accounts for resource property costs in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3061, "Property, plant and equipment" ("CICA 3061"), and abstract EIC-126, "Accounting by Mining Enterprises for Exploration Costs" ("EIC-126") of the Emerging Issues Committee. CICA 3061 provides for the capitalization of the acquisition and exploration costs of a resource property where such costs are considered to have the characteristics of property, plant and equipment. EIC-126 provides that a mining enterprise is not precluded from considering exploration costs to have the characteristics of property, plant and equipment when it has not established resource reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property.

The acquisition costs of mineral properties and all direct exploration and development expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following the commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

3. SIGNIFICANT ACCOUNTING POLICIES, continued

Resource Property Interests, continued

Costs include the cash consideration and the fair market value of shares as they are issued, if any, on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company are recorded in the accounts at such time as the payments are made. The recorded amounts of mineral claim acquisition costs and their related deferred exploration and development costs represent actual expenditures incurred and are not intended to reflect present or future values.

CICA 3061 also provides that property, plant and equipment be written down when the long-term expectation is that the net carrying amount will not be recovered. EIC-126 states that a mining enterprise which has not objectively established resource reserves and therefore does not have a basis for preparing a projection of the estimated future cash flow from a property is not obliged to conclude that the capitalized costs have been impaired. However, EIC-126 references certain conditions that should be considered in determining subsequent write-downs, such as changes or abandonment of a work program or poor exploration results, and management reviews such conditions to determine whether a write-down of capitalized costs is required. When the carrying value of a property exceeds its net recoverable amount, provision is made for the impairment in value.

The Company reviews capitalized costs on its mineral properties for impairment on an annual basis and will recognize impairment in value based upon exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property.

Long-Lived Assets Impairment

Long-lived assets are continually 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 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.

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 asset retirement obligations. Accordingly, adoption of CICA Handbook Section 3110 had no impact on the financial statements. The Company does not have any asset retirement obligations as at October 31, 2008.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

3. SIGNIFICANT ACCOUNTING POLICIES, continued

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	- 45%
Exploration equipment	- 20%
Motor vehicle	- 30%

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. 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 periods ended October 31, 2008 and 2007, potentially dilutive common shares (relating to options and warrants outstanding at year-end) totaling 7,873,868 (2007: 17,734,053) were not included in the computation of loss per share because their effect was anti-dilutive.

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.

Valuation of the mineral properties and property, plant and equipment (long-lived assets) is based on management's best estimate of the future recoverability of these assets, which in turn, is based on estimates of mineral prices, reserves, mineral reserves and future operating costs. These estimates affect the carrying value of long-lived assets and the amortization of plant and equipment. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements from changes in such estimates in future periods could be significant.

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.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

3. SIGNIFICANT ACCOUNTING POLICIES, continued

Stock Based Compensation, continued

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

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.

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.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company includes 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 as cash and cash equivalents on the accompanying balance sheet.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

4. EQUIPMENT AND EXPLORATION DATA

	As at October 31, 2008		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computer Equipment	20,672	16,877	3,795
Exploration Database	70,000	1,059	68,941
Exploration Equipment	49,755	6,690	43,065
Motor Vehicle	29,425	3,522	25,903
	<u>169,852</u>	<u>28,147</u>	<u>141,705</u>

	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
	<u>169,852</u>	<u>22,339</u>	<u>147,513</u>

5. SHORT TERM LOANS PAYABLE

Short term loans payable consist of \$34,000 (2007:\$nil) that is unsecured, non-interest bearing with no specific terms of repayment, and \$302,575 (2007: \$nil) that is unsecured, bearing interest at 12% per annum with no specified terms of repayment.

6. RESOURCE PROPERTIES

	Balance July 31, 2008 \$	Acquisition Costs \$	Deferred Exploration Costs \$	Recoveries \$	Written- off \$	Balance October 31, 2008 \$
Achtung and Birdtung	5,000	-	-	-	-	5,000
Fran Property	3,353,735	-	8,814	-	-	3,362,549
Lancer Property	288,889	-	-	-	-	288,889
Selwyn Properties	143,629	82,565	276,988	(209,384)	-	293,798
Tungsten Properties	135,000	-	-	-	-	135,000
Union Mine Property	232,321	-	-	-	-	232,321
WAU Property	558,333	-	-	-	-	558,333
Whitehorse Copper Property	553,923	-	17,077	-	-	571,000
	<u>5,270,830</u>	<u>82,565</u>	<u>302,879</u>	<u>(209,384)</u>	<u>-</u>	<u>5,446,891</u>

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

6. RESOURCE PROPERTIES, continued

	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)	-	-
	<u>3,263,023</u>	<u>1,104,137</u>	<u>1,321,180</u>	<u>(31,230)</u>	<u>(386,280)</u>	<u>5,270,830</u>

a) Achtung and Birdtung Properties:

On June 30, 2008, the company entered into two separate option agreement to earn an undivided 100% interest in two mineral properties, one in northern British Columbia and the other 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.

The Achtung property is comprised of four mineral tenures and the Birdtung property is comprised of two mineral tenures.

In consideration, the company agreed to:

- i) pay \$5,000 (paid) upon signing of the agreements;
- ii) pay an additional \$5,000 and issue 66,666 common shares by November 1, 2008;
- iii) pay an additional \$10,000 and issue 66,666 common shares 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.

Upon satisfaction of these terms, the Company will receive full title to the property subject to the NSR. The company has not yet carried out substantial exploration activity on these properties. Amounts due November 1, 2008 have not been paid. The Company has commenced renegotiations with the optionor to amend the payment terms.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

6. RESOURCE PROPERTIES, continued

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.

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
- vi) a 2% net smelter return royalty.

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.

c) George's Lake Property:

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.

The Georges Lake gold property is subject to an existing 0.5% net smelter return royalty and a 10% carried interest owned by an unrelated party. The closing of the transaction is subject to the completion of a definitive agreement to be negotiated within 90 days of the effective date of the Letter of Intent, receipt of regulatory approval and other due diligence as deemed necessary by the Company.

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

During the year ended July 31, 2008, the George's Lake claims lapsed and the Company re-staked the claims in the name of the vendor of the property.

As of July 31, 2008, Management has decided not to enter into a binding option agreement with the vendor as the George's lake property is located far from the Company's other properties, so the Company will not benefit from any economies of scale. As a result of this decision, the carrying value of the George's lake property of \$386,280 was written off during the year ended July 31, 2008.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

6. RESOURCE PROPERTIES, continued

d) Lancer Property:

On May 7, 2008, the Company received final approval on an agreement to acquire up to a 100% interest (subject to a 2.5% net smelter return royalty) 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; and
- iii) issue 2,222,222 common shares on February 10, 2010.

e) 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, Tommy, Sydney and Winston properties, staked in cooperation with a Japanese government corporation ("JOGMEC"), which is the holder of the other 60% interest.

The company has entered into an agreement dated August 1, 2008 and amended September 25, 2008 with JOGMEC to continue exploration of these properties for economic deposits of minerals with a focus on the discovery of Tungsten deposits. The Company is the operator of this exploration program, and expends funds on exploration activities. JOGMEC reimburses 60% of the monies expended to the Company plus a 10% operator fee on their shares of the costs. At October 31, 2008, \$75,454 was receivable under this agreement and \$74,991 has since been received.

f) 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 will 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 (issued);
- ii) issue 2,000,000 common shares by December 31, 2008;
- 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.

The Company has not yet undertaken a material exploration program on any of these properties.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

For the three month period ended October 31, 2008

(Prepared by management without audit)

6. RESOURCE PROPERTIES, continued

g) 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;
- 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 (incurred). 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).

The amount due on September 11, 2008 has not been paid. The Company has commenced negotiations with the optionors to amend the payment terms.

h) 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 will 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; and
- iii) issue 2,222,222 common shares on May 13, 2010.

YANKEE HAT MINERALS LTD.

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6. RESOURCE PROPERTIES, continued

h) WAU Property: (continued)

The company will also have 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;
- 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 completes these obligations, it will then have 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 fiscal year ended July 31, 2008, the Company contributed \$325,000 to an exploration work program on the property.

i) 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 call for total 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 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 and 1,000,000 shares upon June 24, 2009; and
- iv) \$500,000 and 1,000,000 shares upon June 24, 2010.

The company will also have 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; and
- iv) An additional \$500,000 on or before June 24, 2011.

Also, the Company, at its option, will 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 will have earned a 50% interest in the property once the company has incurred a total of \$350,000 of exploration expenditures and a 100% interest after incurring an additional \$700,000 of expenditures on the property.

The cash amount due upon regulatory approval has not been paid. The Company has commenced renegotiations with the vendor to amend the payment terms.

YANKEE HAT MINERALS LTD.

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7. SHARE CAPITAL – Notes 6 and 12

a) Authorized:

Unlimited number of common and preferred shares

b) Issued:

	For the three month period ended October 31, 2008		For the year ended 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	-	-	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 acquisition of resource Properties	1,000,000	135,000	5,294,444	636,722
Share issuance costs	-	-	-	(124,628)
Balance, end of period	66,038,650	15,846,481	65,038,650	15,711,481

- i) 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.
- ii) 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 enables the holder to purchase one common share at \$0.15 per share exercisable until December 31, 2008.
- iii) 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.
- iv) 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.

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7. SHARE CAPITAL – Notes 6 and 12, continued

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 October 31, 2008, the following stock options are outstanding and are exercisable into an equal number of common shares:

Number of Options	Exercise Price	Expiry
1,500,000	\$0.14	July 27, 2009
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
<u>550,000</u>	\$0.15	March 16, 2013
<u>4,470,000</u>		

⁽¹⁾ These options vest as to 25% on the date of grant and 25% every three months thereafter

During the year ended July 31, 2008, share purchase options were granted to directors, officers and consultants to purchase 1,790,000 common shares at \$0.15 per share. A total of 240,000 of these options expired August 28, 2008, 625,000 expire March 17, 2010, 375,000 expire on July 1, 2010, and the remaining 550,000 expire on March 17, 2013. The Company applies the fair value method of accounting for stock-based compensation awards. During the three month period ended October 31, 2008, the stock-based compensation expense was \$6,069, 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	Year ended July 31, 2007
Risk-free interest rate	2.3% - 4.14%	3.89 – 4.18%
Estimated volatility	69% - 82%	101 – 154%
Expected life	1 year – 5 years	2 – 5 years
Expected dividend yield	0%	0%

YANKEE HAT MINERALS LTD.

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7. SHARE CAPITAL – Notes 6 and 12, continued

c) Stock Options, continued

A summary of the movements in stock options during the three month period ended October 31, 2008, and the year ended July 31, 2008 are as follows:

	Three month period ended October 31, 2008		Year ended July 31, 2008	
	Shares #	Weighted Average Exercise price	Shares #	Weighted Average Exercise price
Stock options outstanding, beginning of period	4,470,000	\$0.14	5,260,000	\$0.13
Granted	-	-	1,790,000	\$0.15
Exercised	-	-	(200,000)	\$0.10
Expired or cancelled	(240,000)	\$0.18	(2,380,000)	\$0.14
Stock options outstanding, end of period	4,230,000	\$0.14	4,470,000	\$0.14
Stock options exercisable, end of period	3,948,750		4,095,000	

d) Share Purchase Warrants

As at October 31, 2008 the following share purchase warrants are outstanding that are exercisable into an equal number of common shares:

Number of Warrants	Exercise Price	Expiry
1,393,501 ⁽¹⁾⁽²⁾	\$0.40	December 5, 2008
<u>2,250,367</u>	\$0.22	December 31, 2008
<u>3,643,868</u>		

⁽¹⁾ Subsequent to October 31, 2008, these warrants expired unexercised.

⁽²⁾ These warrants entitled the holder to purchase a unit consisting of one share and one warrant exercisable at \$0.30 per share for the first year and \$0.40 per share for the second year.

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7. SHARE CAPITAL – Notes 6 and 12, continued

d) Share Purchase Warrants, continued

A summary of the movements in share purchase warrants during the three month period ended October 31, 2008 and the year ended July 31, 2008 are as follows:

	Three month period ended October 31, 2008			Year ended July 31, 2008		
	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 period	10,549,420	\$0.29	0.10	12,299,053	\$0.30	0.35
Expired	6,905,552	\$0.38	-	4,000,000	\$0.15	-
Exercised	-	-	-	-	-	-
Issued	-	-	-	2,250,367	\$0.22	0.42
Share purchase warrants outstanding, end of period	3,643,868	\$0.29	0.15	10,549,420	\$0.29	0.39

8. CONTRIBUTED SURPLUS

Balance, July 31, 2007	\$ 306,052
Stock-based compensation for stock options vested	586,885
	22,898
Reclassification to common shares on exercise of stock options	<u>(21,815)</u>
Balance, July 31, 2008	894,020
Stock-based compensation for stock options vested	<u>6,069</u>
Balance, October 31, 2008	<u><u>\$ 900,089</u></u>

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

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9. RELATED PARTY TRANSACTIONS

Related parties are directors and companies controlled by the directors. The following transactions were incurred:

	Three months ended October 31,	
	<u>2008</u>	<u>2007</u>
Management fees paid to officers of the Company	\$ 54,000	\$ 32,000
Management fees paid to companies controlled by directors or officers of the Company	-	6,000
Consulting fees paid to a company with a common director	15,000	-
Administrative fees paid to a relative of a director of the Company	-	6,000
Interest paid to an officer of the Company	3,300	-
Exploration fees paid to a company with a director and officer in common with the company	369,526	-
Rent paid to a company with a common director	<u>-</u>	<u>3,403</u>
	<u>\$ 441,826</u>	<u>\$ 47,403</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.

Accounts payable and accrued liabilities includes \$758,800 (2007 - \$nil) due to companies with directors in common with the Company, and \$11,135 (2007 - \$43,246) due to directors and officers of the Company.

10. COMPARATIVE FIGURES

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

11. INCOME TAX

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

	<u>2008</u>	<u>2007</u>
Income (loss) before income taxes	<u>\$ (1,996,381)</u>	<u>\$ (1,065,411)</u>
Statutory income tax rate	<u>32.51%</u>	<u>34.12%</u>
Expected tax recovery on loss	\$ (649,000)	\$ (364,000)
Differences due to recognition of items for tax purposes		
Share issue costs	(32,000)	-
Stock-based compensation	191,000	70,000
Effect of reduction in statutory income tax rate	379,000	-
Non-capital losses carry forward	210,000	230,000
Recovery of valuation allowance on exploration expenditures renounced	-	(407,139)
Change in valuation allowance	<u>(99,000)</u>	<u>-</u>
Actual income tax recovery	<u>\$ -</u>	<u>\$ 471,139</u>

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements

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11. INCOME TAX, continued

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

	2008	2007
Future income tax assets (liabilities)		
Non-capital loss carry-forwards	\$ 833,000	\$ 996,000
Capital loss carry-forwards	322,000	423,000
Share issue costs	64,000	67,000
Exploration and development expenses	(114,000)	(282,000)
Capital assets	6,000	6,000
Valuation allowance for future income tax assets	(1,111,000)	(1,210,000)
	<u>\$ -</u>	<u>\$ -</u>

The Company has a non-capital tax loss carry forward of \$3,202,000 available to reduce future taxable income. The loss expires as follows:

	\$
2009	334,000
2010	196,000
2014	192,000
2015	434,000
2026	396,000
2027	559,000
2028	1,091,000
	<u>3,202,000</u>

The Company has capital losses of \$2,477,00 to be applied against future capital gains. These losses can be carried forward indefinitely.

The Company has Canadian Exploration Expenditures totaling \$4,833,000 that are available to reduce future taxable income.

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

During the year ended July 31, 2008, the Company issued 7,666,667 (2007: 7,671,276) flow-through shares for proceeds of \$1,150,000 (2007: \$1,380,830). 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, 2008, cash included funds to be used for qualifying exploration expenditures. During the year ended July 31, 2008, the Company renounced \$nil (2007: \$1,380,830) of qualifying expenditures. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$nil (2007: \$471,139) with respect to the renunciation.

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12. NON-CASH TRANSACTION

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

During the three month period ended October 31, 2008, the company issued shares valued at \$135,000 for resource property acquisition costs in relation to the Tungsten property.

13. CONCENTRATION RISK

Credit and liquidity risk

The Company does not believe it is subject to any significant credit or liquidity risk.

Currency risk

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

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.