



YANKEE HAT MINERALS LTD.

INTERIM UNAUDITED FINANCIAL STATEMENTS

For the three month period ended October 31, 2009

(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, 2009</u>	<u>July 31, 2009</u>
<u>ASSETS</u>		
CURRENT		
Cash and cash equivalents	\$ 25,420	\$ 257,393
Amounts receivable	-	3,000
Goods and Services Tax recoverable	20,868	21,811
Prepaid expenses	<u>47,041</u>	<u>68,833</u>
	93,329	351,037
Exploration advances (note 6(b))	30,000	144,219
Equipment and exploration database (note 4)	77,911	81,738
Mineral properties (note 6)	<u>4,587,030</u>	<u>4,569,876</u>
	<u>\$ 4,788,270</u>	<u>\$ 5,146,870</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities (note 9)	\$ 639,928	\$ 659,348
Exploration advances received (note 6(b))	43,255	361,684
Rent advances received	7,143	-
Loans payable (notes 5 and 9)	224,271	184,607
Subscriptions received	<u>50,000</u>	<u>50,000</u>
	<u>964,597</u>	<u>1,255,639</u>

SHAREHOLDERS' DEFICIENCY

Share capital (notes 6 and 7)	16,641,944	16,641,944
Contributed surplus (note 8)	918,296	918,296
Deficit	<u>(13,736,567)</u>	<u>(13,669,009)</u>
	<u>3,823,673</u>	<u>3,891,231</u>
	<u>\$ 4,788,270</u>	<u>\$ 5,146,870</u>

Nature of Operations (note 1)
Basis of Presentation and Ability to Continue as a Going Concern (note 2)
Commitments (notes 6 and 7)
Contingencies (note 13)

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 periods ended October 31, 2009 and 2008
(Prepared by management without audit)

	<u>2009</u>	<u>2008</u>
Operating expenses		
Amortization	\$ 3,826	\$ 5,808
Commissions and finder's fees	10,000	11,798
Consulting (note 9)	12,000	30,000
Filing and transfer agent fees	763	4,911
Interest expense (note 9)	1,404	-
Investor relations	7,500	28,570
Management fees (note 9)	40,167	62,250
Occupancy costs (note 9)	10,071	2,952
Office administration and miscellaneous	4,762	11,887
Professional fees	1,820	3,718
Stock-based compensation (note 7)	-	6,069
Travel	114	11,220
	<u>92,427</u>	<u>179,183</u>
Other (income) and expenses		
Interest income	(31)	(9,351)
Equipment rental income	-	(22,000)
Operator fees	(24,838)	(20,028)
Reconnaissance	-	14,834
	<u>(24,869)</u>	<u>(36,545)</u>
Net loss and comprehensive loss for the period	(67,558)	(142,639)
Deficit, beginning of period	<u>(13,669,009)</u>	<u>(12,229,841)</u>
Deficit, end of period	<u>\$ (13,736,567)</u>	<u>\$ (12,372,481)</u>
Basic and diluted net loss per share for the period	<u>\$ (0.00)</u>	<u>\$ (0.00)</u>
Weighted average number of shares outstanding	<u>86,109,724</u>	<u>65,973,433</u>

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

YANKEE HAT MINERALS LTD.
INTERIM STATEMENTS OF CASH FLOWS
For the three month periods ended October 31, 2009 and 2008
(Prepared by management without audit)

	<u>2009</u>	<u>2008</u>
Cash provided by (used in) Operating Activities		
Net loss for the period	\$ (67,558)	\$ (142,639)
Operating items not involving cash:		
Amortization	3,826	5,808
Stock-based compensation	<u>-</u>	<u>6,069</u>
	(63,732)	(130,762)
Changes in non-cash operating working capital:		
Amounts receivable	3,000	208,125
Goods and services tax payable	943	52,755
Exploration advances	114,219	-
Prepaid expenses	21,792	(3,734)
Accounts payable and accrued liabilities	(19,420)	(78,800)
Exploration advances received	(318,429)	-
Rent advances received	7,143	-
Loans payable	<u>39,664</u>	<u>31,575</u>
	<u>(214,820)</u>	<u>79,159</u>
Investment Activities		
Mineral property costs net of recoveries	<u>(17,153)</u>	<u>(176,060)</u>
	<u>(17,153)</u>	<u>(176,060)</u>
Net increase (decrease) in cash	(231,973)	(96,901)
Cash and cash equivalents, beginning of period	<u>257,393</u>	<u>119,895</u>
Cash and cash equivalents, end of period	<u>\$ 25,420</u>	<u>\$ 22,994</u>
Supplemental cash flow information		
Interest paid	<u>\$ -</u>	<u>\$ 5,300</u>
Income taxes paid	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents consist of:		
Cash	\$ 5,420	\$ 2,994
Term deposits	16,500	16,500
Reclamation bonds	<u>3,500</u>	<u>3,500</u>
	<u>\$ 25,420</u>	<u>\$ 22,994</u>

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 periods ended October 31, 2009 and 2008
(Prepared by management without audit)

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 October 31, 2009, the Company had not yet achieved profitable operations, had a working capital deficiency of \$871,268, has accumulated losses of \$13,736,567 since inception and expects to incur further losses in the development of its business, all of which casts substantial doubt on 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 October 31, 2009 or 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 three month periods ended October 31, 2009, and 2008, potentially dilutive common shares (relating to options outstanding at period-end) totaling 2,730,000 (October 31, 2008: 7,873,868) 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, rent 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 11).

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 October 31, 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 11.

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 12.

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 has adopted the new standards for its fiscal year beginning August 1, 2009. The Company has determined that the adoption of this new Section will not have a material effect 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 October 31, 2009		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 615	\$ 168	\$ 447
Exploration database	28,000	4,468	23,532
Exploration equipment	49,755	14,787	34,968
Motor vehicle	<u>29,425</u>	<u>10,461</u>	<u>18,964</u>
	<u>\$ 107,795</u>	<u>\$ 29,884</u>	<u>\$ 77,911</u>

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

	As at July 31, 2009		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 615	\$ 111	\$ 504
Exploration database	28,000	4,106	23,894
Exploration equipment	49,755	12,930	36,825
Motor vehicle	<u>29,425</u>	<u>8,910</u>	<u>20,515</u>
	<u>\$ 107,795</u>	<u>\$ 26,058</u>	<u>\$ 81,738</u>

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.

Note 5 Loans Payable

Loans payable of \$224,271 (2008: \$336,575) are unsecured, have no specified terms of repayment and are non-interest bearing except for an amount of \$120,272 which bears interest at 12% per annum.

Note 6 Resource Properties

	Balance July 31, <u>2009</u>	Acquisition Costs	Deferred Exploration Costs	Recoveries	Written-off	Balance October 31, <u>2009</u>
Fran Property	3,393,414	-	-	-	-	3,393,414
Kidlark Property	267,949	-	495,746	(493,592)	-	270,103
Lancer Property	577,778	-	-	-	-	577,778
Selwyn Properties	75,341	-	-	-	-	75,341
Union Mine Property	<u>255,394</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,394</u>
	<u>\$4,569,876</u>	<u>\$ 15,000</u>	<u>\$ 495,746</u>	<u>\$ (493,592)</u>	<u>\$ -</u>	<u>\$ 4,587,030</u>
	Balance July 31, <u>2008</u>	Acquisition Costs	Deferred Exploration Costs	Recoveries	Written-off	Balance July 31, <u>2009</u>
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	<u>553,923</u>	<u>685</u>	<u>20,594</u>	<u>-</u>	<u>(575,202)</u>	<u>-</u>
	<u>\$5,270,830</u>	<u>\$1,017,940</u>	<u>\$ 220,050</u>	<u>\$ (668,527)</u>	<u>\$ (1,270,417)</u>	<u>\$ 4,569,876</u>

Note 6 Resource Properties – (cont'd)

a) Fran Property:

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

b) 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.

Note 6 Resource Properties – (cont'd)

b) Kidlark Property: - (cont'd)

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 October 31, 2009 after the current exploration program currently in progress is completed and costs paid by each party are determined.

c) 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.

d) 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.

The Company has also entered into an agreement with a Japanese government corporation ("JOGMEC") for exploration of these properties (same agreement as in note 6(b)) 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 on the Kidlark property (note 6(b)). 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 October 31, 2009 after the current exploration program currently in progress is completed and costs paid by each party are determined.

Note 6 Resource Properties – (cont'd)

e) 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);
- 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.

Note 7 Share Capital

a) Authorized:

Unlimited number of common and preferred shares

b) Issued:

	Three month period ended October 31, 2009		Year ended July 31, 2009	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	86,109,724	\$ 16,641,944	65,038,650	\$ 15,711,481
Issued during the period				
- for cash	-	-	8,045,888	343,986
- for settlement of debt	-	-	9,636,298	481,815
- for acquisition of resource properties	-	-	3,388,888	439,555
Share issuance costs	-	-	-	(7,000)
Future income taxes on flow-through shares	-	-	-	(327,893)
Balance, end of period	<u>86,109,724</u>	<u>\$ 16,641,944</u>	<u>86,109,724</u>	<u>\$ 16,641,944</u>

Note 7 Share Capital – (cont'd)

b) Issued: - (cont'd)

- 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.
- 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.

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.

As at October 31, 2009, the following stock options are outstanding and are exercisable into an equal number of common shares:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
100,000	\$0.16	January 21, 2010
625,000	\$0.15	March 16, 2010
375,000	\$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>2,730,000</u>		

Note 7 Share Capital – (cont'd)

c) Stock Options: – (cont'd)

During the three month period ended October 31, 2009, there was no stock-based compensation expense (three months ended October 31, 2008: \$6,069). The fair value of stock options currently outstanding was determined using the Black-Scholes Option Pricing Model with assumptions as follows:

	<u>Year ended July 31, 2008</u>
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 three month period ended October 31, 2009 and the year ended July 31, 2009 is as follows:

	<u>Three month period ended October 31, 2009</u>		<u>Year ended July 31, 2009</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Stock options outstanding, beginning of year	2,730,000	\$0.13	4,470,000	\$0.14
Expired	<u>-</u>	-	<u>(1,740,000)</u>	\$0.15
Stock options outstanding, end of year	<u>2,730,000</u>	\$0.13	<u>2,730,000</u>	\$0.13
Stock options exercisable, end of year	<u>2,730,000</u>		<u>2,730,000</u>	

The weighted average life remaining of the options outstanding at October 31, 2009 is 2.81 years.

d) Share Purchase Warrants:

As at October 31, 2009 there were no share purchase warrants outstanding. A summary of share purchase warrant activity during the three month period ended October 31, 2009 and the year ended July 31, 2009 is as follows:

	<u>Three month period ended October 31, 2009</u>		<u>Year ended July 31, 2009</u>	
	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Share purchase warrants outstanding, beginning of period	-	-	10,549,420	\$0.29
Expired	-	-	(10,549,420)	\$0.29
Issued	<u>-</u>	-	<u>-</u>	-
Share purchase warrants outstanding, end of period	<u>-</u>		<u>-</u>	

Note 8 Contributed Surplus

Balance, July 31, 2008	\$ 894,020
Stock-based compensation for stock options vested	<u>24,276</u>
Balance, July 31, 2009 and October 31, 2009	<u>\$ 918,296</u>

Note 9 Related Party Transactions

The following transactions were incurred with directors and companies controlled by the directors in the three month periods ended October 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Management fees paid to officers of the Company	\$ 40,500	\$ 54,000
Consulting fees paid to a company with a common director	7,500	15,000
Interest paid to officers of the Company	-	3,300
Rent paid to a company with a common director	<u>10,071</u>	<u>-</u>
	<u>\$ 58,071</u>	<u>\$ 72,300</u>

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. Amounts due to and from related parties are unsecured, non-interest bearing and have no fixed terms of repayment, and accordingly the fair value of the amounts cannot be readily determined.

Prepaid expenses includes a rent deposit of \$9,820 (October 31, 2008 - \$20,458) paid to a company with a director in common with the Company.

Loans payable of \$220,272 (October 31, 2008: \$206,000) is due to a company with a director and an officer in common with the Company.

Accounts payable and accrued liabilities includes \$37,230 (October 31, 2008 - \$769,935) due to directors and officers of the Company and companies with directors in common with the Company.

Note 10 Comparative Figures

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

Note 11 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 October 31, 2009 the Company is not exposed to any significant credit risk.

Note 11 Financial Instruments – (cont'd)

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.

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 12 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 13 Contingency

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(a)) 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.