

**YANKEE HAT MINERALS LTD.**

**INTERIM FINANCIAL STATEMENTS**

**For the three month period ended October 31, 2007**

(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”*

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P. Bradley Kitchen  
President and Director

**YANKEE HAT MINERALS LTD.**

**Interim Balance Sheets**  
**(Prepared by management without audit)**

|                                       | October 31,<br>2007 | (Restated<br>- note 11)<br>July 31,<br>2007 |
|---------------------------------------|---------------------|---|
| <b>ASSETS</b>                         |                     |   |
| Current:                              |                     |   |
| Cash and cash equivalents             | \$ 196,718          | \$ 373,832                                  |
| Accrued interest receivable           | 240                 | 1,436                                       |
| Goods and Services Tax receivable     | 21,457              | 123,967                                     |
| Advance and prepaid expenses (note 8) | <u>47,059</u>       | <u>37,614</u>                               |
|                                       | 265,473             | 536,849                                     |
| Equipment (note 4)                    | 9,067               | 10,007                                      |
| Resource properties (notes 5 and 10)  | <u>3,396,619</u>    | <u>3,263,023</u>                            |
|                                       | <u>\$ 3,671,159</u> | <u>\$ 3,809,879</u>                         |

**LIABILITIES**

|   |                   |                   |
|---|-------------------|-------------------|
| Current:  |                   |                   |
| Accounts payable and accrued liabilities (note 8) | <u>\$ 336,387</u> | <u>\$ 326,214</u> |

**SHAREHOLDERS' EQUITY**

|   |                     |                     |
|---|---------------------|---------------------|
| Share capital (notes 6 and 11)          | 13,424,662          | 13,411,072          |
| Contributed surplus (notes 6, 7 and 11) | 478,445             | 306,052             |
| Deficit                                 | <u>(10,568,335)</u> | <u>(10,233,459)</u> |
|   | <u>3,334,772</u>    | <u>3483,665</u>     |
|   | <u>\$ 3,671,159</u> | <u>\$ 3,809,879</u> |

Nature of Operations (note 1)  
Basis of Presentation (note 2)  
Commitments (notes 5, 6, and 10)  
Subsequent Events (note 10)

APPROVED BY THE DIRECTORS:

“Donald Gee” Director  
Donald Gee

“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 months ended October 31, 2007 and 2006**  
**(Prepared by management without audit)**

|   | 2007                   | (Restated<br>- note 11)<br>2006 |
|---|------------------------|---------------------------------|
| General and administrative expenses               |                        |                                 |
| Amortization                                      | \$ 940                 | \$ 1,332                        |
| Bank charges and interest                         | 116                    | 321                             |
| Business development                              | -                      | 2,611                           |
| Consulting fees                                   | 4,000                  | -                               |
| Filings and transfer agent fees                   | 3,811                  | 11,257                          |
| Management fees (note 8)                          | 44,750                 | 27,000                          |
| Office  | 3,643                  | 3,946                           |
| Professional fees                                 | 29,597                 | 13,294                          |
| Rent (note 8)                                     | 3,210                  | 3,330                           |
| Shareholder communications                        | 43,786                 | 42,053                          |
| Telephone   | 1,724                  | 3,529                           |
| Travel  | <u>21,089</u>          | <u>1,948</u>                    |
| Loss before other items and income tax provision: | (156,665)              | (110,621)                       |
| Other items:                                      |                        |                                 |
| Interest income                                   | 1,272                  | 4,716                           |
| Foreign exchange loss                             | -                      | (1,273)                         |
| Stock-based compensation (notes 6 and 7)          | <u>(179,484)</u>       | <u>(1,225)</u>                  |
| Net loss for the period                           | <u>(334,877)</u>       | <u>(108,403)</u>                |
| Deficit, beginning of period,                     | (10,233,459)           | (9,639,187)                     |
| Deficit, end of period                            | <u>\$ (10,568,335)</u> | <u>\$ (9,747,590)</u>           |
| Basic and diluted loss per share                  | <u>\$ (0.01)</u>       | <u>\$ (0.01)</u>                |
| Weighted average number of shares                 | <u>47,907,937</u>      | <u>34,111,635</u>               |

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

**YANKEE HAT MINERALS LTD.**

**Interim Statements of Cash Flows**

**For the three months ended October 31, 2007 and 2006**  
**(Prepared by management without audit)**

|  | 2007              | (Restated<br>- note 11)<br>2006 |
|--|-------------------|---------------------------------|
| Cash flows from (used in) operating activities |                   |                                 |
| Net loss for the period                        | \$ (334,877)      | \$ (108,403)                    |
| Add items not affecting cash                   |                   |                                 |
| - Amortization                                 | 940               | 1,332                           |
| - Stock based compensation                     | <u>179,484</u>    | <u>1,225</u>                    |
|  | (154,455)         | (105,846)                       |
| Changes in non-cash working capital items      |                   |                                 |
| Accrued interest receivable                    | 1,196             | (364)                           |
| Goods and Services Tax receivable              | 102,510           | (21,245)                        |
| Advance and prepaid expenses                   | (9,445)           | 5,614                           |
| Accounts payable and accrued liabilities       | <u>10,173</u>     | <u>(57,790)</u>                 |
|  | <u>(50,021)</u>   | <u>(179,631)</u>                |
| Investing activities                           |                   |                                 |
| Acquisition of equipment                       | -                 | -                               |
| Acquisition of resource properties             | (15,092)          | (35,000)                        |
| Deferred exploration costs                     | <u>(118,504)</u>  | <u>(263,966)</u>                |
|  | <u>(133,596)</u>  | <u>(298,966)</u>                |
| Financing activities                           |                   |                                 |
| Loan receivable collected                      | -                 | -                               |
| Issuance of common shares                      | 6,500             | 1,137,500                       |
| Share issuance costs                           | <u>-</u>          | <u>(103,831)</u>                |
|  | <u>6,500</u>      | <u>1,033,669</u>                |
| Increase (decrease) in cash                    | (177,114)         | 555,072                         |
| Cash and cash equivalents, beginning of period | <u>373,832</u>    | <u>661,259</u>                  |
| Cash and cash equivalents, end of period       | <u>\$ 196,718</u> | <u>\$ 1,216,331</u>             |
| Supplementary information:                     |                   |                                 |
| Cash paid during the period for:               |                   |                                 |
| Interest                                       | <u>\$ -</u>       | <u>\$ -</u>                     |
| Income taxes                                   | <u>\$ -</u>       | <u>\$ -</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 period ended October 31, 2007 (Prepared by management without audit)

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### 1. NATURE OF OPERATIONS

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

### 2. BASIS OF PRESENTATION

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

At October 31, 2007, the Company has an accumulated operating deficit of \$10,568,335 (2006 as restated - \$9,747,590) and working capital (deficit) of \$(70,914) (2006 - \$1,204,525).

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### Resource Property Interests

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

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

# YANKEE HAT MINERALS LTD.

## Notes to the Interim Financial Statements For the three month period ended October 31, 2007 (Prepared by management without audit)

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### Long-Lived Assets Impairment

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

#### Asset Retirement Obligations

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

#### Equipment

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

|                       |       |
|-----------------------|-------|
| Computer equipment    | - 45% |
| Exploration equipment | - 20% |

#### Basic and Diluted Earnings (Loss) Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

#### Use of Estimates

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

# YANKEE HAT MINERALS LTD.

## Notes to the Interim Financial Statements For the three month period ended October 31, 2007 (Prepared by management without audit)

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### 3. SIGNIFICANT ACCOUNTING POLICIES, continued

#### Stock-Based Compensation

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

#### Flow-Through Common Shares

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

#### Financial Instruments

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

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

#### Foreign Currency Translation

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

#### Cash and Cash Equivalents

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

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

4. EQUIPMENT

|                       | As at October 31, 2007 |                                   |                         |
|-----------------------|------------------------|-----------------------------------|-------------------------|
|                       | Cost<br>\$             | Accumulated<br>Amortization<br>\$ | Net Book<br>Value<br>\$ |
| Computer Equipment    | 20,672                 | 14,546                            | 6,125                   |
| Exploration Equipment | 5,740                  | 2,798                             | 2,942                   |
|                       | <b>26,412</b>          | <b>17,344</b>                     | <b>9,067</b>            |

|                       | As at July 31, 2007 |                                   |                         |
|-----------------------|---------------------|-----------------------------------|-------------------------|
|                       | Cost<br>\$          | Accumulated<br>Amortization<br>\$ | Net Book<br>Value<br>\$ |
| Computer Equipment    | 20,672              | 13,763                            | 6,909                   |
| Exploration Equipment | 5,740               | 2,642                             | 3,098                   |
|                       | <b>26,412</b>       | <b>16,405</b>                     | <b>10,007</b>           |

5. RESOURCE PROPERTIES (note 10)

|                     | October 31, 2007          |                                       |                   |                         |
|---------------------|---------------------------|---------------------------------------|-------------------|-------------------------|
|                     | Acquisition<br>Cost<br>\$ | Deferred<br>Exploration<br>Cost<br>\$ | Written-off<br>\$ | Net Book<br>Value<br>\$ |
| Fran Property       | 243,000                   | 2,907,798                             | -                 | 3,150,798               |
| Union Mine Property | 131,092                   | 101,229                               | -                 | 232,321                 |
| Reclamation bonds   | -                         | 13,500                                | -                 | 13,500                  |
|                     | <b>374,092</b>            | <b>3,022,527</b>                      | <b>-</b>          | <b>3,396,619</b>        |

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

5. RESOURCE PROPERTIES (note 10), continued

|                       | July 31, 2007          |                                 |                   | Net Book Value<br>\$ |
|-----------------------|------------------------|---------------------------------|-------------------|----------------------|
|                       | Acquisition Cost<br>\$ | Deferred Exploration Cost<br>\$ | Written-off<br>\$ |                      |
| Fran Property         | 243,000                | 2,796,487                       | -                 | 3,039,487            |
| Lever Lake Property   | 82,368                 | 202,446                         | (284,814)         | -                    |
| Thelon Basin Property | 44,868                 | 15,112                          | (59,980)          | -                    |
| Union Mine Property   | 116,000                | 94,036                          | -                 | 210,036              |
| Reclamation bonds     | -                      | 13,500                          | -                 | 13,500               |
|                       | 486,236                | 3,121,581                       | (344,794)         | 3,263,023            |

a) Fran Property:

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

In consideration, the Company agreed to:

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

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

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

During the year ended July 31, 2007, the Company staked an additional 12 mineral claims. During the three month period ended October 31, 2007, the Company continued its exploration program on the property.

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

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5. RESOURCE PROPERTIES (note 10), continued

b) 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. 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).

6. SHARE CAPITAL

a) Issued and fully paid

Authorized:

Unlimited number of common and preferred shares

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

6. SHARE CAPITAL, continued

a) Issued and fully paid, continued

Common shares issued and fully paid:

|  | For the three month period ended<br>October 31, 2007 |                   | For the year ended July 31, 2007 |                   |
|--|--|-------------------|----------------------------------|-------------------|
|  | Number of<br>Shares                                  | Amount<br>\$      | Number of<br>Shares              | Amount<br>\$      |
| <b>Balance, beginning of year</b>  | 47,900,872   | 13,411,072        | 31,581,262                       | 11,741,813        |
| Issued during the year   |  |                   |                                  |                   |
| - for cash   | -  | -                 | 15,671,276                       | 2,180,830         |
| - for exercise of stock options  | 65,000   | 6,500             | 275,000                          | 27,500            |
| - reclassification from contributed surplus on exercise of stock options | -  | 7,090             | -                                | 8,278             |
| - for acquisition of resource properties                                 | -  | -                 | 525,000                          | 93,750            |
| Receivable on sale of shares   | -  | -                 | (151,666)                        | -                 |
| Recovery of future income tax asset (note 8)                             | -  | -                 | -                                | (471,139)         |
| Share issuance costs   | -  | -                 | -                                | (169,960)         |
| <b>Balance, end of year</b>  | <b>47,965,872</b>                                    | <b>13,424,662</b> | <b>47,900,872</b>                | <b>13,411,072</b> |

- i) During the three month period ended October 31, 2007, the Company issued 65,000 shares on the exercise of stock options at \$0.10 per share for total proceeds of \$6,500. The fair value of these options was \$7,090.
- ii) During the year ended July 31, 2007 the Company completed a flow-through private placement for 6,277,775 units at \$0.18 per unit for cash proceeds of \$1,130,000. Each unit consists of one flow-through common share of the Company and one share purchase warrant entitling the holder to purchase one non flow-through common share at \$0.30 per share if exercised within the first year up to and including September 27, 2007, and at \$0.40 per share if exercised within the second year, from September 28, 2007 up to and including September 27, 2008. The Company paid a finder's fee and a due diligence fee in cash in connection with this placement, totaling \$104,412.
- iii) During the year ended July 31, 2007 the Company completed a flow-through private placement for 1,393,501 units at \$0.18 per unit for cash proceeds of \$250,830. Each unit consists of one flow-through common share of the Company and one share purchase warrant entitling the holder to purchase one additional share of the Company at \$0.30 per share up to and including December 5, 2007 and thereafter at \$0.40 per share up to and including December 5, 2008. The Company paid \$13,086 in cash as a finder's fee.

YANKEE HAT MINERALS LTD.

Notes to the Interim Financial Statements  
For the three month period ended October 31, 2007  
(Prepared by management without audit)

6. SHARE CAPITAL, continued

a) Issued and fully paid, continued

- iv) During the year ended July 31, 2007 the Company completed a private placement for 8,000,000 units at \$0.10 per unit for cash proceeds of \$800,000. Each unit consists of one common share of the Company and one-half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one additional share of the Company at \$0.15 per share up to and including July 10, 2008. The Company paid a total of \$18,850 in cash as finders' fees.
- v) During the year ended July 31, 2007 the Company issued 525,000 common shares with a fair value of \$93,750 for acquisition of resource properties.

b) Stock Options

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

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

| Number of Options            | Exercise Price | Expiry               |
|------------------------------|----------------|----------------------|
| 35,000                       | \$0.10         | November 17, 2007    |
| 240,000 <sup>(1)</sup>       | \$0.18         | September 21, 2008   |
| 75,000                       | \$0.10         | January 28, 2009     |
| 225,000                      | \$0.10         | March 12, 2009       |
| 1,500,000 <sup>(2)</sup>     | \$0.14         | July 27, 2009        |
| 600,000                      | \$0.15         | September 20, 2009   |
| 450,000 <sup>(2)</sup>       | \$0.16         | January 21, 2010     |
| 700,000 <sup>(2)</sup>       | \$0.16         | August 3, 2011       |
| 660,000 <sup>(2)</sup>       | \$0.12         | October 13, 2011     |
| <u>950,000<sup>(2)</sup></u> | <u>\$0.10</u>  | <u>June 21, 2012</u> |
| <u>5,435,000</u>             |                |                      |

(1) These options vest as to 1/4 every three months from the date granted.

(2) These options vest as to 1/3 every six months from the date granted.

The Company applies the fair value method of accounting for stock-based compensation awards. The total fair value of all stock-based compensation awards granted during the three month period ended October 31, 2007 is \$14,715 of which the vested portion of the stock-based compensation expense is \$179,484.

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

6. SHARE CAPITAL, continued

b) Stock Options, continued

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

|                         | Three month period<br>ended October 31,<br>2007 | Year ended July<br>31, 2007 |
|-------------------------|---|-----------------------------|
| Risk-free interest rate | 4.14%   | 3.89 – 4.18%                |
| Estimated volatility    | 69%   | 101 – 154%                  |
| Expected life           | 1 year  | 2 – 5 years                 |
| Expected dividend yield | 0%  | 0%                          |

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

A summary of the movements in stock options during the three month period ended October 31, 2007 and the year ended July 31, 2007 are as follows:

|   | Three month period ended<br>October 31, 2007 |                                       | Year ended July 31, 2007 |                                       |
|---|--|---------------------------------------|--------------------------|---------------------------------------|
|   | Shares<br>#                                  | Weighted<br>Average<br>Exercise price | Shares<br>#              | Weighted<br>Average<br>Exercise price |
| Stock options outstanding,<br>beginning of year | 5,260,000                                    | \$0.13                                | 1,925,000                | \$0.14                                |
| Granted   | 240,000                                      | \$0.18                                | 3,910,000                | \$0.13                                |
| Exercised                                       | (65,000)                                     | \$0.10                                | (275,000)                | \$0.10                                |
| Expired   | -  | -                                     | (300,000)                | \$0.15                                |
| Stock options outstanding,<br>end of year       | 5,435,000                                    | \$0.13                                | 5,260,000                | \$0.13                                |
| Stock options exercisable,<br>end of year       | 3,241,666                                    |                                       | 1,803,333                |                                       |

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

6. SHARE CAPITAL, continued

c) Share Purchase Warrants

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

| Number of Warrants     | Exercise Price | Expiry             |
|------------------------|----------------|--------------------|
| 6,277,775              | \$0.40         | September 27, 2008 |
| 627,777 <sup>(1)</sup> | \$0.18         | September 27, 2008 |
| 1,393,501              | \$0.30 or      | December 5, 2007   |
|                        | \$0.40         | December 5, 2008   |
| 4,000,000              | \$0.15         | July 10, 2008      |

<sup>(1)</sup> These warrants entitle the holder to purchase a unit consisting of one share and one warrant exercisable at \$0.30 for the first year and \$0.40 for the second year.

A summary of the movements in share purchase warrants during the three month period ended October 31, 2007 and the year ended July 31, 2007 are as follows:

|  | Three month period ended October 31, 2007 |                                 |                               | Year ended July 31, 2007 |                                 |                               |
|--|---|---------------------------------|-------------------------------|--------------------------|---------------------------------|-------------------------------|
|  | Number of Warrants                        | Weighted Average Exercise Price | Weighted Average Life (Years) | Number of Warrants       | Weighted Average Exercise Price | Weighted Average Life (Years) |
| Share purchase warrants outstanding, beginning of year | 12,299,053                                | \$0.30                          | 1.42                          | 3,166,667                | \$0.30                          | 0.50                          |
| Expired  | -   | -                               | -                             | (3,166,667)              | \$0.30                          | 0.50                          |
| Exercised  | -   | -                               | -                             | -                        | -                               | -                             |
| Issued   | -   | -                               | -                             | 12,299,053               | \$0.25                          | 1.67                          |
| Share purchase warrants outstanding, end of year       | 12,299,053                                | \$0.30                          | 1.42                          | 12,299,053               | \$0.25                          | 1.67                          |

7. CONTRIBUTED SURPLUS (note 11)

|  |                   |
|--|-------------------|
| Balance, July 31, 2006 (restated)                              | \$ 130,136        |
| Stock-based compensation for stock options vested              | 184,195           |
| Reclassification to common shares on exercise of stock options | <u>(8,279)</u>    |
| Balance, July 31, 2007   | 306,052           |
| Stock-based compensation for stock options vested              | 179,484           |
| Reclassification to common shares on exercise of stock options | <u>(7,090)</u>    |
| Balance, October 31, 2007                                      | <u>\$ 478,445</u> |

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
**For the three month period ended October 31, 2007**  
**(Prepared by management without audit)**

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8. RELATED PARTY TRANSACTIONS

Related parties are directors and companies controlled by the directors. The following summarizes the Company's related party transactions for the three month period ended October 31, 2007:

|  | <u>2007</u>      |
|--|------------------|
| Management fees paid to officers of the Company                                      | \$ 32,000        |
| Management fees paid to companies controlled by directors or officers of the Company | 6,000            |
| Administrative fees paid to a relative of a director of the Company                  | 6,000            |
| Rent paid to a company with a common director of the Company                         | <u>3,403</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.

Advance and prepaid expenses include \$2,000 (2006 - \$nil) prepayment to a company with a common director of the Company.

Accounts payable and accrued liabilities include \$43,246 (2006 - \$1,707) due to officers and a former officer of the Company and a relative of an officer of the Company.

9. COMPARATIVE FIGURES

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

10. SUBSEQUENT EVENTS (note 5)

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

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

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

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.

**YANKEE HAT MINERALS LTD.**

**Notes to the Interim Financial Statements**  
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10. SUBSEQUENT EVENTS (note 5), continued

- b) On November 29, 2007, the Company announced its intent to conduct a non-brokered private placement of 6,666,667 Units at a price of \$0.15 per unit for gross proceeds of \$1,000,000. Each unit consists of one common share of the Company and one half share purchase warrant, with one whole 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 of the Offering.

11. PRIOR PERIOD ADJUSTMENT

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

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

This adjustment necessitated the restatement of several figures in the financial statements for the three month period ended October 31, 2006 shown as comparatives.