

**URSA MAJOR MINERALS INCORPORATED**  
**(A Development Stage Company)**

**FINANCIAL STATEMENTS**

**JANUARY 31, 2008 and 2007**

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<b>INDEX</b>	<b>PAGE</b>
Auditors' Report	1
Balance Sheets	2 - 3
Statements of Operations and Comprehensive Income (Loss)	4
Statements of Deficit and Accumulated Other Comprehensive Loss	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 22



**AUDITORS' REPORT**

To the Shareholders of  
**Ursa Major Minerals Incorporated**  
(A Development Stage Company)

We have audited the balance sheets of Ursa Major Minerals Incorporated (a development stage company) as at January 31, 2008 and 2007 and the statements of operations, comprehensive income (loss), deficit, accumulated other comprehensive loss and cash flows for each of the years in the two-year period then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two-year period ended January 31, 2008 in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
March 13, 2008 except for Note 17,  
which is as at March 31, 2008

**BALANCE SHEETS**  
AS AT JANUARY 31,

	2008 \$	2007 \$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	514,171	1,568,314
Amounts receivable (Note 13)	343,045	55,476
Prepaid expenses	40,257	57,947
Future income tax asset (Note 14(b))	<u>-</u>	<u>552,900</u>
	897,473	2,234,637
<b>RESTRICTED CASH EQUIVALENTS</b> (Note 3)	601,979	259,095
<b>DUE FROM RELATED COMPANY</b> (Note 4)	44,619	39,235
<b>EQUIPMENT</b> (Note 5)	32,864	42,321
<b>INVESTMENTS</b> (Note 6)	3,449,713	1,034,108
<b>EXPLORATION AND DEVELOPMENT PROPERTIES AND DEFERRED EXPENDITURES</b> (Note 7)	16,645,077	8,932,634
	<u>21,671,725</u>	<u>12,542,030</u>

APPROVED ON BEHALF OF THE BOARD:

Signed "Richard Sutcliffe" \_\_\_\_\_, Director

Signed "Robin Goad" \_\_\_\_\_, Director

**BALANCE SHEETS**  
AS AT JANUARY 31,

	2008 \$	2007 \$
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Notes 8 and 13)	731,513	480,773
Debenture payable (Note 8)	<u>1,973,333</u>	<u>-</u>
	2,704,846	480,773
<b>ASSET RETIREMENT OBLIGATION</b> (Note 9)	328,960	135,502
<b>FUTURE INCOME TAX LIABILITY</b> (Note 14(b))	<u>941,300</u>	<u>-</u>
	<u>3,975,106</u>	<u>616,275</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 10)	18,201,574	14,051,778
<b>SHARE PURCHASE WARRANTS</b> (Note 11)	408,621	38,921
<b>CONTRIBUTED SURPLUS</b> (Note 12)	2,981,195	2,799,726
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	(644,510)	-
<b>DEFICIT</b>	<u>(3,250,261)</u>	<u>(4,964,670)</u>
	<u>17,696,619</u>	<u>11,925,755</u>
	<u>21,671,725</u>	<u>12,542,030</u>
<b>COMMITMENTS AND CONTINGENCIES</b> (Notes 1, 3, 7, 9, 15 and 17(a))		

See accompanying notes to the financial statements.

**STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
FOR THE YEARS ENDED JANUARY 31,

	2008 \$	2007 \$
<b>INTEREST INCOME</b>	<u>112,116</u>	<u>58,310</u>
<b>EXPENSES</b>		
Stock-based compensation (Note 10(c))	240,000	357,000
Management and directors' compensation	210,308	139,500
Business development	192,804	141,832
Office and general	122,613	85,867
Salaries and benefits	115,364	35,452
Professional fees	114,935	44,389
Travel and promotion	69,986	80,303
Stock exchange and transfer agent fees	66,498	24,030
Rent	48,719	45,458
Shareholder information	23,497	11,609
Bank charges and interest	14,875	6,267
Foreign exchange loss	10,386	-
Consulting fees	8,998	2,680
Gain on sale of marketable securities (Note 6)	-	(173,401)
Amortization	<u>13,223</u>	<u>12,675</u>
	<u>1,252,206</u>	<u>813,661</u>
Loss before the under noted	(1,140,090)	(755,351)
Write down of exploration properties and deferred exploration expenditures	-	(223,062)
Gain on sale of exploration property (Note 7)	<u>3,628,699</u>	<u>-</u>
Income (loss) before income taxes	2,488,609	(978,413)
Future income tax (expense) recovery (Note 14(a))	<u>(774,200)</u>	<u>552,900</u>
<b>NET INCOME (LOSS) FOR THE YEAR</b>	<u>1,714,409</u>	<u>(425,513)</u>
Net income (loss) per common share		
- basic	0.06	(0.02)
- diluted	0.06	(0.02)
Weighted average number of shares outstanding		
- basic	29,657,642	25,002,096
- diluted	30,589,038	25,002,096
<b>COMPREHENSIVE INCOME (LOSS)</b>		
Net income (loss) for the year	1,714,409	(425,513)
Unrealized loss on available-for-sale investments	<u>(1,114,528)</u>	<u>-</u>
Comprehensive income (loss) for the year	<u>599,881</u>	<u>(425,513)</u>

See accompanying notes to the financial statements.

**STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS**  
FOR THE YEARS ENDED JANUARY 31,

	2008 \$	2007 \$
<b>DEFICIT</b>		
Deficit, beginning of year	(4,964,670)	(4,539,157)
Net income (loss) for the year	<u>1,714,409</u>	<u>(425,513)</u>
Deficit, end of year	<u>(3,250,261)</u>	<u>(4,964,670)</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Balance, beginning of year	-	-
Adjustment for the cumulative unrealized gain on available- for-sale investments as at February 1, 2007, net of future income taxes of \$100,000 (Note 2)	470,018	-
Unrealized loss on available-for-sale investments	<u>(1,114,528)</u>	<u>-</u>
Balance, end of year	<u>(644,510)</u>	<u>-</u>

See accompanying notes to the financial statements.

	2008 \$	2007 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss) for the year	1,714,409	(425,513)
Items not involving cash:		
Amortization	13,223	12,675
Stock-based compensation	240,000	357,000
Gain on sale of marketable securities	-	(173,401)
Gain on sale of exploration property	(3,628,699)	-
Write down of exploration properties and deferred exploration expenditure	-	223,062
Future income tax expense (recovery)	774,200	(552,900)
	<u>(886,867)</u>	<u>(559,077)</u>
Changes in non-cash working capital balances:		
(Increase) decrease amounts receivable	(287,569)	276,716
Decrease (increase) in prepaid expenses	17,690	(31,445)
(Increase) in amounts due from related parties	(5,384)	(3,334)
(Decrease) increase in accounts payable and accrued liabilities	(2,492)	91,185
	<u>(277,755)</u>	<u>333,122</u>
	<u>1,164,622</u>	<u>(225,955)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in exploration properties and deferred exploration costs	(7,197,721)	(1,796,194)
Increase in restricted cash	(342,884)	(91,995)
Purchase of equipment	(3,766)	(25,493)
Proceeds on sale of exploration property	2,500,000	-
Proceeds on sale of long-term investment	-	297,114
Increase in long-term investment	(1,810,115)	-
	<u>(6,854,486)</u>	<u>(1,616,568)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common shares	3,150,000	-
Issuance of flow-through common shares	2,364,318	2,000,000
Stock options exercised	197,375	26,000
Increase in short term loan	1,960,000	-
Common shares repurchased	(278,852)	(161,401)
Share issue costs	(427,876)	(149,971)
	<u>6,964,965</u>	<u>1,714,628</u>
(Decrease) in cash and cash equivalents	(1,054,143)	(127,895)
Cash and cash equivalents, beginning of year	<u>1,568,314</u>	<u>1,696,209</u>
Cash and cash equivalents, end of year	<u>514,171</u>	<u>1,568,314</u>
<b>Supplemental Information:</b>		
Shares issued for exploration properties (Note 7)	176,000	152,500
Shares received on sale of exploration property (Note 7)	1,250,000	-
Accrued share issue costs	5,000	-
Interest paid	-	-
Taxes paid	-	-

See accompanying notes to the financial statements.

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Ursa Major Minerals Incorporated (the "Company") is a development stage enterprise, as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, in the process of exploring and developing its interests in resource properties. The exploration activities of the Company are directed towards the search, evaluation and development of mineral properties in Canada and the United States. The Shakespeare Project is at a feasibility study level and as such a potential economic ore reserve has been defined. There has been no determination whether the Company's interests in its other exploration properties contain ore reserves which are economically recoverable.

The Company's exploration operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order for the Company to carry out its exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted.

Major expenditures are required to locate and establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. The recoverability of valuations assigned to mineral properties is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition.

Management reviews the carrying value of the Company's interest in each property and where necessary, exploration properties are written down to their estimated recoverable amount. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the need for, as well as the amount of, provision for impairment in the carrying value of exploration properties and related assets.

Although the Company has taken steps to verify title to properties in which it has an interest in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to other licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory requirements.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

The Company has a need for equity capital and financing for working capital and exploration requirements. Because of limited working capital and continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operation.

The accompanying financial statements do not include any adjustments relating to the carrying values and classification of assets or liabilities that might be necessary should the Company be unable to continue as a going concern.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year, except for accounting changes noted. Outlined below are those policies considered particularly significant.

### **Cash and Cash Equivalents:**

The Company defines cash and cash equivalents as cash and short-term investments with maturity dates of less than ninety days. The Company invests cash in term deposits maintained in high credit quality institutions. As at January 31, 2008 the cash and cash equivalents balance was comprised of \$489,171 and \$25,000 respectively (2007 - cash: \$699,490 cash equivalents: \$868,824).

### **Equipment:**

Equipment is recorded at cost. Amortization is provided on a diminishing-balance basis at the following annual rates:

Computer equipment	30%
Vehicles	30%
Office furniture and equipment	20%
Equipment	20%

An impairment loss is recognized when the undiscounted cash flows expected from use and the eventual disposition of the asset are less than the carrying amount of the asset. An impairment charge is recorded to reduce the carrying value of the asset to its fair value.

### **Investments:**

Securities which are traded on a recognized securities exchange and for which no sales restrictions apply are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. Securities in privately-held companies are recorded at cost unless an upward adjustment is considered appropriate and supported by pervasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher than the Company's carrying value. Downward adjustments to carrying values are made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment based on third party financing, operational results, forecasts, and other developments since acquisition. The Company has classified its investments as available-for-sale.

Warrants or options of publicly-traded securities which do not have a quoted price are carried at an estimated fair value calculated using the Black-Scholes option pricing model based on the underlying security.

### **General and Administrative Expenses:**

The Company charges all general and administrative expenses not directly related to exploration and development activities to operations as incurred.

### **Exploration and Development Properties and Deferred Expenditures:**

Exploration property acquisition and 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 commercial production or written-off if the properties are allowed to lapse or are abandoned.

Costs include the cash consideration and the quoted market value of the shares issued for the acquisition of mineral properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

Continued...

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Exploration and Development Properties and Deferred Expenditures (continued):**

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in operations for the period

**Asset Retirement Obligations:**

The fair values of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred. Amounts recorded for the related assets are increased by the amount of these obligations. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets.

**Foreign Currency Translation:**

Accounts in foreign currencies have been translated into Canadian dollars using the "temporal" method. Under this method, monetary assets and liabilities have been translated at the year-end exchange rate, non-monetary assets, which comprise equipment and interests in exploration properties and deferred exploration expenditures, have been translated at the historical rate of exchange prevailing at the date of acquisition. Charges for amortization and exploration expenditures written off have been translated at the same rate as the related assets. Revenue and expenses have been translated at the average rate of exchange during the year. Realized and unrealized foreign exchange gains and losses are included in operations.

**Flow-Through Shares:**

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interests in exploration properties and deferred exploration expenditures.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

**Use of Estimates:**

The preparation of financial statements in conformity with Canadian 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 and the reported amounts of revenue and expenses during the year. Actual results could differ from estimates. Management has made a number of significant estimates and valuation assumptions, including the recoverability of investments in mining interests, the future costs associated with environmental remediation and site restoration matters, fair value of financial instruments, stock-based compensation and income tax accounts. These estimates and valuation assumptions are based on present conditions and management's planned course of action, as well as an assumption about future business and economic conditions. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount. Management believes that the estimates are reasonable.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income (loss) Per Share:

Basic income (loss) per share is calculated using the weighted average number of shares outstanding during the year. Diluted income (loss) per share is calculated using the treasury stock method. In order to determine diluted income (loss) per share, the treasury method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would increase income per share or decrease loss per share.

### Income Taxes:

The Company accounts for and measures future tax assets and liabilities in accordance with the asset and liability method. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential benefit is taken and no net asset is recognized.

### Stock-Based Compensation:

The Company records compensation cost based on the fair value method of accounting for stock based compensation. The fair value of stock options is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

### Accounting Changes

On February 1, 2007, the Company adopted CICA Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3865, Hedges.

#### i) Financial Instruments:

Under the new standards, financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net income for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive income until the asset is removed from the balance sheet. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net income for the period, unless the instrument is a cash flow hedge, and hedge accounting applies, in which case changes in fair value are recognized in other comprehensive income.

The Company's long-term investments are classified as "available-for-sale" and are measured at fair value. Changes in fair value are recognized in other comprehensive income until their disposition, at which time they are transferred to net income. Investments in securities having quoted market values and which are publicly traded on a recognized securities exchange and for which no sales restrictions apply are recorded at values based on the current bid prices.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Accounting Changes (continued)

#### ii) Comprehensive Income:

Section 1530 establishes standards for reporting and presenting comprehensive income. Comprehensive income, composed of net income, and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income for the company includes unrealized gains and losses on available-for-sale securities and changes in the fair market value of derivatives designated as cash flow hedges, all net related income taxes. The components of comprehensive income are disclosed in the statement of operations and comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a new category in shareholders' equity.

The cumulative effect of these changes is an increase to opening accumulated other comprehensive income of \$470,018, an increase to long-term investments of \$570,018 to reflect the fair value adjustment as at February 1, 2007 and an increase in future income tax liability of \$100,000.

#### iii) Hedging:

Section 3865 specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. As at and during the year ended January 31, 2008, the Company had no significant hedges.

### Future Accounting Changes:

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These standards are effective for interim and annual financial statements for the Company's reporting periods beginning on February 1, 2008.

#### i) Capital Disclosures

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This new requirement impacts disclosures only and will not impact the financial results of the Company.

#### ii) Financial Instruments - Disclosures and Presentation

The new Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments - Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how a company manages those risks. The Company is currently assessing the impact of these new accounting standards on its financial statements.

#### iii) International Financial Reporting Standards ("IFRS")

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

## 3. RESTRICTED CASH

The Company has guaranteed by pledge of a guaranteed investment certificate ("GIC") an irrevocable standby letter of credit for \$601,979 (2007 - \$259,095) to the Ministry of Northern Development and Mines ("MNDN") as a financial assurance guarantee in connection with the Closure Plan on the Shakespeare Project for stage one mining.

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**4. DUE FROM RELATED COMPANY**

The amount due from related company is unsecured, non-interest bearing with no fixed terms of repayment. Two directors of the Company are also directors of the related company.

**5. EQUIPMENT**

**2008**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Computer equipment	7,812	3,444	4,368
Vehicles	38,179	20,614	17,565
Office furniture and equipment	810	61	749
Equipment	<u>30,458</u>	<u>20,276</u>	<u>10,182</u>
	<u>77,259</u>	<u>44,395</u>	<u>32,864</u>

**2007**

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Computer equipment	4,854	2,173	2,681
Vehicles	38,179	13,085	25,094
Equipment	<u>30,458</u>	<u>15,912</u>	<u>14,546</u>
	<u>73,491</u>	<u>31,170</u>	<u>42,321</u>

**6. INVESTMENTS**

The Company owns 5,713,315 common shares, representing approximately 13.1% (2007 - 6.1%) of Patricia Mining Corp. ("Patricia"), a public company that trades on the TSX Venture Exchange. The Company also owns 1,702,517 warrants to purchase common shares of Patricia. The warrants are exercisable at a weighted average price of \$0.73 until December 28, 2008. The President of the Company is also a director of Patricia, and the companies also have a common officer. During 2008, the Company subscribed for 3,158,882 Patricia units at a cost of \$1,642,619 and purchased 357,000 Patricia common shares at a cost of \$167,497. The Patricia units consist of a common share and a common share purchase warrant, exercisable at \$0.75 for a period of one year. The Company also received 123,077 common share purchase warrants, exercisable at \$0.52 for a period of one year, for acting as guarantor on Patricia's rights offering. The fair value of the warrants at January 31, 2008 was calculated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%, expected volatility of 53%, risk-free interest rate of 3.75% and an expected life of 0.9 years. During 2008, the Company sold Nil (2007 - 262,900) Patricia shares for gross proceeds of \$Nil (2007 - \$297,114) that resulted in a gain on disposal of \$Nil (2007 - \$173,401). At January 31, 2007, the 2,197,133 Patricia shares held were recorded at their cost of \$1,034,108.

The Company owns 5,000,000 common shares, representing approximately 9.8% of Nyah Resources Corp. ("Nyah") a public company that trades on the TSX Venture Exchange. The President of the Company is also a director of Nyah. As at January 31, 2008, this investment had a market value of \$750,000.

	<u>Quoted market value at Jan 31, 2008</u>	<u>Quoted market value at Jan 31, 2007</u>
	\$	\$
Patricia - common shares	2,628,125	1,604,126
- warrants	71,588	-
Nyah - common shares	<u>750,000</u>	<u>-</u>
	<u>3,449,713</u>	<u>1,604,126</u>

Continued...

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

<b>2008</b>	<u>Opening</u>	<u>Expenditures</u>	(Receipts) <u>(Sale of Property)</u>	<u>Closing</u>
	\$	\$	\$	\$
<b>CANADA - Sudbury, Ontario</b>				
Shakespeare Township	5,948,070	7,248,278	(250,000)	12,946,348
Stumpy Bay Option	668,263	30,000	-	698,263
Porter Baldwin	1,095,703	50,914	-	1,146,617
Porter Option	179,392	24,000	-	203,392
Agnew Lake Uranium	121,301	-	(121,301)	-
Shining Tree	884,305	263,855	-	1,148,160
Worthington Bell Option	<u>15,600</u>	<u>462,193</u>	<u>-</u>	<u>477,793</u>
	8,912,634	8,079,240	(371,301)	16,620,573
<b>USA - Wyoming</b>				
Carbon and Albany Counties	<u>20,000</u>	<u>4,504</u>	<u>-</u>	<u>24,504</u>
	<u>8,932,634</u>	<u>8,083,744</u>	<u>(371,301)</u>	<u>16,645,077</u>
<b>2007</b>	<u>Opening</u>	<u>Expenditures</u>	(Receipts) <u>(Sale of Property)</u>	<u>Closing</u>
	\$	\$	\$	\$
<b>CANADA - Sudbury, Ontario</b>				
Shakespeare Township	4,424,022	1,793,249	(269,201)	5,948,070
D & H Option	138,662	-	(138,662)	-
Stumpy Bay Option	638,170	30,093	-	668,263
Porter Baldwin	1,019,413	118,134	(41,844)	1,095,703
Porter Option	132,025	47,367	-	179,392
Agnew Lake Uranium	119,848	1,453	-	121,301
Shining Tree	363,915	520,390	-	884,305
Worthington Bell Option	<u>-</u>	<u>15,600</u>	<u>-</u>	<u>15,600</u>
	6,836,055	2,526,286	(449,707)	8,912,634
<b>USA - Wyoming</b>				
Carbon and Albany Counties	<u>100,000</u>	<u>4,400</u>	<u>(84,400)</u>	<u>20,000</u>
	<u>6,936,055</u>	<u>2,530,686</u>	<u>(534,107)</u>	<u>8,932,634</u>

**Shakespeare Township**

The Company has earned a 100% interest in the Shakespeare Project by issuing 350,000 common shares and completing \$1,200,000 in exploration expenditures under an option and joint venture agreement with Xstrata Nickel ("Xstrata") (formerly Falconbridge Limited). The Shakespeare property contains a nickel, copper, platinum group metal potential, economic ore reserve located in Shakespeare Township, 60 kilometres west of Sudbury, Ontario. The property consists of 28 leased and patented claims plus additional staked claims. Xstrata has retained certain mineral processing rights.

The Company had previously optioned the Agnew Lake Property, during 2007 the option was terminated. A settlement for the break fee was reached during 2008 amounting to \$250,000 (received), which was recorded to reduce the carrying value of the Shakespeare property.

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES** (Continued)

**D & H Option**

During 2007, the Company terminated this option and all related exploration expenditures were written off.

**Stumpy Bay Option**

The Company has earned a 100% interest in certain mineral claims known as the Stumpy Bay Property located in Shakespeare and Baldwin Townships. The optionor has retained a 2% Net Returns Royalty. Advance royalty payments of \$30,000 per year commenced March 21, 2006. The Company has the right to purchase one-half of the royalty for \$750,000.

Xstrata has elected to include this property as part of the Shakespeare agreement and accordingly holds a 25% interest in the Company's interest in the Stumpy Bay Property.

**Porter-Baldwin**

The Company has staked approximately 832 claim units in the Agnew Lake area that are contiguous with the Shakespeare property noted above and are 100% owned by the Company.

**Porter Option**

The Company has earned a 100% interest in certain mineral claims known as the Porter Option located in Shakespeare Dunlop and Porter Townships. The optionor has retained a 2% Net Returns Royalty. Advance royalty payments of \$24,000 per year commenced January 15, 2007. The Company has the right to purchase one-half of the royalty for \$1,000,000.

**Agnew Lake Uranium**

During 2008, the Company sold its 100% interest in the Agnew Lake Uranium property to Nyah for cash consideration of \$2,500,000 and 5,000,000 common shares of Nyah (see Note 6). The Company has retained a 1.5% Net Smelter Return ("NSR") royalty. Nyah has the option to purchase 50% of the NSR from the Company for \$2,000,000.

**Shining Tree**

The Company has exercised its option and has earned a 100% interest in certain mineral claims known as the Shining Tree claims located in Fawcett Township. Consideration for the option is as follows:

\$60,000	Cash payment on signing (paid)
\$60,000	Cash payment on August 11, 2006 (paid)
\$60,000	Cash payment on August 11, 2007 (paid)
220,000	Common shares on signing valued at \$121,000 (issued)
220,000	Common shares on August 11, 2006 valued at \$114,400 (issued)
220,000	Common shares on August 11, 2007 valued at \$176,000 (issued during 2008)

The optionor has retained a 1% Net Returns Royalty. The Company has the right to purchase one-half of the royalty for \$500,000.

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)**

**Worthington Bell Option**

The Company entered into an option agreement dated November 27, 2006 to acquire two parcels of land on the Worthington offset dike located in Lorney township west of Sudbury, Ontario.

The consideration for this option is as follows:

\$50,000	Cash payment on signing (paid)
\$50,000	Cash payment on November 27, 2007
\$50,000	Cash payment on November 27, 2008
\$187,500	Cash payment on November 27, 2009
20,000	Common shares on signing valued at \$15,600 (issued)
20,000	Common shares on November 27, 2007
20,000	Common shares on November 27, 2008

The November 27, 2007 cash payment and issuance of common shares was postponed until further work could be conducted by making a cash payment of \$31,666.

**Carbon and Albany Counties**

The Company has a 100% interest in certain claims in the Carbon and Albany Counties. This exploration property is a platinum group metal prospect.

During 2007, the Company wrote off \$84,400 of the carrying value of the Carbon and Albany Counties properties.

**8. DEBENTURE PAYABLE**

On December 7, 2007 the Company completed a \$2,000,000 non-brokered private placement debenture financing with a private individual. The debenture was issued at 98% of face value, which resulted in proceeds of \$1,960,000 to the Company. The debenture bears interest at 7% and is due on March 31, 2008. The Company is not permitted to grant other security or higher-ranking debt instruments without prior consent of the holder of the debenture. Included in accounts payable and accrued liabilities at January 31, 2008 is \$11,667 of accrued interest on the debenture. Accretion expense of \$13,333 has also been recorded. Subsequent to January 31, 2008, the debenture was repaid.

**9. ASSET RETIREMENT OBLIGATION**

The Company has provided a letter of credit in the amount of \$601,979 (2007 - \$259,095) to the Ministry of Northern Development and Mines ("MNDN") under the terms of Closure Plan on the Shakespeare Project for stage one mining (See Note 3).

**9. ASSET RETIREMENT OBLIGATION** (Continued)

As at January 31, 2008 the net present value of the estimated asset retirement obligation related to the Shakespeare Project Closure Plan is estimated to be \$328,960 (2007 - \$135,502), based on an estimated future liability of \$601,979 (2007 - \$259,095) and an estimated credit adjusted risk-free rate of 7%. The settlement of the obligation is estimated to take place in 2017.

The following is an analysis of the asset retirement obligation:

	<u>2008</u>	<u>2007</u>
	\$	\$
Opening balance	135,502	76,791
Additions	171,937	47,584
Accretion incurred in the current year	<u>21,521</u>	<u>11,127</u>
Closing balance	<u>328,960</u>	<u>135,502</u>

**10. CAPITAL STOCK**

(a) **Authorized:**  
Unlimited number of common shares

(b) **Common shares issued:**

	<u>Shares</u>	<u>Amount</u>
	#	\$
Balance, January 31, 2006	24,407,429	12,189,543
Shares issued for exploration properties (Note 7)	270,000	152,500
Flow-through shares issued (v) and (vi)	2,302,632	2,000,000
Stock options exercised	40,000	38,800
Shares repurchased and canceled (iv)	(278,500)	(140,173)
Share issue costs	-	(188,892)
	<u>26,741,561</u>	<u>14,051,778</u>
Balance, January 31, 2007	26,741,561	14,051,778
Shares issued for exploration properties (Note 7)	220,000	176,000
Common shares issued (i)	3,000,000	3,150,000
Flow-through shares issued (i), (ii) and (iii)	2,313,219	2,364,318
Warrant valuation allocation (i)	-	(285,000)
Stock options exercised	362,500	240,175
Shares repurchased and canceled (iv)	(386,000)	(220,020)
Share issue costs	-	(528,997)
Tax effects of issuing flow-through common shares	-	(720,000)
	<u>32,251,280</u>	<u>18,228,254</u>
Balance, January 31, 2008	32,251,280	18,228,254
Less: Shares held for cancellation (iv)	<u>(46,000)</u>	<u>(26,680)</u>
Total	<u>32,205,280</u>	<u>18,201,574</u>

(i) In June 2007, the Company closed a private placement of 3,000,000 units at a price of \$1.05 per unit, and 500,000 flow-through common shares at a price of \$1.30 per share, for aggregate gross proceeds of \$3,800,000. Each Unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share on or before December 14, 2008 at a price of \$1.40 per share. The warrants were valued at \$285,000 (Note 11). An additional 210,000 broker warrants which are exercisable into units at the same terms as the common shares, were issued as compensation related to this private placement. These warrants were valued at \$73,500 (Note 11).

Continued...

**10. CAPITAL STOCK** (Continued)

(b) **Common shares issued:** (Continued)

- (ii) In June 2007, the Company closed a private placement of \$500,000 by issuing 384,613 flow-through common shares at a price of \$1.30 per share. An additional 23,076 broker warrants exercisable into common shares at a price of \$1.05 for a period of 18 months were issued as compensation related to this private placement. These broker warrants were valued at \$9,461 (Note 11).
- (iii) In December 2007, the Company closed a private placement of \$1,214,318 by issuing 1,428,606 flow-through common shares at a price of \$0.85 per share. An additional 85,716 broker warrants exercisable into common shares at a price of \$0.85 for a period of 24 months were issued as compensation related to this private placement. These broker warrants were valued at \$18,160 (Note 11).
- (iv) During 2008, the Company repurchased and cancelled 386,000 common shares (2007 - 278,500). Total consideration paid for these shares of \$278,852 (2007 - \$161,401) was allocated to common shares \$246,700 (2007 - \$140,173) and to contributed surplus \$32,152 (2007 - \$21,228). At January 31, 2008, 46,000 common shares were being held for cancellation and were cancelled subsequent to January 31, 2008.
- (v) During 2007, the Company completed a non-brokered private placement issuing a total of 1,250,000 flow through common shares at \$0.80 for gross proceeds of \$1,000,000. 75,000 common share purchase warrants were issued as compensation related to the private placement. The warrants were valued at \$22,500 (Note 11).
- (vi) During 2007, the Company completed a non-brokered private placement issuing a total of 1,052,632 flow-through common shares at \$0.95 for gross proceeds of \$1,000,000. 63,157 warrants were issued as compensation related to the private placement. The warrants were valued at \$16,421 (Note 11).

(c) **Stock Options**

The Company has granted options for the purchase of common shares to its directors, officers, employees and certain consultants. The purpose of the stock option plan is to attract, retain and motivate these parties by providing them with the opportunity, through stock options, to acquire a proprietary interest in the Company and to benefit from its growth. These options are valid for a maximum of 5 years from the date of issue. Vesting terms and conditions are determined by the Board of Directors at the time of the grant.

**10. CAPITAL STOCK** (Continued)

(c) **Stock Options** (Continued)

A summary of changes in stock options during the years ended January 31, 2008 and 2007 is as follows:

	<u>Stock Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, January 31, 2006	936,500	0.71
Granted	700,000	0.85
Exercised	(40,000)	0.65
Cancelled	<u>(40,000)</u>	0.65
Balance, January 31, 2007	1,556,500	0.77
Granted	600,000	0.91
Exercised	(362,500)	0.54
Cancelled	<u>(95,000)</u>	0.83
Balance, January 31, 2008	<u>1,699,000</u>	0.87

As at January 31, 2008, the Company had incentive stock options issued to employees, directors, officers and consultants of the Company as follows:

<u>Stock Options</u> #	<u>Exercise Price</u> \$	<u>Expiry Date</u>
69,000	0.50	May 13, 2008
50,000	1.45	March 1, 2009
210,000	0.95	September 7, 2009
155,000	0.65	November 7, 2010
640,000	0.85	March 30, 2011
125,000	0.91	April 9, 2009
<u>450,000</u>	0.91	April 9, 2012
<u>1,699,000</u>		

The estimated fair value of the options granted during the year ended January 31, 2008 is \$240,000 (2007 - \$357,000). This was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0% (2007 - 0%), expected volatility 66% (2007 - 103%), risk-free interest rate 2.88% (2007 - 4.2%) and an expected life of 4.25 years (2007 - 3 years). Employees, directors and officers received 450,000 of the 600,000 (2007 - 620,000 Of 700,000) options granted during 2008 valued at \$189,000 (2007 - \$316,200). The Black-Scholes option pricing model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company's stock-based compensation options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management's opinion, amounts estimated using the Black-Scholes option pricing model may differ materially from the actual fair value of the Company's stock-based compensation options.

Continued...

**11. SHARE PURCHASE WARRANTS**

As at January 31, 2008 the following share purchase warrants are outstanding:

<u>Warrants</u>	<u>Exercise Price</u>	<u>Estimated Fair Value</u>	<u>Expiry Date</u>
#	\$	\$	
75,000	0.65	22,500	July 13, 2008
1,500,000	1.40	285,000	December 14, 2008
210,000 *	1.05	73,500	December 14, 2008
23,076	1.05	9,461	December 14, 2008
<u>85,716</u>	0.85	<u>18,160</u>	December 31, 2008
<u>1,893,792</u>		<u>659,271</u>	

\* Exercisable into units (see Note 10(b)(i))

The estimated fair value of the warrants issued during the year ended January 31, 2008 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield - 0% (2007 - 0%); expected volatility - 80% (2007 - 100%); risk-free interest rate - 4.2% (2007 - 3.9%) and an expected weighted average life of 1.5 years (2007 - 1.5 years).

A summary of changes in share purchase warrants during the years ended January 31, 2008 and 2007 is as follows:

	<u>Warrants</u>	<u>Weighted Average</u>
	#	<u>Exercise Price</u>
		\$
Balance, January 31, 2006	-	-
Issued	<u>138,157</u>	0.79
Balance, January 31, 2007	138,157	0.79
Issued	1,818,792	1.33
Expired	<u>(63,157)</u>	0.95
Balance, January 31, 2008	<u>1,893,792</u>	1.30

**12. CONTRIBUTED SURPLUS**

A summary of changes in contributed surplus during the years ended January 31, 2008 and 2007 is as follows:

	<u>Amount</u>
	\$
Balance, January 31, 2006	2,476,754
Stock based compensation	357,000
Stock options exercised	(12,800)
Shares repurchased and cancelled (Note 10(b)(iv))	<u>(21,228)</u>
Balance, January 31, 2007	2,799,726
Shares repurchased and cancelled (Note 10(b)(iv))	(32,152)
Stock based compensation	240,000
Share purchase warrants expired	16,421
Stock options exercised	<u>(42,800)</u>
Balance, January 31, 2008	<u>2,981,195</u>

Continued...

**13. RELATED PARTY TRANSACTIONS**

The Company subleases its premises from a corporation that has a common officer and a common director (see Note 15(a)). During 2008, the Company paid rent of \$48,719 (2007 - \$45,458) to this corporation. Included in accounts payable and accrued liabilities at January 31, 2008 is \$12,568 (2007 - \$Nil) owing to one of these companies. Included in amounts receivable at January 31, 2008 is \$73,427 (2007 - \$Nil) receivable from one of these companies.

During 2008, a corporation associated with a director of the Company was paid fees of \$7,259 (2007 - \$8,281).

During 2008, a corporation controlled by an officer of the Company was paid legal fees of \$4,667 (2007 - \$Nil) and share issue costs of \$Nil (2007 - \$4,662).

See Notes 4, 6, 7 and 17(e).

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

**14. INCOME TAXES**

(a) Provision for income taxes:

Major items causing the Company's income tax rate to differ from the Canadian statutory rates of approximately 36% (2007 - 36%) as follows:

	<u>2008</u>	<u>2007</u>
	\$	\$
Income (loss) before income taxes	<u>2,488,609</u>	<u>(978,413)</u>
Expected income tax expense (recovery)	895,900	(352,200)
Adjustments to benefit resulting from:		
Stock-based compensation	86,400	128,500
Share issue costs	(154,000)	(54,000)
Non-taxable portion of capital gain	-	(31,200)
Asset retirement obligation	9,000	(21,100)
Sale of property	43,700	-
Change in tax rates	(90,400)	-
Other	<u>(16,400)</u>	<u>1,200</u>
	774,200	(328,800)
Change in valuation allowance	<u>-</u>	<u>(224,100)</u>
Future income tax recovery	<u>774,200</u>	<u>(552,900)</u>

Continued...

**14. INCOME TAXES** (Continued)

(b) The future income tax assets and liabilities consist of the following temporary differences:

	<u>2008</u>	<u>2007</u>
	\$	\$
Equipment	14,900	11,200
Non-capital loss carry-forwards	-	121,300
Resource properties	(1,122,300)	304,500
Share issue costs	166,100	115,900
Long-term investments	152,600	-
Valuation allowance	<u>(152,600)</u>	<u>-</u>
Total future income tax (liability) asset	<u>(941,300)</u>	<u>552,900</u>

(c) As at January 31, 2008, the Company had approximately \$9,458,000 of Canadian exploration and development expenditures and \$1,072,000 of foreign exploration expenditures, which, under certain circumstances, may be utilized to reduce taxable income of future years.

**15. COMMITMENTS**

(a) The Company is committed to minimum rentals under a long-term lease for premises, which expires February 29, 2013. Minimum rental commitments remaining under this lease approximate \$310,000 including \$58,000 due within one year. Minimum rental commitments for successive fiscal years approximate:

<u>Year</u>	<u>Amount</u>
	\$
2009	58,000
2010	61,000
2011	61,000
2012	62,000
2013	63,000
2014	<u>5,000</u>
	<u>310,000</u>

(b) The Company is committed to spending approximately \$1,214,000 on exploration costs by December 31, 2008 as part of the flow-through funding agreements that were completed during 2008.

**16. FINANCIAL INSTRUMENTS**

**Fair Value:**

The carrying amounts for cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities on the balance sheets approximate fair value because of the limited term of these instruments. Investments are carried at their quoted market value. The fair value of amounts due from a related company cannot be determined, as no comparable market information exists. Fair value estimates are made at the balance sheet date, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates. The carrying value of the debenture payable is a reasonable estimate of its fair value due to the variable nature of the applicable interest rate.

Continued...

**16. FINANCIAL INSTRUMENTS** (Continued)

**Commodity Price Risk:**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

**Foreign Exchange Risk:**

Certain of the Company's expenses are incurred in United States currency and are therefore subject to gains or losses due to fluctuations in that currency's value relative to Canadian currency.

**17. SUBSEQUENT EVENTS**

- (a) Subsequent to the January 31, 2008 the Company entered into a letter of intent to earn up to a 70% interest in certain claims known as the Nickel Offsets Mine property. Consideration for the option consists of cash payments of \$75,000 (\$25,000 paid) and an exploration expenditure commitment of \$1,250,000 over a period of three years from the date of the formal agreement.
- (b) Subsequent to January 31, 2008, the Company received pre-production metal revenue of approximately US\$4,050,000 from base metals produced from a bulk sample processed from the Shakespeare Project.
- (c) Subsequent to January 31, 2008, the short-term debenture payable was repaid using cash received from base metal production as described in Note 17(b) above.
- (d) Subsequent to January 31, 2008, the Company issued a \$2,000,000 debenture at 98% of face value. The debenture bears interest at 7.5% and is due October 31, 2008.
- (e) Subsequent to January 31, 2008, the Company purchased a \$500,000 convertible debenture. The debenture bears interest at 9% and is due March 31, 2009. At the option of the Company and, after six months, the debenture becomes convertible into common shares at \$0.52 per share. During the first six months, the Company may redeem the debenture at 102% of the face value plus interest. The convertible debenture was purchased from a corporation that has common officers and a common director.