

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

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**JANUARY 31, 2009 and 2008**

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**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, 2009 and 2008 and the statements of operations and comprehensive (loss) income, deficit and accumulated other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**McGOVERN, HURLEY, CUNNINGHAM, LLP**

A handwritten signature in black ink that reads 'McGovern, Hurley, Cunningham, LLP'.

**Chartered Accountants  
Licensed Public Accountants**

TORONTO, Canada  
March 24, 2009 except for Notes 2  
and 10(c), which are as at April 9, 2009

**URSA MAJOR MINERALS INCORPORATED**

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(A Development Stage Company)

**BALANCE SHEETS**

AS AT JANUARY 31,

	2009	2008
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 2)	1,382,887	514,171
Amounts receivable (Note 14)	43,955	343,045
Prepaid expenses	<u>50,267</u>	<u>40,257</u>
	1,477,109	897,473
<b>RESTRICTED CASH EQUIVALENTS</b> (Note 3)	601,979	601,979
<b>DUE FROM RELATED COMPANY</b> (Note 4)	143,184	44,619
<b>EQUIPMENT</b> (Note 5)	144,469	32,864
<b>INVESTMENTS</b> (Note 6)	528,408	3,449,713
<b>EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES</b> (Note 7)	<u>16,951,445</u>	<u>16,645,077</u>
	<u>19,846,594</u>	<u>21,671,725</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 14)	2,111,447	731,513
Debenture payable (Note 8)	<u>-</u>	<u>1,973,333</u>
	2,111,447	2,704,846
<b>ASSET RETIREMENT OBLIGATION</b> (Note 9)	351,987	328,960
<b>FUTURE INCOME TAX LIABILITY</b> (Note 15)	<u>1,189,400</u>	<u>941,300</u>
	<u>3,652,834</u>	<u>3,975,106</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 10)	18,994,200	18,201,574
<b>SHARE PURCHASE WARRANTS</b> (Note 11)	12,295	408,621
<b>CONTRIBUTED SURPLUS</b> (Note 12)	3,403,791	2,981,195
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	(944,631)	(644,510)
<b>DEFICIT</b>	<u>(5,271,895)</u>	<u>(3,250,261)</u>
	<u>16,193,760</u>	<u>17,696,619</u>
	<u>19,846,594</u>	<u>21,671,725</u>

Commitments and contingencies (Notes 1, 3, 7, 9, 16 and 18)

APPROVED ON BEHALF OF THE BOARD:

Signed "Richard Sutcliffe", DirectorSigned "Ross Arnold", Director

See accompanying Notes to the Financial Statements

**URSA MAJOR MINERALS INCORPORATED**

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(A Development Stage Company)

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

	2009 \$	2008 \$
<b>INTEREST INCOME</b>	<u>40,106</u>	<u>112,116</u>
<b>EXPENSES</b>		
Stock-based compensation (Note 10(c))	-	240,000
Management and directors' compensation	185,000	210,308
Business development	85,467	192,804
Office and general	85,982	122,613
Salaries and benefits	79,802	115,364
Professional fees	76,291	114,935
Travel	63,490	69,986
Rent	49,817	48,719
Stock exchange and transfer agent fees	46,340	66,498
Bank charges and interest	43,847	14,875
Shareholder information	24,990	23,497
Consulting fees	10,953	8,998
Foreign exchange	175,344	10,386
Amortization	31,294	13,223
	<u>958,617</u>	<u>1,252,206</u>
Loss before the under noted	(918,511)	(1,140,090)
Loss on sale of available for sale investments	(933,703)	-
Write down of exploration properties and deferred exploration expenditures (Note 7)	(713,320)	-
Gain on sale of exploration property (Note 7)	-	<u>3,628,699</u>
(Loss) income before income taxes	(2,565,534)	2,488,609
Future income taxes (Note 15)	<u>543,900</u>	<u>(774,200)</u>
<b>NET (LOSS) INCOME FOR THE YEAR</b>	<u>(2,021,634)</u>	<u>1,714,409</u>
Net (loss) income per common share		
- basic	(0.06)	0.06
- diluted	(0.06)	0.06
Weighted average number of shares outstanding		
- basic	34,210,920	29,657,642
- diluted	34,210,920	30,589,038
<b>COMPREHENSIVE (LOSS) INCOME</b>		
Net (loss) income for the year	(2,021,634)	1,714,409
Unrealized loss on available-for-sale investments	<u>(300,121)</u>	<u>(1,114,528)</u>
Comprehensive (loss) income for the year	<u>(2,321,755)</u>	<u>599,881</u>

See accompanying Notes to the Financial Statements

**URSA MAJOR MINERALS INCORPORATED**

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(A Development Stage Company)

**STATEMENTS OF DEFICIT AND ACCUMULATED OTHER COMPREHENSIVE LOSS**

FOR THE YEARS ENDED JANUARY 31,

	2009	2008
	\$	\$
<b>DEFICIT</b>		
Deficit, beginning of year	(3,250,261)	(4,964,670)
Net (loss) income for the year	<u>(2,021,634)</u>	<u>1,714,409</u>
Deficit, end of year	<u><u>(5,271,895)</u></u>	<u><u>(3,250,261)</u></u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Balance, beginning of year	(644,510)	-
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
Realized loss included in net (loss)	933,703	-
Unrealized loss on available-for-sale investments	<u>(1,233,824)</u>	<u>(1,114,528)</u>
Balance, end of year	<u><u>(944,631)</u></u>	<u><u>(644,510)</u></u>

See accompanying Notes to the Financial Statements

(A Development Stage Company)

**STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED JANUARY 31,

	2009 \$	2008 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income for the year	(2,021,634)	1,714,409
Items not involving cash:		
Amortization	31,294	13,223
Stock-based compensation	-	240,000
Loss on sale of investments	933,703	-
Gain on sale of exploration property	-	(3,628,699)
Write down of exploration properties and deferred exploration expenditures	713,320	-
Future income tax (recovery) expense	<u>(543,900)</u>	<u>774,200</u>
	<u>(887,217)</u>	<u>(886,867)</u>
Changes in non-cash working capital balances:		
Decrease (increase) in amounts receivable	299,090	(287,569)
(Increase) decrease in prepaid expenses	(10,010)	17,690
(Increase) in amounts due from related company	(98,565)	(5,384)
Increase (decrease) in accounts payable and accrued liabilities	<u>43,272</u>	<u>(2,492)</u>
	<u>233,787</u>	<u>(277,755)</u>
	<u>(653,430)</u>	<u>(1,164,622)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in exploration properties and deferred exploration costs, net of pre- production revenues	438,454	(7,197,721)
Increase in restricted cash	-	(342,884)
Purchase of equipment	(142,899)	(3,766)
Proceeds on sale of exploration property	-	2,500,000
Proceeds on sale of investments	3,112,697	-
Purchase of investments	<u>(121,787)</u>	<u>(1,810,115)</u>
	<u>3,286,465</u>	<u>(6,854,486)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issuance of common shares	-	3,150,000
Issuance of flow-through common shares	409,824	2,364,318
(Decrease) increase in debenture payable	(2,071,786)	1,960,000
Stock options exercised	34,500	197,375
Common shares repurchased	(100,556)	(278,852)
Share issue costs	<u>(36,301)</u>	<u>(427,876)</u>
	<u>(1,764,319)</u>	<u>6,964,965</u>
Increase (decrease) in cash and cash equivalents	868,716	(1,054,143)
Cash and cash equivalents, beginning of year	<u>514,171</u>	<u>1,568,314</u>
Cash and cash equivalents, end of year	<u>1,382,887</u>	<u>514,171</u>
<b>Supplemental Information:</b>		
Shares issued for exploration properties (Note 7)	-	176,000
Shares received on sale of exploration property (Note 7)	-	1,250,000
Shares issued for investments (Note 10(b)(i))	1,303,429	-
Accrued share issue costs	-	5,000
Change in accrued property expenditures	1,336,662	253,232
Share purchase warrants issued for share issue costs	12,295	101,121
Interest paid	30,463	-

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 Township property is at a pre-production mining stage with a completed feasibility study 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/ will be 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 exploration properties in which it has an interest in accordance with industry standards for the current stage of exploration 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.

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 or 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. Such adjustments could be material.

## 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 new accounting policies adopted. 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, 2009, the cash and cash equivalents balance was comprised of \$1,362,887 and \$20,000 respectively (2008 - cash: \$489,171 cash equivalents: \$25,000).

### 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 activities to operations as incurred.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Exploration Properties and Deferred Exploration Expenditures:**

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

Costs include the cash consideration and the fair 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.

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:**

Asset Retirement Obligations ("ARO") include the estimated costs related to the reclamation of mineral properties such as the dismantling and removing of tangible equipment such as buildings and returning the land to a more natural condition. 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. Revisions to the original cost or the timing of the cash outflow may result in a change to the ARO. Actual costs incurred to settle the ARO reduce the long-term liability.

**Foreign Currency Translation:**

The Canadian dollar is the functional currency of the Company's operations. 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Use of Estimates:**

The preparation of these 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. During the fiscal years presented, 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, warrants 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.

**(Loss) Income Per Share:**

Basic (loss) income per share is calculated using the weighted average number of shares outstanding during the year. Diluted (loss) income per share is calculated using the treasury stock method. In order to determine diluted (loss) income 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 (loss) income per share calculation. The diluted (loss) income per share calculation excludes any potential conversion of options and warrants that would increase earnings per share or decrease loss per share. Total shares issuable from options and warrants excluded from the computation of diluted loss per share because they were anti-dilutive for the year ended January 31, 2009 were 1,310,000 (2008 – 1,102,500) and 409,822 (2008 – 1,818,792), respectively.

**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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Financial Instruments:**

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 has designated its investments as available-for-sale and they are measured at fair value, with changes in fair value recognized in accumulated other comprehensive income. Cash and cash equivalents and restricted cash equivalents are classified as held-for-trading. Amounts receivable and the amount due from related company are classified as receivable and are recorded at amortized cost. Accounts payable and accrued liabilities and the debenture payable are classified as other financial liabilities and are recorded at amortized cost.

**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 unrealised gains and losses on available-for-sale securities net of 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 category in shareholders' equity.

The adoption of this policy as at February 1, 2007, had the effect of increasing opening accumulated other comprehensive income by \$470,018, increasing investments by \$570,018 to reflect fair value and increasing future income tax liability by \$100,000.

**New Accounting Policies***Capital Disclosures*

CICA Handbook 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. The Company has included disclosures recommended by the new handbook section in Note 13 to these financial statements.

*Financial instruments – disclosures and presentation*

CICA Handbook 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 the entity manages those risks. The Company has included disclosures recommended by the new Handbook Section in Note 17 to these financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Future Accounting Changes:***Goodwill and Intangible Assets*

The CICA issued Handbook Section 3064 "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Asset standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. This standard is effective for years beginning on or after February 1, 2009. The Company is currently in the process of evaluating the impact of this standard.

*Business Combinations*

CICA Handbook Section 1582 "Business Combinations", replaces Section 1581 - "Business Combinations" and provides the Canadian equivalent to International Financial Reporting Standards ("IFRS") 3 - Business Combinations. This applies to a transaction in which the acquirer obtains control of one or more businesses. Most assets acquired and liabilities assumed, including contingent liabilities that are considered to be improbable, will be measured at fair value. Any interest in the acquiree owned prior to obtaining control will be remeasured at fair value at the acquisition date, eliminating the need for guidance on step acquisitions. Additionally, a bargain purchase will result in recognition of a gain and acquisition costs must be expensed. The Company will adopt this standard on January 1, 2011.

*Consolidations and Non-Controlling Interests*

CICA Handbook Sections 1601 "Consolidations" and Section 1602 "Non-Controlling Interests" replace Section 1600 "Consolidated Financial Statements". Section 1602 provides the Canadian equivalent to International Accounting Standard 27 - "Consolidated and Separate Financial Statements", for non-controlling interests. The Company will adopt this standard on January 1, 2011.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the CICA approved EIC 173 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company is continually evaluating its counterparties and their credit risks.

*Mining Exploration Costs*

On March 27, 2009 the EIC issued EIC-174. In this EIC the Committee reached a consensus that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The EIC should be applied to financial statements issued after March 27, 2009. The Company has adopted EIC-174.

(A Development Stage Company)

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Future Accounting Changes (continued):***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 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 an irrevocable standby letter of credit for \$601,979 (2008 - \$601,979) to the Ministry of Northern Development and Mines ("MNDN") as a financial assurance guarantee in connection with the Shakespeare Project closure plan for stage one mining.

**4. DUE FROM RELATED COMPANY**

The amount due from related company is unsecured, non-interest bearing with no fixed terms of repayment. A director of the Company is also a director of the related company.

**5. EQUIPMENT**

<u>2009</u>	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
	\$	\$	\$
Computer Equipment	11,132	5,252	5,880
Vehicles	47,929	27,346	20,583
Office Furniture/Equipment	1,723	422	1,301
Equipment	<u>159,372</u>	<u>42,667</u>	<u>116,705</u>
	<u>220,156</u>	<u>75,687</u>	<u>144,469</u>
<u>2008</u>	<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/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>

Continued...

**6. INVESTMENTS**

The Company owned 12,237,119 common shares of Patricia Mining Corp. ("Patricia"), a public corporation that formerly traded on the TSX Venture Exchange. The Company also owned 1,702,517, warrants to purchase shares of Patricia. The warrants were exercisable at a weighted average price of \$0.73 until December 28, 2008. 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 consisted 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. Pursuant to a plan of arrangement between Patricia and Richmond Mines Inc. ("Richmont") a TSX listed company, the Company received in exchange for all of its shares in Patricia, 673,041 common shares of Richmont and cash of \$1,835,568. This transaction closed on December 16, 2008 and as a result of this transaction the warrants were cancelled. The President of the Company was a former director of Patricia, and the companies formerly had a common officer. During the year ended January 31, 2009, the Company sold 554,686 of its Richmont shares for gross proceeds of \$1,235,303. As at January 31, 2009, the Company owned 118,355 common shares of Richmont with a market value of \$366,900. Subsequent to the year end the Company sold its remaining shares of Richmont for gross proceeds of \$392,428.

The Company owns 4,614,500 common shares 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, 2009, this investment had a market value of \$161,508 (2008 - \$750,000).

	Quoted market value at <u>Jan 31, 2009</u> \$	Quoted market value at <u>Jan 31, 2008</u> \$
Patricia - common shares	-	2,628,125
- warrants	-	71,588
Nyah - common shares	161,508	750,000
Richmont - common shares	<u>366,900</u>	<u>-</u>
	<u>528,408</u>	<u>3,449,713</u>

## NOTES TO THE FINANCIAL STATEMENTS

JANUARY 31, 2009 AND 2008

## 7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Opening	Expenditures	(Receipts) (Write downs)	Closing
	\$	\$	\$	\$
<b>2009</b>				
<b>CANADA - Sudbury, Ontario</b>				
Shakespeare Township	12,946,348	8,612,454	(8,013,699)	13,545,103
Stumpy Bay Option	698,263	32,603	-	730,866
Porter Baldwin	1,146,617	71,785	-	1,218,402
Porter Option	203,392	24,338	-	227,730
Shining Tree	1,148,160	9,178	-	1,157,338
Nickel Offsets	-	52,656	-	52,656
Other	-	19,350	-	19,350
Worthington Bell Option	<u>477,793</u>	<u>210,857</u>	<u>(688,650)</u>	<u>-</u>
	16,620,573	9,033,221	(8,702,349)	16,951,445
<b>USA - Wyoming</b>				
Carbon and Albany Counties	<u>24,504</u>	<u>166</u>	<u>(24,670)</u>	<u>-</u>
	<u>16,645,077</u>	<u>9,033,387</u>	<u>(8,727,019)</u>	<u>16,951,445</u>
<b>2008</b>				
<b>CANADA - Sudbury, Ontario</b>				
Shakespeare Township	5,948,070	7,248,278	(250,000)	12,946,348
Stump 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>

Continued...

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

The Company has earned a 100% interest in the Shakespeare property by issuing 350,000 common shares and completing \$1,200,000 in exploration expenditures under an option and joint venture agreement with Xstrata Canada Corporation ("Xstrata"). 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.

**Stumpy Bay Option**

The Company has earned a 100% interest in mineral claims known as the Stumpy Bay Property located in Shakespeare and Baldwin Townships, Ontario. 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 mining claims 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 mineral claims known as the Porter Option located in Shakespeare Dunlop and Porter Townships, Ontario. 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, valued at \$1,250,000. 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 earned a 100% interest in mineral claims known as the Shining Tree claims located in Fawcett Township, Ontario. The optionor has retained a 1% Net Returns Royalty. The Company has the right to purchase one-half of the royalty for \$500,000.

**Nickel Offsets Option**

The Company entered into an option agreement to earn up to a 70% interest in certain claims known as the Nickel Offsets Mine property located in Foy township north west of Sudbury, Ontario. 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 agreement, March 4, 2008.

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**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 consisting of 1.2 km of strike length on the Worthington Offset Dike located in Lorney township west of Sudbury, Ontario. The Company did not exercise this option and consequently all amounts related to this property were written off during the year ended January 31, 2009.

**Carbon and Albany Counties**

The Company had a 100% interest in certain claims in the Carbon and Albany Counties. This exploration property is a platinum group metal prospect. During the year, these claims were vended to a corporation in exchange for a 2.0% Net Smelter Royalty. A director and major shareholder of the corporation is also a director of the Company.

**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 was due on March 31, 2008. The Company was 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 was \$11,667 of accrued interest on the debenture. Accretion expense of \$13,333 was also recorded. During the year ended January 31, 2009, the debenture payable and all related interest was repaid in full to the holder. The Company has extinguished all obligations and liabilities in connection with this debt.

**9. ASSET RETIREMENT OBLIGATION**

The Company has provided a letter of credit in the amount of \$601,979 (2008 - \$601,979) to the Ministry of Northern Development and Mines ("MNDN") under the terms of the Advanced Exploration Closure Plan on the Shakespeare Project. (See Note 3)

As at January 31, 2009, the net present value of the total asset retirement obligation related to the Shakespeare Project closure plan for stage one mining. is estimated to be \$351,987 (2008 - \$328,960) based on total future liability of \$601,979 (2008 - \$601,979) and an estimated 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>2009</u>	<u>2008</u>
	\$	\$
Opening balance	328,960	135,502
Additions	-	171,937
Accretion incurred in the current year	<u>23,027</u>	<u>21,521</u>
Closing balance	<u><u>351,987</u></u>	<u><u>328,960</u></u>

Continued...

## NOTES TO THE FINANCIAL STATEMENTS

JANUARY 31, 2009 AND 2008

**10. CAPITAL STOCK****(a) Authorized:**

Unlimited number of common shares

**(b) Common shares issued:**

		<u>Shares</u>	<u>Amount</u>
		#	\$
Balance, January 31, 2007		26,741,561	14,051,778
Shares issued for exploration properties		220,000	176,000
Common shares issued	(iv)	3,000,000	3,150,000
Flow-through shares issued	(iv)(v)(vi)	2,313,219	2,364,318
Warrant valuation	(iv)	-	(285,000)
Stock options exercised		362,500	240,175
Shares repurchased and cancelled	(iii)	(432,000)	(246,700)
Share issue costs		-	(528,997)
Tax effects of issuing flow-through common shares		-	(720,000)
Balance, January 31, 2008		32,205,280	18,201,574
Common shares issued	(i)	6,206,804	1,303,429
Flow-through shares issued	(ii)	5,854,628	409,824
Stock options exercised		69,000	60,720
Shares repurchased for cancellation	(iii)	(44,144)	(25,162)
Share issue costs		-	(48,595)
Tax effects of issuing flow-through common shares		-	(792,000)
Balance, January 31, 2009		44,291,568	19,109,790
Less: Shares held for cancellation	(iii)	(202,789)	(115,590)
Total		<u>44,088,779</u>	<u>18,994,200</u>

- (i) During the year ended January 31, 2009, the Company completed private agreements with five individuals to issue 6,206,804 common shares of the Company in exchange for 6,206,804 common shares of Patricia Mining Corp. The shares were valued at \$1,303,429, based on the quoted fair market value at the date of issue. The President of the Company was a director of Patricia, and the companies had a common officer at the time of the transaction.
- (ii) In December 2008, the Company closed a private placement of \$409,824 through the sale of 5,854,628 flow-through common shares. An additional 409,822 warrants were issued as compensation related to this private placement. These warrants were valued at \$12,295 (Note 11).
- (iii) During the year ended January 31, 2009, the Company repurchased 246,933 (2008 - 432,000); common shares. Total consideration paid for these shares was \$100,556 (2008 - \$278,852). This resulted in a decrease to common shares of \$140,752 (2008 - \$246,700) and an increase in contributed surplus of \$40,196 (2008 - decrease of \$32,152). As at January 31, 2009, 202,789 shares were being held for cancellation.
- (iv) 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 were exercisable into units at the same terms were issued as compensation related to this private placement. These warrants were valued at \$73,500 (Note 11).

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**10. CAPITAL STOCK (Continued)**

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

- (v) In June 2007, the Company closed a private placement of \$500,000 through the sale of 384,613 flow-through common shares. An additional 23,076 warrants were issued as compensation related to this private placement. These warrants were valued at \$9,461 (Note 11).
- (vi) In December 2007, the Company closed a private placement of \$1,214,318 through the sale of 1,428,606 flow-through common shares. An additional 85,716 warrants were issued as compensation related to this private placement. These warrants were valued at \$18,160 (Note 11).

**(c) Stock-Based Compensation**

The Company has granted options for the purchase of common shares to its directors, officers, employees and certain consultants. The purpose of the plan is to attract, retain and motivate these parties by providing them with the opportunity, through share 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. The maximum number of options to be issued under the plan shall not exceed 10% of the total number of common shares issued and outstanding.

A summary of changes in stock based compensation during the years ended January 31, 2009 and 2008 is as follows:

	<u>Stock Options</u> #	<u>Weighted Average Exercise Price</u> \$
Balance, January 31, 2007	1,556,500	0.77
Granted	600,000	0.91
Exercised	(362,500)	0.54
Expired	<u>(95,000)</u>	0.83
Balance, January 31, 2008	1,699,000	0.87
Granted	-	
Exercised	(69,000)	0.50
Cancelled	(300,000)	0.88
Expired	<u>(20,000)</u>	0.85
Balance, January 31, 2009	<u>1,310,000</u>	0.88

As at January 31, 2009, 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>
50,000	1.45	March 1, 2009*
210,000	0.95	September 7, 2009
155,000	0.65	November 7, 2010
495,000	0.85	March 30, 2011
125,000	0.91	April 9, 2009 *
<u>275,000</u>	0.91	April 9, 2012
<u>1,310,000</u>		

\*expired unexercised subsequent to January 31, 2009.

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**10. CAPITAL STOCK (Continued)****(c) Stock-Based Compensation (continued)**

There were no options granted during the year ended January 31, 2009. The estimated fair value of the options granted during the year ended January 31, 2008 was \$240,000, this was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield 0%, expected volatility 66%, risk-free interest rate 2.88% and an expected life of 4.25 years. Employees, directors and officers received 450,000 of the 600,000 options granted during 2008 valued at \$189,000. 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.

**11. SHARE PURCHASE WARRANTS**

As at January 31, 2009, the following share purchase warrants are outstanding:

<u>Warrants</u>	<u>Exercise Price</u>	<u>Grant Date</u> <u>Estimated Fair Value</u>	<u>Expiry Date</u>
#	\$	\$	
409,822	0.07	12,295	June 30, 2010

The estimated fair value of the warrants issued during the year ended January 31, 2009 was calculated using the Black-Scholes valuation model with the following assumptions: weighted average expected dividend yield 0% (2008- 0%), weighted average expected volatility 100% (2008 – 80%), weighted average risk free interest rate 2.5% (2008 – 4.2%) and an expected weighted average life of 1.5 years (2008 – 1.5 years).

A summary of changes in share purchase warrants during the years ended January 31, 2009 and 2008 is as follows:

	<u>Warrants</u>	<u>Value</u>	<u>Weighted Average</u> <u>Exercise Price</u>
	#	\$	\$
Balance, January 31, 2007	138,157	38,921	0.79
Issued	1,818,792	386,120	1.33
Expired	<u>(63,157)</u>	<u>(16,420)</u>	0.95
Balance, January 31, 2008	1,893,792	408,621	1.30
Issued	409,822	12,295	0.07
Expired	<u>(1,893,792)</u>	<u>(408,621)</u>	1.30
Balance, January 31, 2009	<u>409,822</u>	<u>12,295</u>	0.07

Continued...

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**12. CONTRIBUTED SURPLUS**

A summary of changes in contributed surplus during the years ended January 31, 2009 and 2008 is as follows:

	<u>Amount</u>
	\$
Balance, January 31, 2007	2,799,726
Shares repurchased and cancelled (Note 10(b)(iii))	(32,152)
Stock-based compensation	240,000
Share purchase warrants expired	16,421
Stock options exercised	<u>(42,800)</u>
Balance, January 31, 2008	2,981,195
Shares repurchased for cancellation (Note 10(b)(iii))	40,196
Share purchase warrants expired	408,620
Stock options exercised	<u>(26,220)</u>
Balance, January 31, 2009	<u>3,403,791</u>

**13. MANAGING CAPITAL**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order that it can provide future returns for shareholders and benefits for other stakeholders. Management intends to accomplish this objective with the least dilution to shareholders. Management believes that the use of a debt to equity ratio or similar capital management tools would be inappropriate for the Company's current objectives, but rather relies on the expertise of the Company's management to sustain future development of the business.

The capital structure of the Company consists of equity comprised of capital stock, warrants and contributed surplus.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended January 31, 2009.

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**14. RELATED PARTY TRANSACTIONS**

The Company shares its premises with other corporations that have common directors and an officer. The Company reimbursed the related corporations for their proportional share of the expenses. Included in accounts payable and accrued liabilities at January 31, 2009 is \$Nil (2008 - \$12,568) owing to one of these corporations. Included in amounts receivable at January 31, 2009 is \$Nil (2008 - \$73,427) receivable from one of these corporations. These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

During the year a corporation associated with a director of the Company was paid fees of \$17,672 (2008 - \$7,259) for investment transactions.

During the year a corporation controlled by an officer of the Company was paid legal fees of \$10,756 (2008 - \$4,667).

The above 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.

See Notes 4, 6 and 7.

**15. 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 33.5% (2008 - 36%) as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
(Loss) income before income taxes	<u>(2,565,534)</u>	<u>2,488,609</u>
Expected income tax (recovery) expense	(859,500)	895,900
Adjustments to benefit resulting from:		
Stock - based compensation	-	86,400
Share issue costs	(12,200)	(154,000)
Asset retirement obligation	70,500	9,000
Loss on sale of investments	156,400	-
Sale of property	-	43,700
Change in tax rates	(57,500)	(90,400)
Other	<u>1,000</u>	<u>(16,400)</u>
	(701,300)	774,200
Change in valuation allowance	<u>157,400</u>	-
Future income tax (recovery) expense	<u>(543,900)</u>	<u>774,200</u>

Continued...

(A Development Stage Company)

**NOTES TO THE FINANCIAL STATEMENTS**

JANUARY 31, 2009 AND 2008

**15. INCOME TAXES (Continued)**

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

	<u>2009</u>	<u>2008</u>
	\$	\$
Equipment	18,300	14,900
Capital losses	154,100	-
Non-capital losses	43,400	-
Resource properties	(1,373,300)	(1,122,300)
Share issue costs	122,200	166,100
Investments	155,900	152,600
Valuation allowance	<u>(310,000)</u>	<u>(152,600)</u>
Total future income tax liability	<u>(1,189,400)</u>	<u>(941,300)</u>

(c) As at January 31, 2009, the Company had approximately \$10,787,000 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. The Company also has approximately \$131,000 of non-capital losses in Canada, which can be used to reduce taxable income in future years. If not utilized, the non-capital losses will expire in 2029.

**16. COMMITMENTS**

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 \$252,000 including \$61,000 due within one year. Minimum rental commitments for successive years approximate:

<u>Year</u>	<u>Amount</u>
	\$
2010	121,000
2011	123,000
2012	124,000
2013	126,000
2014	<u>10,000</u>
	<u>504,000</u>

The Company is committed to spending approximately \$400,000 on exploration costs by December 31, 2009 as part of the flow-through funding agreements that were completed during 2009. (See Note 10(b)(ii))

Continued...

**17. FINANCIAL RISK FACTORS**

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

**Credit risk**

The Company's credit risk is primarily attributable to cash equivalents, amounts receivable, due from related party and restricted cash. Restricted cash consists of a guaranteed investment certificate ("GIC") which has been invested with a reputable financial institution. The Company does not hold any asset backed commercial paper. Management believes the risk of loss is remote. Financial instruments included in amounts receivable consist of goods and services tax due from the Federal Government of Canada, and receivables from related and unrelated companies. The Company has a significant concentration of credit risk arising from test mining, as all metal sales proceeds are receivable from one entity. Management believes that the credit risk concentration with respect to these financial instruments is remote.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at January 31, 2009, the Company did not have sufficient cash and cash equivalents to settle current liabilities of \$2,111,447. Management believes that additional proceeds from future metal sales to be received but not yet receivable from ore already processed will be available to discharge current liabilities.

**Interest rate risk**

The Company has cash balances subject to fluctuations in the prime rate. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. Currently, the Company does not hedge against interest rate risk.

**Foreign currency risk**

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. Test mining proceeds are received in US dollars and immediately converted to Canadian dollars to reduce exchange risk. Management believes the foreign exchange risk derived from currency conversions at this time are small and therefore, does not hedge its foreign exchange risk.

**Price risk**

The Company is exposed to price risk with respect to commodity prices, specifically nickel and copper. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future mining operations will be significantly affected by changes in the market price of nickel and copper. Nickel and copper prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand of these metals, the level of interest rates and the rate of inflation can all cause significant fluctuations in these metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

**17. FINANCIAL RISK FACTORS (Continued)****Financial instruments**

The Company has designated its cash equivalents and restricted cash equivalents as held-for-trading, measured at fair value. Amounts receivable and due from related company are classified as loans and receivables, which are measured at amortized cost. Investments are designated as available-for-sale, measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash equivalents, amounts receivable, restricted cash equivalents and accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

The carrying values of Investments approximate their fair values as the investments have been adjusted to current market value.

The fair value of amounts due from a related company cannot be determined as no comparable market information exists.

**Sensitivity analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

- (i) The Company's investments are subject to fair value fluctuations. As at January 31, 2009, if the fair value of the investments had decreased/increased by 25% with all other variables held constant, comprehensive loss for the year ended January 31, 2009 would have been approximately \$132,000 higher/lower. Similarly, as at January 31, 2009, reported shareholders' equity would have been approximately \$132,000 lower/higher as a result of a 25% decrease/increase in the fair value of investments.

The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

**18. CONTINGENCIES**

A vendor of the Company has filed a statement of claim of \$57,750 against the Company for the outstanding amount in relation to a contract between the vendor and the Company. The Company maintains that the vendor did not fulfil its contractual obligations. As a consequence, the Company has filed a statement of defence and a counter claim of \$151,047 representing additional expenses and costs incurred by the Company in fulfilling the vendor's contractual obligation. The Company intends to vigorously defend the statement of claim filed, and pursue the recovery of the additional expenses and costs incurred. No amounts have been included in these financial statements.