

SAN MARCO RESOURCES INC.

FINANCIAL STATEMENTS

AUGUST 31, 2009

(Unaudited - Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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

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

SAN MARCO RESOURCES INC.

BALANCE SHEETS AS AT AUGUST 31, 2009 AND NOVEMBER 30, 2008
(Unaudited - Prepared by Management)

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT		
Cash	\$ 1,574,493	\$ 110,413
Cash-restricted (Note 4)	2,000	2,000
Accrued interest receivable		8,112
GST receivable	8,054	16,632
Provincial tax credit receivable (Note 5)	27,983	29,541
Prepaid Expenses	<u>6,939</u>	<u> </u>
	1,619,469	166,698
FIXED ASSETS – NET (Note 6)	22,086	
MINERAL PROPERTY (Note 7)	81,250	81,250
DEFERRED EXPLORATION COSTS (Note 7)	<u>435,364</u>	<u>435,364</u>
	<u>\$ 2,158,169</u>	<u>\$ 683,312</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ <u>52,275</u>	\$ <u>12,332</u>
	<u>52,275</u>	<u>12,332</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (Note 8)	2,341,060	718,435
CONTRIBUTED SURPLUS (Note 8)	273,565	188,960
DEFICIT	<u>(508,731)</u>	<u>(236,415)</u>
	<u>2,105,894</u>	<u>670,980</u>
	<u>\$ 2,158,169</u>	<u>\$ 683,312</u>

APPROVED BY THE DIRECTORS:

“R. Willis” _____

“C. Dyakowski “ _____

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

SAN MARCO RESOURCES INC.

STATEMENT OF DEFERRED EXPLORATION COSTS

FOR THE NINE MONTHS ENDED AUGUST 31, 2009 and 2008
(Unaudited - Prepared by Management)

	<u>Nine Months to August 2009</u>	<u>Nine Months to August 2008</u>	<u>Three Months to August 2009</u>	<u>Three Months to August 2008</u>
ALWIN PROPERTY				
Sampling, prospecting and line cutting	-	39,178	-	39,178
Drilling	-	159,484	-	159,484
Travel, supplies and field expenses	-	47,928	-	32,499
Project management fees	-	17,215	-	17,215
Geological surveys, consulting and reports	-	6,634	-	6,634
Advance to commence the exploration program	-	26,506	-	-
	-	296,945	-	181,516
LESS: BC MINING AND EXPLORATION TAX CREDIT				
	-	(24,100)	-	(24,100)
DEFERRED EXPLORATION COSTS FOR THE PERIOD	-	272,845	-	157,416
DEFERRED EXPLORATION, BEGINNING OF PERIOD	<u>435,364</u>	<u>146,494</u>	<u>435,364</u>	<u>261,923</u>
DEFERRED EXPLORATION, END OF PERIOD	<u>\$ 435,364</u>	<u>\$ 419,339</u>	<u>\$ 435,364</u>	<u>\$ 419,339</u>

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

SAN MARCO RESOURCES INC.

STATEMENT OF LOSS AND DEFICIT

FOR THE NINE MONTHS ENDED AUGUST 31, 2009 and 2008
(Unaudited - Prepared by Management)

	<u>Nine Months To August 2009</u>	<u>Nine Months To August 2008</u>	<u>Three Months To August 2009</u>	<u>Three Months To August 2008</u>
EXPENSES				
Management and administration fees (Note 9)	\$ 42,000	\$ 31,500	\$ 18,000	\$ 12,000
Stock based compensation expense (Note 2)	84,604	98,793	28,201	56,402
Salary and benefits	10,708		10,708	
Professional fees	58,952	25,263	41,104	3,575
Filing fees	18,837	2,771	11,265	1,041
Property investigation	25,764		25,764	
Transfer agent	5,487	6,891	3,538	1,367
Insurance	4,246		1,479	
Rent	7,466		7,466	
Depreciation	4,154		4,154	
Office and miscellaneous	<u>12,957</u>	<u>6,418</u>	<u>4,860</u>	<u>2,849</u>
	275,175	171,636	156,539	77,234
Interest Income	<u>(2,859)</u>	<u>(6,582)</u>	<u>84</u>	<u>(1,877)</u>
LOSS BEFORE INCOME TAXES	272,316	165,054	156,623	75,357
FUTURE INCOME TAX RECOVERY	<u>-</u>	<u>(43,125)</u>	<u>-</u>	<u>-</u>
NET LOSS FOR THE PERIOD	(272,316)	(121,929)	(156,623)	(75,357)
DEFICIT, BEGINNING OF PERIOD	<u>(236,415)</u>	<u>(89,891)</u>	<u>(352,108)</u>	<u>(136,463)</u>
DEFICIT, END OF PERIOD	<u>(508,731)</u>	<u>(211,820)</u>	<u>(508,731)</u>	<u>(211,820)</u>
BASIC AND DILUTED LOSS PER SHARE	<u>\$ 0.03</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.01</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	<u>7,974,008</u>	<u>7,569,098</u>	<u>8,551,025</u>	<u>7,675,399</u>

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

SAN MARCO RESOURCES INC.

STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED AUGUST 31, 2009 and 2008

(Unaudited - Prepared by Management)

	<u>Nine Months to August 2009</u>	<u>Nine Months to August 2008</u>	<u>Three Months to August 2009</u>	<u>Three Months to August 2008</u>
OPERATING ACTIVITIES				
Net loss for the period	\$ (272,316)	\$ (121,929)	\$ (156,623)	\$ (75,357)
Items not involving cash:				
Depreciation	4,154		4,154	
Future income tax recovery		(43,125)	-	
Stock based compensation	84,604	188,960	28,201	56,402
	<u>(183,558)</u>	<u>23,906</u>	<u>(124,268)</u>	<u>(18,955)</u>
Changes in non-cash working capital items:				
Amounts receivable	16,690	(5,775)	5,463	1,295
Provincial tax credit	1,558	(24,100)		
Prepaid expenses	(6,939)		(4,172)	-24,100
Accounts payable and accrued liabilities	39,944	(7,743)	32,125	1,900
Due to related parties		(22,022)	-	(2,625)
	<u>(132,305)</u>	<u>(35,734)</u>	<u>(90,852)</u>	<u>(42,485)</u>
FINANCING ACTIVITIES				
Issuance of shares net of issue costs	1,622,625	470,267	1,622,500	
Deferred finance costs		10,509		
	<u>1,622,625</u>	<u>480,776</u>	<u>1,622,500</u>	<u>0</u>
INVESTING ACTIVITIES				
Deferred exploration costs		272,845	0	157,416
Purchase of fixed assets	26,240		26,240	
Acquisition of mineral properties		25,000	-	-
	<u>26,240</u>	<u>297,845</u>	<u>26,240</u>	<u>157,416</u>
INCREASE (DECREASE) IN CASH	1,464,080	147,197	1,505,408	(199,901)
CASH, BEGINNING OF PERIOD	<u>110,413</u>	<u>14,428</u>	<u>69,085</u>	<u>361,526</u>
CASH, END OF PERIOD	<u>\$ 1,574,493</u>	<u>\$ 161,625</u>	<u>\$ 1,574,493</u>	<u>\$ 161,625</u>

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

SAN MARCO RESOURCES INC.

NOTES TO FINANCIAL STATEMENTS

Nine Month Period ended August 31, 2009
(Unaudited - Prepared by Management)

1. NATURE OF OPERATIONS

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

These financial statements have been prepared using Canadian generally accepted accounting principals on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has experienced losses and at August 31, 2009 had working capital of \$1,567,194. Should the Company be unable to continue as a going concern, the realization of assets may be at amounts significantly less than carrying value. The continuation of the Company as a going concern is dependant on its ability to obtain additional equity capital to finance existing operations, attaining commercial production from its mineral properties, and attaining future profitable operations or positive cash flows. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Estimates, Assumptions and Measurement Uncertainty

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 at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the impairment of mineral property interests and the determination of reclamation obligations. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

b) Mineral Properties and Exploration Costs

The Company records its interests in mineral properties at cost. All direct costs relating to the acquisition of these interests are capitalized until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit of production basis over the proven reserves of the related property following commencement of production. Proceeds received, as a result of the sale of a mineral property, will be applied first against the book value of the property, and any excess will be set off against related deferred exploration costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

b) Mineral Properties and Exploration Costs - continued

Exploration costs relating to mineral properties are deferred until the properties are brought into production, at which time the deferred exploration costs are to be amortized on a unit of production basis, or until the properties are abandoned or sold, at which time the deferred costs are written off.

The mineral properties and exploration costs are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When there is evidence of impairment, the net carrying amount of the asset will be written down to its net recoverable amount which is the estimated undiscounted future net cash flows expected to result from the asset and its eventual disposition. The loss on impairment written off is not reversed even if circumstances change and the net recoverable amount subsequently increases.

The amounts shown as mineral properties and deferred exploration costs represent unamortized costs to date and do not necessarily reflect present or future values.

Up to August 31, 2009 the Company had incurred \$244,750 of the exploration costs on behalf of shareholders pursuant to flow-through share subscription agreements. The tax advantage applicable to the exploration costs incurred by the Company is available to the subscribers of the shares and not to the Company.

Costs incurred searching for and investigating potential properties are written off at the time the costs are incurred and are not deferred unless an acquisition agreement has been entered into for the property.

c) General and Administrative Expenses

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

d) Financial Instruments

The Company's financial instruments include cash, accrued interest receivable, taxes recoverable, due from related party, prepaids and deposits, and accounts payable. In management's opinion, the Company is not exposed to significant interest rate, currency exchange rate, liquidity or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values because of their current nature. The Company is not exposed to derivative financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3840 – Related Party Transactions.

The Company classified its cash as held-for-trading, receivables and deposits as other financial assets and its accounts payable as other financial liabilities.

e) Basic and Diluted Loss Per Share

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

f) Income Taxes

The Company accounts for income taxes using the asset and liability method, whereby future tax assets and liabilities are recognized for the 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 substantially 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. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. The valuation of future income tax assets is adjusted, if necessary, by the use of a valuation allowance to reflect the estimated realizable amount. At August 31, 2009, the Company recognized a valuation allowance equal to the full amount of net future tax asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

g) Asset Retirement Obligation

The Company accounts for asset retirement obligations and site rehabilitation costs in accordance with the requirements of Canadian Institute of Chartered Accountants Handbook Section 3110 Asset Retirement Obligations. Under this policy, the present value of future closure obligations is recorded as a liability when that liability is incurred with a corresponding increase in carrying value of the related Mining Property assets. The increased carrying value of the mining property asset will be amortized over the life of the related mining assets on a unit of production basis when the property comes into production. The liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. As at August 31, 2009 the Company has not recognized any asset retirement obligations.

h) Stock-Based Compensation

The Company follows the recommendation of CICA handbook Section 3870 “Stock-based Compensation and Other Stock-based Payments”. Under this section the compensation expense for stock options grants to employees and non-employees is recorded at the fair value of the stock options issued at the grant date, which is determined using the Black-Scholes Option-Pricing Model. Compensation expense for stock options granted to non-employees is recognized as the options are earned and the services are provided. Compensation expense for stock options granted to employees is amortized over the vesting period. Consideration paid by employees and non-employees on the exercise of stock options is recorded as share capital.

i) Flow-through Shares

The Company follows EC-146, “Flow-through Shares” for all flow through share transactions. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced.

If the Company has sufficient unused tax loss carry forwards to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these carry forwards, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

j) Comprehensive loss

Comprehensive loss reflects net loss and other comprehensive income (loss) for the period. Other comprehensive income (loss) includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

k) Hedges

This standard is applicable when a Company chooses to designate a hedging relationship for accounting purposes. It builds on the previous AcG-13, “Hedging Relationships”, and CICA 1650, “Foreign Currency Translation”, by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company had no hedging relationships as at August 31, 2009 and 2008. The adoption of this standard did not have an impact on the Company’s financial statements.

l) Deferred Share Offering Costs

The Company defers costs related to the issue of common shares from treasury. These costs will be netted against gross proceeds received upon the issue of share capital. Costs of unsuccessful share offerings are charged directly to operations.

m) Risk Management

The Company is engaged primarily in mineral exploration and manages related industry risk issues directly. The Company may be at risk for environmental issues and fluctuations in commodity pricing. Management is not aware of and does not anticipate any significant environmental remediation costs or liabilities in respect of its current operations.

The Company is not exposed to significant credit concentration or interest rate risk. The Company’s functional currency is the Canadian dollar. All current operations occur within Canada. There is currently no significant foreign exchange risk to the Company

3. CHANGES IN ACCOUNTING POLICIES

Effective on December 1, 2007, the Company adopted the Canadian Institute of Chartered Accounts (“CICA”) Handbook Section 3862, “Financial Instruments – Disclosure” and Section 3863, “Financial Instruments – Presentation”. These sections carry forward the former presentation requirements and increase the emphasis on recognition and management of the risks associated with recognized and unrecognized financial instruments. The adoption of these sections had no impact on the financial position or net earnings for the period ended August 31, 2009.

Effective on December 1, 2007, the Company adopted the CICA Handbook Section 1535 “Capital Disclosures”, which requires disclosure of information about an entity’s capital and its objectives, policies and process for managing capital.

Effective on December 1, 2007 the Company adopted CICA Handbook Section 1400, “General Standards of Financial Statement Presentation”. These sections provides revised guidance on management’s responsibility to assess and disclose the Company’s ability to continue as a concern. The adoption of this section had no significant impact on the Company’s financial statements.

3. CHANGES IN ACCOUNTING POLICIES - continued

Effective December 1, 2007 the Company has adopted the “CICA” Handbook section 1530. Comprehensive loss reflects net loss and other comprehensive income (loss) for the year. Other comprehensive income (loss) includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective. The adoption of this section had no impact of the statement of operations for the period ended August 31, 2009.

Recent accounting pronouncements

These interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and, except for the adoption of new accounting pronouncements issued by the Canadian Institute of Chartered Accountants (“CICA”) discussed below, follow the same accounting policies as used in the most recent annual financial statements. The interim financial statements should be read in conjunction with the audited financial statements for the year ended November 30, 2008.

a) Effective January 1, 2009, the Company adopted the following accounting standards updates issued by the CICA:

i) Goodwill and Intangible Assets

CICA Handbook Section 3064 “Goodwill and Intangible Assets” replaced Section 3062 “Goodwill and Other Intangible Assets” and Section 3450 “Research and Development Costs”. The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The adoption of this standard had no effect on these interim financial statements.

ii) Credit Risk and the Fair Value of Financial Assets and Liabilities

Emerging Issues Committee (“EIC”) abstract 173 “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” clarifies that an entity should take into account its own credit risk and counterparty credit risk in determining the fair value of financial assets and liabilities, including derivatives. The Company’s adoption of this abstract had no effect on these interim financial statements.

iii) Mining Exploration Costs

EIC-174 “Mining Exploration Costs” clarifies guidance related to capitalization of exploration costs and impairment of capitalized costs. The Company’s adoption of this abstract had no effect on these interim financial statements.

3. CHANGES IN ACCOUNTING POLICIES - continued

b) International Financial Reporting Standards (“IFRS”)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly accountable companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2010. The Company is currently assessing the financial reporting impact of the transition to IFRS.

4. CASH – RESTRICTED

On July 17, 2007 the Company posted a \$2,000 reclamation deposit with respect to the Alwin Copper Property. This deposit bears interest at 0.2% per annum and matures on July 17, 2010.

5. PROVINCIAL TAX CREDIT

The company is qualified for the Mining Exploration Tax Credit (“METC”). The METC is a refundable B.C. income tax credit equal to 20% of qualified mining exploration costs incurred by the Company.

6. FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computers	\$ 6,681	\$ 334	\$ 6,347
Furniture and Equipment	5,350	268	5,082
Software	<u>14,209</u>	<u>3,552</u>	<u>10,657</u>
	<u>\$ 26,240</u>	<u>\$ 4,154</u>	<u>\$ 22,086</u>

Computers and Furniture and Equipment are amortized over five years and Software is amortized over one year

7. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS

	<u>2009</u>	<u>2008</u>
Acquisition Costs:		
Alwin Property	\$ <u>81,250</u>	\$ <u>81,250</u>
Deferred Exploration Costs:		
Alwin Property	\$ <u>435,364</u>	\$ <u>261,923</u>

Alwin Properties

Pursuant to an option agreement dated December 7, 2005, the Company was granted an option to acquire an undivided 100% interest in mineral claims situated in the Kamloops B.C. area. The claims are subject to a 2% net smelter return royalty.

Under the terms of the agreement the Company has the option to purchase seventy-five as a reduction of the net smelter return royalty for \$1.5 million during a five year period commencing from the day of commercial production. As consideration for the property, the Company paid \$50,000 and issued 125,000 common shares at a deemed price of \$0.25 per share.

8. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Issued and fully paid

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Balance, November 30, 2006	6,680,003	\$ 235,336	\$ -
Shares cancelled	(4,000,000)	(200,000)	-
Shares issued	2,000,000	200,000	-
Issued for cash for non-flow through shares	100,000	10,000	-
Issued for cash pursuant to subscriptions for flow through shares	200,000	20,000	-
Remuneration of cumulative eligible exploration costs	-	(6,900)	-
Balance, November 30, 2007	<u>4,980,003</u>	<u>258,436</u>	<u>-</u>

8. SHARE CAPITAL - continued

	<u>Number of Shares</u>	<u>Amount</u>	<u>Contributed Surplus</u>
Issued for cash for non-flow through shares	2,000,000	500,000	-
Issued for cash pursuant to subscriptions for flow through shares	500,000	125,000	-
Issued as partial consideration for the property	125,000	31,250	-
Issued as broker's commission	60,000	15,000	-
Share issue costs	-	(178,839)	-
Agents warrants exercised	16,826	4,207	-
Renunciation of cumulative eligible exploration costs	-	(43,125)	-
Stock-based compensation			-
Agents warrants	-	-	96,673
Director and employee options	-	-	98,793
Non-cash compensation on:			
Agents warrants exercised	<u>-</u>	<u>6,506</u>	<u>(6,506)</u>
Balance, November 30, 2008	7,681,829	718,435	188,960
Broker Warrant exercised	500	125	
Stock Options exercised	50,000	20,000	
Issued for cash for non-flow through shares	6,410,000	1,602,500	
Stock-based compensation			
Director and employee options	<u>-</u>	<u>-</u>	<u>84,605</u>
Balance, August 31, 2009	<u>14,142,329</u>	<u>\$ 2,341,060</u>	<u>\$ 273,565</u>

c) Shares and Warrants Issued in Current Period

Under the terms of Private Placement Subscription Agreements that closed on August 19, 2009 the Company issued 6,410,000 Units at a price of \$0.25 per Unit. Each Unit consists of one fully paid commons share of the Company and one-half of a non-transferable common share purchase warrant, each whole warrant being exercisable to purchase a further share for a period of two years at a price of \$0.45 in the first year and \$0.65 in the second year.

The 3,205,000 warrants provide that if the closing price of the Company's shares equals or exceeds \$0.90 per share for 20 consecutive trading days after December 19, 2009, the Company may give, within five trading days thereof, notice to the warrant holders that the warrants must be exercised within 30 days (including non-trading days) of such notice or the warrants will terminate.

The shares and any shares on exercise of the warrants are subject to restrictions on transfer until December 20, 2009.

8. SHARE CAPITAL – continued

d) Escrow Shares

Under the terms of an Escrow Agreement dated August 31, 2007, 3,230,003 shares were placed in escrow with 10% to be released on the Company's being listed for trading, (December 18, 2007), and an additional 15% to be released every six months thereafter. A total of 1,776,503 shares have been released leaving 1,453,500 remaining in escrow.

e) Flow-through Shares

Up to November 30, 2007 the Company issued a total of 1,363,334 flow-through shares for cash consideration of \$119,750. The Company spent the flow-through proceeds on exploration and development activities and renounced \$119,750 of eligible Canadian Exploration Expenses in favor of flow-through shareholders. Accordingly, the amount will not be available to the Company for future deductions from taxable income. During the period ended August 31, 2008 the Company issued a further 500,000 flow-through shares for cash consideration of \$125,000. Since this \$125,000 was renounced to the shareholders an equivalent amount of development activities may not be claimed by the Company.

f) Stock options

The Company has adopted a stock option plan whereby the Company may from time to time in accordance with the TSX Venture Exchange ("Exchange") requirements grant to directors, officers, employees and consultants options to purchase common shares of the Company provided that the number of options granted, including all options granted by the Company to date, does not exceed 10% of the Company's common shares issued and outstanding at the time of granting stock options.

A summary of the stock option plan as at August 31, 2009 and changes during the period then ended is presented below:

	<u>August 31, 2009</u>	
	<u>Number of Options</u>	<u>Exercise Price</u>
Outstanding at beginning of the period	<u>454,991</u>	<u>\$ 0.25</u>
	<u>790,000</u>	<u>\$ 0.40</u>
	1,244,991	<u>\$ 0.35</u>
Cancelled during the period	233,645	0.25
Cancelled and exercised during the period	<u>510,000</u>	<u>\$ 0.40</u>
Outstanding at end of the period	221,346	<u>0.25</u>
	<u>280,000</u>	<u>\$ 0.40</u>

8. SHARE CAPITAL – continued

As at August 31, 2009 the following stock options were outstanding:

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
221,346	\$ 0.25	December 9, 2009
<u>280,000</u>	\$ 0.40	June 10, 2010
<u><u>501,346</u></u>		

During the period ended August 31, 2009, the Company recorded a stock-option compensation charge of \$84,604 in respect of the stock options granted and vested prior to November 30, 2008. The fair value of these stock options, which vested immediately, is estimated using the Black-Scholes option pricing model. The assumptions used in calculating fair value are as follows:

Risk free interest rate	1.79% - 3.27%
Expected life of options	2 years
Expected dividend yield	0.0%
Expected stock price volatility	71.84% - 100.00%

g) Broker Warrants

As part of the public offering dated October 30, 2007 the agent was granted 250,000 Agents Warrants exercisable at \$0.25 each up to December 18, 2008 at which time all unexercised Agent Warrants would expire. As at December 18, 2008, the expiry date, 17,326 Agent Warrants had been exercised for proceeds of \$4,332 leaving 232,674 unexercised all of which expired.

The Company has recorded in the previous year a share issuance cost of \$96,673 in respect of the Broker Warrants for 250,000 shares granted at a price of \$0.25 per share. The fair value of these warrants, which vested immediately upon completion of the initial public offering, was estimated using the Black-Scholes option pricing model. The assumptions used in calculating fair value were as follows:

Risk free interest rate	1.58%
Expected life of warrants	1 year
Expected dividend yield	0.0%
Expected stock price volatility	100.03%

9. RELATED PARTY TRANSACTIONS

- a) During the period, the Company paid \$22,500 (2008 - paid \$35,000 of which \$12,500 was unpaid as at November 30, 2007) for management fees to a company controlled by the former president. As at August 31, 2008 the Company had advanced \$280,000 to a company controlled by the former president to carry out the exploration contract. The full advance was supported by paid invoices prior to November 30, 2008.
- b) During the period, the Company paid \$10,000 (2008 - nil) for management fees to the current president
- c) During the period the Company paid legal fees of \$9,416 (2008 – paid \$18,152) to a firm in which a former director W. Schmidt is a partner.

10. MANAGEMENT OF CAPITAL AND FINANCIAL RISK

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company does not have any externally imposed capital requirements to which it is subject.

As at August 31, 2009 the Company had capital resources consisting mainly of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares or dispose of assets or adjust the amount of cash.

The Company currently operates entirely in Canada and is therefore not subject to any significant foreign exchange risk. The Company's financial instruments are exposed to limited liquidity risk, credit risk and interest rate risk.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure. Accounts payable and accrued liabilities are due within the current operating period.

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk includes cash and cash equivalents and amounts receivable. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The maximum exposure to credit risk is equal to the carrying value of cash and cash equivalents and amounts receivable. The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing investments with maturities 90 days or less from the original date of acquisition.

The Company holds a significant portion of its cash and cash equivalents in interest-bearing instruments. The primary objective of the Company's investment activities is to preserve principal while at the same time maximizing the income it receives from its investments without significantly increasing risk. To minimize interest rate risk, the Company maintains its portfolio of cash equivalents in highly liquid short-term interest bearing investments with maturities 90 days or less from the original date of acquisition.

11 SUBSEQUENT EVENTS

On October 5, 2009 the Company granted 1,250,000 stock options to certain of its directors, employees and consultants. The options are exercisable for a period of three years at \$0.51 per share.