KWG RESOURCES INC.

(An exploration stage company)

Consolidated Financial Statements

December 31, 2008 and 2007

PricewaterhouseCoopers

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March 16, 2009

Auditors' Report

To the Shareholders of
KWG Resources Inc.

We have audited the consolidated balance sheets of **KWG Resources Inc.** as at December 31, 2008 and 2007, the consolidated statements of operations and deficit, comprehensive income (loss) and cash flows for the years then ended. These consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007, the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP[1]

[1] Chartered accountant auditor permit No. 20910

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KWG Resources Inc.

(An exploration stage company)

Consolidated Balance Sheets

As at December 31, 2008 and 2007

	2008 $	2007 $
Assets		
Current assets		
Cash (note 4)	1,528,897	5,472,150
Accounts receivable	96,059	60,535
Temporary investments (note 5)	152,722	76,232
Prepaid expenses	23,062	7,306
	1,800,740	5,616,223
Mining assets (note 6)	9,701,315	16,897,432
	11,502,055	22,513,655
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	505,826	164,722
Shareholders' Equity		
Share capital (note 7)	27,835,259	27,212,107
Warrants and compensation options (note 8)	1,637,809	1,723,358
Contributed surplus (note 10)	2,626,615	1,996,508
Deficit	(20,877,880)	(8,546,676)
Accumulated other comprehensive income loss (note 11)	(225,574)	(36,364)
	10,996,229	22,348,933
	11,502,055	22,513,655

Approved by the Board of Directors

(s) *Michel Côté* ________________ Director

(s) *Douglas M. Flett* ________________ Director

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Operations and Deficit

For the years ended December 31, 2008 and 2007

	2008 $	2007 $
Income		
Gain on disposal of royalty (note 6(h))	117,751	-
Interest income	93,036	28,215
	210,787	28,215
Expenses		
Administrative	1,030,819	615,198
Part XII.6 taxes	86,000	-
Stock compensation costs (note 9)	448,037	466,432
Write-down and write-off of mining assets (note 6)	10,829,266	-
Unrealized loss on temporary investment (note 5(b))	88,566	-
Net loss on temporary investment (note 5(c))	-	8,240
	12,482,688	1,089,870
Loss before income tax	(12,271,901)	(1,061,655)
Future income tax recovery (note 12 (i))	1,140,000	170,000
Loss for the year	(11,131,901)	(891,655)
Deficit – Beginning of year	(8,546,676)	(6,650,083)
Share and warrant issue expenses	(1,199,303)	(1,004,938)
Deficit – End of year	(20,877,880)	(8,546,676)
Loss per share (basic and diluted)	(0.04)	(0.01)
Weighted average number outstanding shares (basic and diluted)	265,482,144	189,551,718

Consolidated Statements of Comprehensive Income (Loss)
For the years ended December 31, 2008 and 2007

	2008 $	2007 $
Loss for the year	(11,131,901)	(891,655)
Other Comprehensive Income (loss)		
- Change in unrealized loss on financial assets available-for-sale	(189,210)	(82,714)
Comprehensive Income (loss)	(11,321,111)	(974,369)

KWG Resources Inc.

(An exploration stage company)

Consolidated Statements of Cash Flows

For the years ended December 31, 2008 and 2007

Cash flows from	2008 $	2007 $
Operating activities		
Loss for the year	(11,131,901)	(891,655)
Adjustments for		
Stock compensation costs (note 9)	448,037	466,432
Write-down and write-off of mining assets	10,829,266	-
Write-off of accounts receivable	2,007	-
Net loss on temporary investments (note 5(c))	-	8,240
Unrealized loss on temporary investment (note 5(b))	88,566	-
Future income tax recovery (note 12 (i))	(1,140,000)	(170,000)
Units issued in payment for consulting fees	-	26,500
	(904,025)	(560,483)
Change in non-cash working capital items	354,619	91,926
	(549,406)	(468,557)
Financing activities		
Share capital issued	537,720	5,805,087
Warrants and compensation options issued	101,020	1,184,399
Share and warrant issue expenses	(46,370)	(457,882)
	592,370	6,531,604
Investing activities		
Additions to mining assets	(3,631,951)	(1,224,094)
Acquisition of temporary investment (note 5)	(354,266)	-
Proceeds on disposal of temporary investments	-	11,760
	(3,986,217)	(1,212,334)
Net change in cash and cash equivalents during the year	(3,943,253)	4,850,713
Cash and cash equivalents – Beginning of year	5,472,150	621,437
Cash and cash equivalents – End of year	1,528,897	5,472,150
Change in non-cash working capital items comprises:		
Accounts receivable	(37,531)	(6,220)
Prepaid	(15,756)	(7,306)
Accounts payable and accrued liabilities	407,906	105,452
	354,619	91,926
Additional information - non-cash transactions		
Issuance of shares for mining assets	68,000	50,525
Issuance of shares for debt settlement	-	120,000
Issuance of shares for commission	-	40,453
Issuance of agent compensation options	12,933	-
Expired warrants included in contributed surplus	182,070	26,509
Additions to mining assets included in accounts payable	77,708	10,906

1 Nature of operations

KWG Resources Inc. (the "Company"), an exploration stage company, is involved in the exploration base and precious metals and diamonds. It has interests in properties located in Canada at the exploration stage.

The Company is in the process of exploring its mineral property interests and has not yet determined whether its mineral property interests contain mineral deposits that are economically recoverable. The Company will periodically have to find additional funds to continue its exploration activities, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Until it is determined that properties contain mineral reserves or resources that can be economically mined, they are classified as exploration properties. The recoverability of deferred exploration expenses is dependent upon: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

For the year ended December 31, 2008, the Company incurred a loss of $11,131,901 ($891,655 for the year ended December 31, 2007). This year's loss includes a write-down of the Company's diamond group claims of $10,695,201, which resulted from the revision for impairment upon occurrences of events or changes in circumstances such as the current capital market conditions. Cash as at December 31, 2008 amounted to $1,528,897 ($5,472,150 as at December 31, 2007) including funds reserved for exploration of $369,808 ($3,363,015 as at December 31, 2007). Accounts payable and accrued liabilities as at December 31, 2008 amounted to $505,826 ($164,722 as at December 31, 2007). In addition to ongoing working capital requirements, the Company must secure on an ongoing basis sufficient funds for its existing commitments for exploration and general and administration costs. While as at December 31, 2008, there is a significant doubt as to the Company's ability to meet its current obligations and continue its activities as a going concern, since December 31, 2008, the Company entered into an option agreement with Cliffs Natural Resources Inc. ("Cliffs"), whereby the Company granted to Cliffs an option exercisable on or before March 16, 2009 to purchase and acquire certain securities of the Company in the aggregate amount of CAN$4,516,750 (US$3,500,000) which was assigned to an affiliated entity on March 12, 2009 and exercised on March 16, 2009 (note 16 (i)). Management considers that this subscription provides sufficient liquidities for year ending December 31, 2009 and therefore, these consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern.

In the future, management will pursue all financing alternatives available to fund its ongoing obligations and exploration activities. Although there is no assurance that the Company will be successful in these actions, management is confident that it will be able to secure the necessary financing through the issuance of new equity to continue as a going concern.

2 Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Debuts Diamonds Inc. ("DDI"), incorporated in Ontario, Canada on October 18, 2007, which owns all the issued and outstanding shares of SMD Mining Corporation ("SMD") incorporated in Ontario, Canada in January, 2008.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant areas where management judgment is applied are assets valuations, future income taxes and compensation options. Actual results could differ from those estimates and such differences could be material.

Cash and cash equivalents

Cash include cash on hand, bank balances and short-term liquid investments with original maturities of three months or less.

Mining assets

Exploration properties include rights in mining properties and deferred exploration expenses.

Exploration costs are deferred until the economic viability of the project has been established, at which time costs are added to mining properties. Costs are written off when properties are abandoned or when cost recovery is uncertain. Management has defined uncertainty as either there being no financial resources available from the Company or its joint venture partners for development of a mining property over a three-year period or results from exploration work not warranting further investment.

Proceeds from the sale of exploration properties are applied in reduction of related carrying costs and any excess is recorded as a gain in the Consolidated Statements of Operations and Deficit. In the case of a partial sale, if carrying costs exceed the proceeds, only the losses are recorded.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable, as identified by comparing their net book value to the estimated undiscounted future cash flows generated by their use and eventual disposal. Impairment is measured as the excess of the carrying value over the fair value, determined principally by discounting the estimated net future cash flows expected to be generated from the use and eventual disposal of the related asset. In the event that the Company has insufficient information about its exploration properties to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test for impairment by comparing the fair value to the carrying amount, without first performing a test for recoverability.

Flow-through shares

The Company may finance a portion of its exploration and development activities through the issuance of flow-through common shares. Under the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. The Company provides for the future effect on income taxes related to flow through shares as a charge to deficit and future income tax liability when the renunciation forms are filed with the tax authorities.

Stock option plan

The Company applies the fair value method to account for options granted to its employees, officers, directors and consultants. Any consideration paid on exercise of stock options is credited to share capital. The stock compensation cost is stated as per the periods of option acquisition. The contributed surplus resulting from the stock compensation is transferred to share capital when the options are exercised.

Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Other assets and liabilities as well as items from the Consolidated Statements of Operations and Deficit are translated at the rates of exchange on each transaction date. Gains and losses on translation are included in the Consolidated Statements of Operations and Deficit.

Income taxes

The Company provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the accounting values and tax values of assets and liabilities using substantively enacted or enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based upon available information, it is more likely than not that some or all of the income tax assets will not be realized.

Share and warrant issue expenses

Share and warrant issue expenses are recorded as an increase in deficit in the year in which they are incurred, with the exception of expenses related to financings not closed at the end of the year, which are deferred.

Loss per share

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method for the calculation of the dilutive effect of stock options and other dilutive securities.

The diluted loss per share is equal to the basic loss per share due to the anti dilutive effect of stock options and other dilutive securities.

Financial instruments - Recognition and measurement

All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

- Financial assets and liabilities classified as held-for-trading are required to be measured at fair value, with changes in fair value recognized in net earnings.
- Financial assets classified as held-to-maturity, loans and receivables and financial liabilities (other than those held-for-trading) are required to be measured at amortized cost using the effective interest method of amortization.
- Available-for-sale financial assets are required to be measured at fair value, with unrealized gains and losses recognized in Other Comprehensive Income (loss). Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market should be measured at cost.

The Company has adopted the following classification:

- Cash and cash equivalents are classified as "Financial Assets Held for Trading".
- Receivables are classified as “Loans and Receivables”
- Temporary investments are classified as “Available-for-Sale”
- Accounts payables and accrued liabilities are classified as "Other Financial Liabilities", all of which are measured at amortized cost.

3 Changes in Accounting Policies

On January 1, 2008, in accordance with the applicable transitional provisions, the Company applied the recommendations of Section 1535, "Capital Disclosures" of the Canadian Institute of Chartered Accountants' Handbook. This new section, effective for fiscal years beginning on or after October 1, 2007, establishes standards for disclosing information about the Company's capital and how it is managed. Disclosure and presentation requirements’ pertaining to this section is contained in note 7.

On January 1, 2008, in accordance with the applicable transitional provisions, the Company applied the recommendations of Section 3862 “Financial Instruments – Disclosures” and Section 3863 “Financial Instruments – Presentation” describe the required disclosures and presentation of the financial instruments and non financial derivatives. These new requirements came into force for the fiscal periods started on October 1, 2007 and the Company applied them starting on October 1, 2008. They replaced sections 3861 “Financial Instruments – Disclosures and presentation". Disclosure and presentation requirements pertaining to these sections are contained in note 14.

On January 1, 2008, in accordance with the applicable transitional provisions, the Company applied the recommendations of the modified section 1400, "General standards of financial statements presentation", in order to require that management make assessment of the Company’s ability to continue its operations over at least, but not limited to, a period of 12 months, from the balance sheet date.

4 Cash

As at December 31, 2008, cash and cash equivalents include an amount of $369,808 (2007 - $3,363,015) reserved for new exploration activities to be conducted in Canada before December 31, 2009.

5 Temporary investments

The portfolio investments consist of common shares of publicly held companies that are available for sale and are recorded at fair value.

	2008 **$**	**2007** **$**
Spider Resources Inc. ("Spider") 250,000 common shares, quoted market value of $7,500 (2007 − 250,000 common shares, quoted market value of $30,000)	15,000	15,000
Copper Mesa Mining (formerly Ascendant Copper Corporation) ("Mesa") 353,488 common shares, quoted market value of $12,372 (a) (2007 − 2,311,600 common shares of St. Geneviève Resources Ltd. ("St. Geneviève") quoted market value of $46,232)(a)	97,596	97,596
Strike Minerals Inc. ("Strike") 2,952,217 common shares, quoted market value of $132,850 (2007 – $ nil) (b)	265,700	-
Cost	378,296	112,596
Unrealized loss	(225,574)	(36,364)
Fair value of temporary investments	152,722	76,232

(a) On March 27, 2008, Mesa completed the acquisition of all of St. Geneviève's issued and outstanding shares. As a result, St. Geneviève is now a wholly-owned subsidiary of Mesa. In connection with the acquisition, St. Geneviève's shareholders received one Mesa share for each 6.5394054 St. Geneviève shares held.

(b) As at December 31, 2008 the assets of SMD included 2,952,217 shares of Strike purchased at a price of $354,266. As the purchase price exceeded the quoted market value at the date of purchase, an unrealized loss of $88,566 has been recorded in the Consolidated Statements of Operations and Deficit. In February 2009, SMD acquired a further 500,000 shares of Strike for $60,000 which were committed in 2008.

(c) In May 2007, the Company disposed of 400,000 shares of St. Geneviève for a total net cash consideration of $11,760 resulting in a loss on disposal of investment of $8,240 shown in the Consolidated Statements of Operations and Deficit under "Net loss on disposal of temporary investment".

6 Mining assets

	2008 $	2007 $
Cost and deferred exploration expenses	9,658,935	16,897,432
Deposits on mining assets	42,380	-
	9,701,315	16,897,432

Exploration properties

	Cost		Deferred exploration expenses		Total	Total
	2008 $	2007 $	2008 $	2007 $	2008 $	2007 $
Canada – Ontario						
Spider No. 1 / MacFadyen and Kyle (a)(b)(c)(d)	264,867	1,284,615	2,187,948	9,578,038	2,452,815	10,862,653
Spider No. 3 / McFaulds Lake (a)(e)	156,281	156,281	4,033,414	4,030,914	4,189,695	4,187,195
Wawa (a)(b)(f)	64,995	319,829	91,949	452,469	156,944	772,298
Greenstone (g)	-	18,000	-	-	-	18,000
Freewest (a)(h)	58,900	30,463	1,940,474	163,200	1,999,374	193,663
Diagnos (a)(b)	19,065	31,690	78,800	66,736	97,865	98,426
Geraldton (g)	-	115,765	-	300	-	116,065
Pele Mountain (a)(b)(i)	109,676	539,700	242,856	51,573	352,532	591,273
Uniform Surround (b)(j)	7,747	52,966	203	1,000	7,950	53,966
East West option (k)	128,849	-	264,373	-	393,222	-
Other	5,289	644	3,249	3,249	8,538	3,893
	815,669	2,549,953	8,843,266	14,347,479	9,658,935	16,897,432

(a) On May 15, 2006, the Company and Spider Resources Inc. ("Spider") agreed to amend and revise their joint venture agreement. The companies agreed to treat each project in their joint venture as a separate joint venture, to enable each company to either increase or decrease its interest in a project based upon their respective strategic objectives. The Company and Spider agreed to have their respective interest established at 50% in all the current projects of the joint venture.

Each party agreed to have its interest diluted by not contributing further to the other party's exploration program until its interest has reached $33^{1/3}$%. At that level, a party's interest in a project may be maintained by contribution to subsequent programs, or suffer further dilution. When an interest has been reduced to less than 10%, it will be automatically converted to a 0.5% Net Smelter Royalty ("NSR") in base metals and a 1% NSR in precious metals and diamonds.

The following table outlines the estimated cumulative interest by projects for the Company and Spider as at December 31, 2008.

	KWG	SPIDER	Total
MacFadyen kimberlites project	61.26%	38.74%	100%
McFaulds Lake VMS project	42.25%	57.75%	100%
Kyle kimberlites project	50.00%	50.00%	100%
Wawa project	43.79%	56.21%	100%
Freewest option project	51.74%	48.26%	100%
Diagnos project	50.52%	49.48%	100%
Total	**50.66%**	**49.34%**	**100%**

The following table outlines the estimated cumulative interest by projects for the Company and Spider as at December 31, 2007.

	KWG	SPIDER	Total
MacFadyen kimberlites project	58.35%	41.65%	100%
McFaulds Lake VMS project	43.08%	56.92%	100%
Kyle kimberlites project	50.00%	50.00%	100%
Wawa project	48.29%	51.71%	100%
Freewest option project	50.74%	49.26%	100%
Diagnos project	50.61%	49.39%	100%
Total	**50.19%**	**49.81%**	**100%**

(b) In April 2008, the Company transferred to its wholly-owned subsidiary DDI, the diamond group claims. The fair market value of the mining assets transferred was evaluated at $7,000,000. Consequently, the Company recorded a write-down of mining assets of $5,383,821 prior to the transfer. In December 2008, the Company recorded an additional write-down of $5,311,380 for a total of $10,695,201.

Write-down and write-off of mining properties	**2008** **$**	**2007** **$**
Write-down		
MacFadyen	9,120,028	-
Wawa	615,355	-
Pele Mountain	885,104	-
Uniform	31,170	-
Diagnos	43,544	-
	10,695,201	-
Write-off		
Geraldton (g)	116,065	-
Greenstone (g)	18,000	-
	134,065	-
Total	**10,829,266**	**-**

(c) Ashton Mining Canada Ltd. holds a 25% claw back entitlement to any kimberlite property found or developed by KWG/Spider within the geographic limits of the Spider No. 1 project area, with the exception of Kyle Lake No. 1 where Ashton Mining relinquished its rights, which can be executed by paying KWG/Spider an amount equal to 300% of all exploration expenditures on said property.

(d) The Kyle project was optioned to the new operator, Renforth Resources Inc. (formerly Wycliffe Resources Inc) ("Renforth"), who may earn a 55% interest by transferring a group of adjacent claims and incurring a total of $6 million of exploration expenditures, over a period of three years. The Company's interest will then be reduced to 22.5% and may be further reduced to 15% by Spider incurring exploration expenditures equal to its prior capital in the KWG/Spider Joint Venture ("KWG/Spider").

(e) Following work performed in 2002 and the discovery of massive sulphide mineralization, KWG/Spider and De Beers Canada Exploration Inc. ("De Beers") entered into a royalty agreement whereby De Beers transferred the acquired participating interest in the Spider No. 3 project in consideration of a 1.5% (NSR) royalty on all mineral products that may be produced from the property. KWG/Spider did not exercise the option to buy back one third (0.5%) of the royalty for a purchase price of $1,500,000 prior to April 30, 2008.

On March 7, 2007, Spider and UC Resources Limited ("UC") signed a letter of intent regarding a four-year exploration program on the McFaulds Lake volcanic hosted massive sulphide project. UC shall be the operator of the property during the term of the option and shall have the option to earn up to a 55% undivided interest in the property. UC can earn a 55% interest by incurring a total of $4.5 million of exploration expenditures over a period of four years. On March 6, 2009, an option agreement was signed (note 16 (ii)).

(f) The project consists of 45 square kilometers of exploration land located 35 kilometers north of the town of Wawa, Ontario.

(g) In 2008, the Company decided to write-off ($18,000) the Greenstone claims and the Geraldton claims ($116,065) since no exploration work was performed during the year and no significant expenses are planned for 2009.

(h) In December 2005, KWG/Spider entered into an agreement with Freewest Resources Canada Inc. for the acquisition of a 25% interest in 76 mining property claims contiguous to McFauld's Lake in Ontario. The contribution of the Company included a commitment to carry out exploration work in the amount of $1,500,000 before October 13, 2009 of which at least $200,000 was incurred before February 28, 2006; and accordingly, each of KWG and Spider has earned a 25% interest of the property.

(i) In July 2006, the Company acquired from Pele Mountain Resources Inc. forty seven (47) Attawapiskat River claims located in the Porcupine Mining Division in the Province of Ontario in consideration for 10,127,860 treasury shares. The transaction was recorded at the fair value of the common shares given up at the date of the transaction. The fair value of the common share was determined based on the quoted value of the shares. Some claims are situated in an area of interest (within two kilometres) of the MacFadyen claims. The mineral rights transferred are subject to a 1.0% net product royalty, of which 0.5% may be purchased at any time for $5,000,000.

(j) In February 2007, the Company acquired a 28.12% participating interest and a 2% NSR on a group of 61 claims adjoining the east side of the MacFadyen JV property. These mineral claims surround the DeBeers claims that host the Uniform Pipe (note 7(xiv)).

(k) On July 23, 2008, the Company acquired an option to earn a 65% interest in a 12-claim group held by East West Resource Corporation. The Company issued 2,000,000 shares of the Company at a price of $ 0.034 per share and paid $50,000 for the option for a total of $118,000. The Company must incur exploration expenditures of $250,000 in each of 2008 and 2009 and an additional $1,000,000 by August 2012 to earn 60%. An additional 5% may be earned in any mineral deposit discovered by the Company providing development and production financing. During the year, the Company incurred $264,373 in exploration expenses.

(l) In December 2004, the Company disposed of its interest in Haiti in consideration for work commitments from the purchaser and a 1.5% NSR on all mineral products from the Haitian properties. The purchaser has the right to buy back the NSR by paying to the Company US$750,000 in two installments of (i) US$250,000 and (ii) US$500,000 respectively. In 2008, the Company agreed to reduce the remaining price of repurchase of the royalty to US$100,000 and received the last two installments totaling $117,751 (US$100,000). This amount was recorded as a gain on disposal of royalty since all Haitian properties had been written off in accordance with the Company's accounting principle.

Cost and deferred exploration expenses	**2008** **$**	**2007** **$**
Balance – Beginning of year	16,897,432	15,611,907
Acquisition, staking and permits	165,845	72,891
Write-down and write-off of mining assets	(1,900,130)	-
	(1,734,285)	72,891
Exploration expenses		
Drilling	2,051,619	820,802
Geophysics	391,078	73,494
Sampling	118,640	101,872
Consulting	451,672	35,310
Field preparation	5,859	29,939
Management	145,211	29,459
Line cutting and road	154,931	55,050
Camp expenses	105,914	56,108
Permits	-	10,600
Write-down and write-off of mining assets	(8,929,136)	-
	(5,504,212)	1,212,634
Balance – End of year	9,658,935	16,897,432

7 Share capital

Authorized

An unlimited number of common shares

Issued

Changes in the Company's share capital were as follows:

	2008		2007	
	Number of shares	Amount $	Number of shares	Amount $
Balance – Beginning of year	262,863,821	27,212,107	165,085,268	21,141,367
Issued for Canadian exploration expenses (i)(iii)(vi)(xii)(xiii)	18,475,000	369,500	49,074,650	4,004,958
Less: Value of warrants	-	(66,510)	-	(543,951)
Issued for working capital requirements (ii)(iv)(v)(vii)(ix)(x)	4,000,000	200,000	39,711,923	2,538,500
Less: Value of warrants	-	(34,510)	-	(640,448)
Issued for acquisition of mining asset (note 6 (b))(xiv)	2,000,000	68,000	842,100	50,525
Less: Value of warrants	-	-	-	(10,947)
Issued for commission (xii)(xiii)(xiv)	-	-	799,210	40,453
Less: Value of warrants	-	-	-	(640)
Issued for consulting fees (xi)	-	-	490,250	26,500
Less: Value of warrants	-	-	-	(5,499)
Issued for debt settlement (viii)	-	-	2,400,000	120,000
Issued following exercise of options	-	-	60,420	7,489
Issued for following exercise of warrants and compensation options	796,000	86,672	4,400,000	483,800
Balance – End of year	288,134,821	27,835,259	262,863,821	27,212,107

The capital of the Company consists of items included in the shareholder's equity of $10,996,229 as of December 31, 2008 ($22,348,933 as of December 31, 2007). In order to maximize its ongoing exploration activities, the Corporation does not pay any dividend in cash.

While the Company is not exposed to any external capital requirements, neither regulatory nor contractual, funds from the flow-through financing to be spent on the Company's exploration properties are restricted for this use.

The Company's objectives while managing capital are to safeguard its ability to continue its operations as well as its acquisitions and exploration programs. As needed, the Company raises funds through private placements. The Company does not use long term debt financing since it does not generate operating revenues.

(i) On December 31, 2008, the Company completed a private placement totalling 18,475,000 units at $0.02 each for an aggregated amount $369,500. Each unit is comprised of one flow-through common share and one common share purchase warrant at a price of $0.05 per share until December 31, 2009 and thereafter, at a price of $0.10 until December 31, 2010. Limited Market Dealer Inc. acted as agent and was paid a due diligence fee of $11,085 as well as a finder's fee consisting of a cash payment of $18,475 and 1,847,500 compensation options. Each compensation option is exercisable into one non-flow-through unit having the same other terms and conditions as the units issued in the private placement, at a price of $0.05 until December 31, 2009 and thereafter at a price of $0.10 until December 31, 2010.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 120%, risk-free interest rate of 2.22% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $66,510 after a pro-rata allocation of the fair value of the units' components.

The fair value of the agent's compensation options was estimated using a binominal pricing model based on the following assumptions: dividend yield of 0%, volatility of 120%, risk-free interest rate of 2.22% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $12,933.

(ii) On August 26, 2008 the Company completed a private placement totalling 2,000,000 units at a price of $0.10 each for an aggregate amount of $200,000. Each unit is comprised of two common shares and one purchase warrant exercisable at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 119%, risk-free interest rate of 3.32% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $34,510 after a pro-rata allocation of the fair value of the units' components.

(iii) In December 2007, the Company completed a private placement of 14,124,650 units at a price of $0.12 each for an aggregate amount of $1,694,958. Each unit comprised one flow-through common share and half-one purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.18 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 88.53%, risk-free interest rate of 4.13% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $201,276 after a pro rata allocation of the fair value of the units' components.

The Company paid brokerage fees to an agent comprised of 1,412,465 compensation options which expire on December 28, 2009. The compensation options entitle the holder to subscribe for an equal number of units. Each unit comprises one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.185 for a period of 24 months from closing.

The fair value of the agent's compensation options was estimated using a binomial pricing model based on the following assumptions: dividend yield of 0%, volatility of 88.53%, risk-free interest rate of 4.13% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $90,398.

(iv) In December 2007, the Company completed a private placement of 4,135,000 units at a price of $0.10 each for an aggregate amount of $413,500. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.15 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 88.53%, risk-free interest rate of 4.13 % and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $99,240 after a pro rata allocation of the fair value of the units' components.

The Company paid brokerage fees to an agent comprised of 413,500 compensation options which expire on December 20, 2009. The compensation options entitle the holder to subscribe for an equal number of units. Each unit comprises one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.15 for a period of 24 months from closing.

The fair value of the agent's compensation options was estimated using a binomial pricing model based on the following assumptions dividend; yield of 0%, volatility of 88.53%, risk-free interest rate of 4.13% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $28,532.

(v) In October 2007, the Company completed a private placement of 10,000,000 units at a price of $0.05 each for an aggregate amount of $500,000. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 112.06%, risk-free interest rate of 4.45 % and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $126,400 after a pro rata allocation of the fair value of the units' components.

(vi) In October 2007, the Company completed a private placement of 18,750,000 units at a price of $0.08 each for an aggregate amount of $1,500,000. Each unit comprised one flow-through common share and one-half purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.12 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 99.21%, risk-free interest rate of 4.45% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $196,875 after a pro rata allocation of the fair value of the units' components.

(vii) In October 2007, the Company completed a private placement of 23,076,923 units at a price of $0.065 each for an aggregate amount of $1,500,000. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 99.21%, risk-free interest rate of 4.45% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $392,308 after a pro rata allocation of the fair value of the units' components.

The Company paid brokerage fees to an agent comprised of 4,182,692 compensation options which expire on October 31, 2009. The compensation options entitle the holder to subscribe for an equal number of units. Each unit comprises one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the agent's compensation options was estimated using a binomial pricing model based on the following assumptions dividend; yield of 0%, volatility of 99.21%, risk-free interest rate of 4.45% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $172,673.

(viii) In August 2007, the Company issued an aggregate of 2,400,000 common shares from treasury at a price of $0.05 each, the fair value of common shares, in full and final settlement of a $120,000 lawsuit by former employees of a former subsidiary of the Company.

(ix) In July 2007, the Company completed a private placement of 1,000,000 units at a price of $0.05 each for an aggregate amount of $50,000. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder thereof to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 78.74%, risk-free interest rate of 4.83% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $9,000 after a pro rata allocation of the fair value of the units' components.

(x) In June 2007, the Company completed private placements of 1,500,000 units at a price of $0.05 each for an aggregate amount of $75,000. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 80.09%, risk-free interest rate of 4.51% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $13,500 after a pro rata allocation of the fair value of the units' components.

(xi) In 2007, the Company issued 490,250 units in payment of services rendered for an aggregate amount of $26,500. Each unit comprised one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, average volatility of 87.71%, average risk-free interest rate of 4.70% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $5,499 after a pro rata allocation of the fair value of the units' components.

(xii) In April 2007, the Company completed private placements of 5,000,000 units at a price of $0.05 each for an aggregate amount of $250,000. Each unit comprised one flow-through common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one non flow-through common share of the Company at a price of $0.10 for a period of 24 months from closing.
The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 77.90%, risk-free interest rate of 4.18% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $45,000 after a pro rata allocation of the fair value of the units' components.

The Company paid brokerage fees to an agent comprised an amount in cash of $12,500 and 250,000 common shares and 500,000 compensation options which expire on April 26, 2009. The compensation options entitle the holder to subscribe for an equal number of units. Each unit comprises one common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one common share of the Company at a price of $0.05 for a period of 24 months from closing.

The fair value of the agent's compensation options was estimated using a binomial pricing model based on the following assumptions dividend; yield of 0%, volatility of 77.90%, risk-free interest rate of 4.18% and an expected life of two years. As a result, the fair value of the compensation options was estimated at $13,000.

(xiii)In March 2007, the Company completed private placements of 11,200,000 units at a price of $0.05 each for an aggregate amount of $560,000. Each unit comprised one flow-through common share and one purchase warrant. Each purchase warrant entitles the holder to subscribe for one non flow-through common share of the Company at a price of $0.10 for a period of 24 months from closing.

The Company paid brokerage fees to an agent comprised of an amount in cash of $28,000 and 500,000 common shares and 1,000,000 compensation options which expire on March 22, 2009. The compensation options entitle the holder to subscribe for an equal number of common shares at a price of $0.10 per share for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 82.00%, risk-free interest rate of 4.04% and an expected life of two years.

As a result, the fair value of the purchase warrants was estimated at $100,800 after a pro rata allocation of the fair value of the units' components. The fair value of the compensation options was estimated at $32,000.

The fair value of the agent's compensation options was estimated using a binomial pricing model based on the following assumptions dividend; yield of 0%, volatility of 82.00%, risk-free interest rate of 4.04% and an expected life of two years.

(xiv) In February 2007, the Company acquired a 28.12% participating interest and a 2% NSR on a group of 61 claims adjoining the east side of the MacFadyen property. These minerals claims surround the De Beers claim that hosts the Uniform Pipe. The Company issued 842,100 units at an average price of $0.06 each for an aggregate amount of $50,525 and paid a finder's fee of 49,210 units at an average price of $0.06 each for an aggregate amount of $2,953. The transaction has been recorded at the fair value of the units given up at the date of the transaction. Each unit comprised one common share and one purchase warrant; each warrant entitles the holder to subscribe for one common share of the Company at a price of $0.10 for a period of 24 months from closing.

The fair value of the purchase warrants included in the units was estimated using the Black-Scholes model based on the following assumptions: dividend yield of 0%, volatility of 78.74%, risk-free interest rate of 4.23% and an expected life of two years. As a result, the fair value of the purchase warrants was estimated at $10,947 and $640 after a pro rata allocation of the fair value of the units' components.

8 Warrants and compensation options

Changes in the Company's outstanding common share purchase warrants and compensation options were as follows:

	Year ended December 31, 2008			Year ended December 31, 2007		
	Warrants	Compensation options	Amount $	Warrants	Compensation options	Amount $
Issued						
Balance – Beginning of year	91,830,808	7,987,157	1,723,358	25,042,500	478,500	255,579
Issued as part of private placement of units (note7(i)(ii)(iv)(v)(vii)(ix)(x))	20,475,000	-	101,020	72,349,248	-	1,184,399
Issued as part of private placement of units (note 7(xiv))	-	-	-	842,100	-	10,947
Issued for acquisition of mining assets (note 7(xiv))	-	-	-	49,210	-	640
Agent's compensation options (note 7(i)(iii)(iv)(vii)(xii)(xiii))	-	1,847,500	12,933	-	7,508,657	336,603
Issued for consulting fees (note7(xi))	-	-	-	490,250	-	5,499
Exercised	(500,000)	(296,000)	(17,432)	(4,400,000)	-	(43,800)
Expired	(17,800,000)	(478,500)	(182,070)	(2,542,500)	-	(26,509)
Balance – End of year	94,005,808	9,060,157	1,637,809	91,830,808	7,987,157	1,723,358

Outstanding common share purchase warrants and compensation options entitle their holders to subscribe for an equivalent number of common shares.

A summary of the Company's outstanding warrants and compensation options as at December 31, 2008 is presented below:

Number of warrants	Compensation options	Exercise price $	Expiry date
891,310	-	0.10	February 2009
11,000,000	1,000,000	0.10	March 2009
5,172,250	500,000	0.10/0.05	April 2009
1,500,000	-	0.10	June 2009
1,106,000	-	0.10	July 2009
106,000	-	0.10	August 2009
6,706,000	-	0.10	September 2009
26,476,923	3,886,692	0.10/0.05	October 2009
9,375,000	-	0.12	October 2009
4,135,000	413,500	0.15	December 2009
7,062,325	1,412,465	0.18/0.185	December 2009
2,000,000	-	0.10	August 2010
18,475,000	1,847,500	0.05/0.10	December 2010
94,005,808	9,060,157		

9 Stock option plan

The Company maintains a stock option plan (the "Plan") whereby the Board of Directors may from time to time grant to employees, officers, directors and consultants of the Company or any subsidiary thereof options to acquire common shares in such numbers, for such terms and at such exercise prices as may be determined by the Board, provided that the exercise price may not be lower than the market price of the common shares at the time of the grant of the options.

As at December 31, 2008, the Plan provides (i) that the maximum number of common shares that may be reserved for issuance under the Plan shall be equal to 26,280,000 common shares (as at December 31, 2007 – 24,400,000); (ii) that the maximum number of common shares which may be reserved for issuance to any one optionee pursuant to a share option may not exceed 5% of the common shares outstanding at the time of the grant; and (iii) that the maximum number of common shares that may be reserved for issuance to insiders of the Company is limited to 10% of the common shares outstanding at the time of the grant.

Options vest over an 18-month period: 25% at the date of the grant and 12.5% in each of the following six quarters. Options granted must be exercised over a period no longer than five years after the date of grant, and they are not transferable.

A summary of changes in the Company's stock options outstanding is presented below:

Options at a fixed price

	2008		2007	
	Number of shares	Average exercise price $	Number of shares	Average exercise price $
Balance – Beginning of year	23,881,080	0.11	14,198,000	0.11
Granted	3,379,700	0.10	11,310,000	0.11
Exercised (note 7)	-	-	(60,420)	0.10
Cancelled or expired	(3,391,900)	0.13	(1,566,500)	0.15
Balance – End of year	23,868,880	0.11	23,881,080	0.11

The following table summarizes information about options outstanding and exercisable as at December 31, 2008:

		Outstanding options	Exercisable options
Exercise price $	Number of options	Average contractual life (in years)	
0.10	17,033,280	3.45	15,363,005
0.12	5,940,500	3.05	4,588,000
0.15	895,100	2.19	770,100
	23,868,880		20,721,105

Total stock compensation costs for the year ended December 31, 2008 amounted to $448,037 (2007 – $466,432).

The fair value of the options granted in 2008 and 2007 was estimated using the Black-Scholes option pricing model based on the following assumptions:

	2008	2007
Average dividend per share	Nil	Nil
Estimated volatility	85%	82%
Risk-free interest rate	3.85%	4.54%
Expected life of the options granted	5 years	5 years
Weighted average of estimated fair value of each option granted	$0.063	$0.062

10 Contributed surplus

	2008 $	2007 $
Balance – Beginning of year	1,996,508	1,505,028
Stock compensation costs (note 9)	448,037	466,432
Expiry of warrants (note 8)	182,070	26,509
Exercise of options (note 9)	-	(1,461)
Balance – End of year	2,626,615	1,996,508

11 Accumulated other comprehensive income (loss)

	2008 $	2007 $
Accumulated other comprehensive income (loss) - beginning of year	(36,364)	-
Modification following the adoption of Section 3855 "Financial instruments" (a)	-	46,350
Latent loss on temporary investments available for sale	(189,210)	(82,714)
Accumulated other comprehensive income (loss) - end of year	(225,574)	(36,364)

	2008 $	2007 $
Latent loss on temporary investments - beginning of year	(82,714)	-
Unrealized gain (loss) for the year on Spider investment	(22,500)	13,750
Unrealized loss for the year on St. Genevieve investment	-	(96,464)
Unrealized loss for the year on Mesa investment	(33,860)	-
Unrealized loss for the year on Strike investment	(132,850)	-
Latent loss on temporary investments – end of year	(225,574)	(82,714)

With respect to the Company’s investments, the latest loss on temporary investments available for sale adjustments represents the unrealized gain or loss on the Company’s net investments (note 5).

As at January 1, 2007 following the adoption of section 3855, which applied retroactively without restatement, temporary investment were classified under “Available-for-sale financial assets”. The carrying value and fair value of portfolio investments were $132,596 and $178,946, respectively. The initial valuation resulted in a net unrealized gain of $46,350. The net unrealized gain was presented as an adjustment to Accumulated Other Comprehensive Income (loss) (“AOCI”).

12 Income taxes

The future income tax balances are summarized as follows:

(i) The provision for income taxes presented in these Consolidated Financial Statements is different from what would have resulted from applying the combined Canadian Statutory tax rate as a result of the following:

	2008 $	2007 $
Loss before income taxes	(12,271,901)	(1,061,655)
Combined federal and provincial income tax at 32.85% (32.02% in 2007)	(4,031,319)	(339,942)
Impact of decrease (increase) income tax rate on future income tax balances	(107,611)	3,466,801
Expired tax losses	75,226	200,301
Stock compensation costs	147,180	149,352
Non-taxable portion of capital gain	318	1,319
Other	(18,547)	(6,831)
Valuation allowance	2,794,753	(3,641,000)
Recovery of future income taxes	(1,140,000)	(170,000)

(ii) Future income tax assets

	2008 $	2007 $
Current future income tax assets		
Non-capital losses	100,000	62,000
Share and warrant issue expenses	54,000	74,000
	154,000	136,000
Valuation allowance	(154,000)	(136,000)
Current future income tax assets	-	-
Long-term future income tax assets		
Mining assets and deferred exploration expenses	6,546,000	5,225,000
Non-capital losses	1,277,000	936,000
Capital losses	12,544,000	11,411,000
Share and warrant issue expenses	108,000	156,000
Investments	41,000	-
Exploration equipment	660,000	624,000
	21,176,000	18,352,000
Valuation allowance	(21,176,000)	(18,352,000)
Long-term future income tax assets	-	-
Total future income tax assets	-	-

In 2008 the Company issued flow-through units for gross proceeds of $369,500 (2007 − $4,004,958). Under the flow-through share agreements, the Company agreed to renounce $369,500 of qualifying expenditures to the investors effective December 31, 2008, although under Canadian tax law, the expenditures may actually be incurred up to December 31, 2009.

The Company is required to record a provision at the time the renunciation is filed with the tax authorities, by an increase in the share and warrant issue expenses relating to the flow-through shares, for the future income taxes related to the tax deductions the Company has forgone. The Company has filed and renounced to the authorities in early 2008, therefore estimated future income taxes of $1,140,000 were recorded as at December 31, 2008 (2007 − $170,000). Consequently, the Company has recognized such expenses as share and warrant issue expenses in 2008 (2007 − $170,000).

(iii) As at December 31, 2008, the cost for income tax purposes of exploration equipment, mining assets and deferred exploration expenses and temporary investments totaled approximately $36,431,958. The difference between the fiscal cost and the amount capitalized in these Consolidated Financial Statements arises from the write-off of certain assets for accounting purposes, rollover transactions and the tax benefits related to some exploration expenses being renounced in favour of subscribers.

The Company has accumulated non-capital losses for income tax purposes amounting to approximately $4,753,000. These losses will expire as follows:

	$
Year ending December 31, 2009	307,000
2010	359,000
2014	535,000
2015	653,000
2026	737,000
2027	888,000
2028	1,274,000

(iv) The Company's balance of capital losses amounts to approximately $88,853,404 and can be carried forward indefinitely against capital gains.

(v) The unamortized balance for tax purposes of share and warrant issue expenses amounting to approximately $571,000 is deductible over the next four years.

(vi) The tax values of assets and liabilities arising from the year ended December 31, 2008, have not been agreed with the relevant tax authorities nor have they been disputed.

13 Related party transactions

Related party transactions occurred in the normal course of business and were recorded at the exchange value, reflecting the consideration determined and agreed to by the parties. In 2008, officers and companies controlled by officers were paid consulting fees totalling $238,244 ($89,860 in 2007) of which $4,125 remained payable at December 31, 2008 ($16,352 in 2007) and directors of the Company and a company controlled by a director of the Company were paid $68,768 ($60,000 in 2007 for professional consulting services.

14 Financial instruments

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. The Company does not enter in financial instrument agreements including derivative financial instruments for speculative purposes. The Company's main financial risk exposure and its financial risk management policies are as follows:

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in the market interest rates.

Cash, accounts receivable and accounts payable and accrued liabilities are non-interest bearing.

Credit Risks

It is management's opinion that the Company is not exposed to significant credit risks.

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is subject to concentrations of credit risk through cash and accounts receivable. The Company reduces its credit risk by maintaining part of its cash in financial instruments guaranteed by and held with a Canadian chartered bank.

Foreign Exchange Risk

It is management's opinion that the Company is not exposed to significant foreign exchange risk. As at December 31, 2008, there were no financial assets and financial liabilities denominated in U.S. dollars.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. As at December 31, 2008, the Company had enough funds available to satisfy its obligations under accounts payable and accrued liabilities.

In the past few years, the Company financed its liquidity needs primarily by issuing equity securities. As the Company is currently incurring operating losses, additional capital will be required to continue exploration activities on the properties (note 1).

Fair Value

The faire value of financial instruments is summarized as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held for trading:				
Cash and cash equivalent	1,528,897	1,528,897	5,472,150	5,472,150
Available-for-sale:				
Temporary investments	152,722	152,722	76,232	76,232
Loans and receivables:				
Accounts receivable	96,059	96,059	60,535	60,535
Financial liabilities				
Other liabilities:				
Accounts payable and accrued liabilities	505,826	505,826	164,722	164,722

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

As at December 31, 2008, all financial instruments (cash, accounts receivable, and accounts payable and accrued liabilities) have fair values which approximate their carrying values due to the relatively short period to maturity of the instruments. For temporary investments refer to note 5.

15 Commitments

In February 2004, the Company and two other companies signed jointly a five-year lease for office premises. The annual rent of approximately $150,000 is divided on a pro-rata basis on office space occupied. In January 2008, the office premises were subleased covering the total amount of the lease payments.

Pursuant to flow-through financing agreements closed during the year ended December 31, 2008, the Company must incur $369,808 in exploration expenses by December 31, 2009.

16 Subsequent events

(i) On January 20, 2009, Cliffs Natural Resources Inc. ("**Cliffs**") entered into an Option to Purchase Securities (the "**Option Agreement**") with the Company to purchase and acquire certain securities of the Company in the aggregate amount of CAN$4,453,400 (US$3,500,000). Pursuant to the Option Agreement, the Company granted to Cliffs an option exercisable on or before March 16, 2009 (the "**Option**") to subscribe for:

(1) 50,448,987 units of the Company (each a "**Unit**") at a subscription price of CAN$0.062213 (US$0.048894) per Unit, with each Unit comprised of one (1) common share in the capital of the Company (each a "**Common Share**") and approximately 0.44 of a non-transferable Common Share purchase warrant of the Company (each such whole common share purchase

warrant, a "**Warrant**"), with each Warrant entitling Cliffs to purchase one (1) Common Share at CAN$0.063620 (US$0.05) during the first year after issuance thereof and CAN$0.127240 (US$0.10) thereafter, subject to the undertaking of the Company to reduce such price to CAN$0.063620 (US$0.05) upon receipt of all necessary regulatory approvals. Each Warrant would be exercisable for a period of 20 business days following the issuance by the Company of five (5) Common Shares upon the exercise of any of the warrants, options and other rights to purchase or obligations to issue Common Shares outstanding as at the date of execution of the Option Agreement, and would terminate on the fifth anniversary of the date of issuance of the Warrants; and

(2) a non-transferable, non-interest bearing, secured convertible debenture of the Company in the principal amount of CAN$1,314,832 (US$1,033,398) maturing on April 16, 2009, such amount being equal to the difference between CAN$4,453,400 (US$3.5 million) and the aggregate subscription price of CAN$3,138,568 (US$2,466,602) payable for the Units above (the "**Debenture**"). The Debenture would not be convertible unless and until all conditions prescribed by the TSX Venture Exchange ("TSXV"), including the approval of the shareholders of the Company (the "**Shareholder Approval**") to the issuance of the Units upon conversion of the Debenture, have been satisfied or waived. In the event that all of such conditions would not be satisfied or waived on or before April 15, 2009, Cliffs would have the right to demand repayment thereof, in which event the Company would be required to pay to Cliffs a credit facility termination fee of CAN$63,620 (US$50,000) (the "**Termination Fee**"). Upon satisfaction or waiver of such conditions, all of the principal amount of the Debenture is to be converted automatically and without any further action on the part of the Company or Cliffs into Units at the rate of CAN$0.062213 (US$0.048894) per Unit resulting in a further issuance to Cliffs of 21,135,069 Units comprised of 21,135,069 Common Shares and 9,310,839 Warrants. The sole security to be granted by the Company is to be comprised of cash in an amount equal to the principal amount of the Debenture plus the Termination Fee.

As permitted by section 7(c) of the Option Agreement, on March 12, 2009, Cliffs assigned the Option Agreement to an affiliated entity, Cliffs Greene B.V. ("**Cliffs B.V.**").

On March 16, 2009, Cliffs B.V. exercised the Option and acquired (i) 50,448,987 Units comprised of 50,448,987 Common Shares and 22,224,784 Warrants and (ii) the Debenture. As a result, Cliffs B.V. holds, as at the date hereof, approximately 14.9% of the issued and outstanding Common Shares of the Company.

In connection with the exercise of the Option, the Company and Cliffs B.V. entered into a shareholder agreement dated March 16, 2009, pursuant to which:

(1) Cliffs B.V. was granted rights of first refusal with respect to the issuance (whether by private placement, public offering or otherwise) of securities of the Company, allowing Cliffs B.V. to purchase (with enumerated exceptions) all such securities offered by the Company in respect of any issuances.

(2) Cliffs B.V. was granted pre-emptive rights with respect to the issuance (whether by private placement, public offering or otherwise) of securities of the Company, allowing it to purchase from the Company (on the same terms as applicable in the particular issuance) such number of securities as is necessary to ensure that Cliffs B.V.'s percentage ownership of securities (calculated on a fully diluted basis) immediately after such issuance would be as nearly equal as possible to its percentage ownership immediately before such issuance.

(3) As long as Cliffs B.V. and its affiliates own at least 10% of the outstanding voting securities of the Company, Cliffs B.V. is entitled to appoint one nominee to the Board for election at the annual general meeting of the shareholders. Any vacancy in the Board created by the removal or resignation of the nominee of Cliffs B.V. shall be filled with a new designee of Cliffs B.V. The appointment of any nominee or designee is subject to any applicable securities law and stock exchange requirements.

On the receipt of Shareholder Approval, the Debenture would be automatically converted without any further action of the Company or Cliffs B.V., resulting in a proposed issuance to Cliffs B.V. of an additional 21,135,069 Common Shares and 9,310,839 Warrants. The policies of the TSXV require that the issuance of such additional Common Shares and Warrants upon the conversion of the Debenture be approved by the disinterested shareholders of the Company as such conversion would result in Cliffs B.V. becoming a new "control person" as defined under the policies of the TSXV. In the event Shareholder Approval is not obtained before April 16, 2009, the principal amount of the Debenture is required to be repaid together with the Termination Fee.

In the event Shareholder Approval is obtained, the conversion of the Debenture will result in a change of control payments of an aggregate amount of $456,787 to directors and officers.

(ii) On March 6, 2009, UC Resources Ltd.("UC"), Spider Resources Inc. and the Company have signed an option agreement pertaining to the McFaulds east and west properties held jointly by Spider and the Company in the James Bay Lowlands area of Northern Ontario.

The option agreement provides that UC Resources can earn up to a 55% interest in these properties by expending a total of $4.5-million prior to March 6, 2011. In addition, UC is the operator of the exploration program during it's earn in, after which operatorship is dictated by the terms of a joint venture agreement, where operatorship resides with the party holding the greatest interest in the project.

Under the terms of the option agreement, UC had to spend $1 million on exploration prior to March 6, 2008, to earn a 10% interest, which were included in the letter of intent (note 6(e)), in the land package. In year two, UC had to spend an additional $1 million prior to March 6, 2009, to obtain an additional 15% of the property package. Both commitments have been completed by UC at this time for a completed 25% interest.

Two additional increments of 15% interest each can be earned by UC. The company must spend $1.25 million prior to March 6, 2010, to earn an additional 15% interest, and spend a final $1.25 million prior to March 6, 2011, for a total of $4.5 million in expenditures and earned 55% interest.

(iii) On March 16, 2009, the Board of directors of the Company approved, subject to regulatory and shareholders' approvals, an increase in the maximum number of shares to be reserved for issuance under the Stock Option Plan from 26,280,000 to 28,800,000.

(iv) On March 16, 2009, the Board of directors of the Company approved, subject to shareholders' approval, the reduction of the issued and paid-in capital account of the Company by $20,000,000 without reimbursement to the shareholders with a corresponding reduction in the Deficit.