

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**

**May 31, 2008**

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**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**

**May 31, 2008**

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**NOTICE OF NO AUDITOR REVIEW**

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have 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 auditors.

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statement of Loss and Comprehensive Loss**  
**FOR THE THREE MONTH PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

	Third Quarter		First Nine Months	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Revenue – Gain on sale of property</b>	-	187,613	-	187,613
<b>Expenses</b>				
Stock based compensation (Note 6)	-	80,760	54,282	109,160
Consulting Fees	43,000	43,000	103,000	103,000
Subcontract	36,316	28,500	101,316	97,000
Professional fees	2,150	35,341	42,664	53,748
Insurance	-	-	1,449	1,427
Office and sundry	4,395	3,713	13,227	17,888
Amortization	1,018	1,454	3,055	4,362
Travel and promotion	-	-	3,217	967
Telephone and utilities	2,443	1,512	5,869	4,671
Bank charges	30	31	848	34
	89,352	194,311	328,927	392,257
<b>Other income (charges)</b>				
Impairment of long-lived assets	-	-	14,300	-
<b>Loss before income taxes</b>	(89,352)	(6,698)	(343,227)	(204,644)
<b>Income taxes (recovered)</b>				
Future taxes (Note 10)	-	-	(70,704)	-
<b>Net loss and comprehensive loss for the period</b>	(89,352)	(6,698)	(272,523)	(204,644)
<b>Loss per common share (Note 7)</b>				
Basic	(0.003)	(0.002)	(0.008)	(0.007)

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**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statement of Deficit**  
**FOR THE THREE MONTH PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

	Third Quarter		First Nine Months	
	2008	2007	2008	2007
<b>Deficit, beginning of period</b>	(6,709,371)	(6,400,839)	(6,526,200)	(6,202,893)
<b>Net loss for the period</b>	<u>(89,352)</u>	<u>(6,698)</u>	<u>(272,523)</u>	<u>(204,644)</u>
<b>Deficit, end of period</b>	<u>(6,798,723)</u>	<u>(6,407,537)</u>	<u>(6,798,723)</u>	<u>(6,407,537)</u>

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Balance Sheet**  
**(Unaudited – Prepared by Management)**

	May 31, 2008 (Unaudited)	August 31, 2007 (Audited)
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	242,145	28,938
Accounts receivable	44,491	72,244
Prepaid expenses	5,000	10,000
	291,636	111,182
<b>Mineral properties and equipment (note 4)</b>	<u>3,563,460</u>	<u>3,386,723</u>
	<u>3,855,096</u>	<u>3,497,905</u>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	39,978	137,522
Advances from shareholders and directors (note 5)	192,409	21,959
Debenture (note 14)	240,000	-
	472,387	159,481
<b>Going concern (Note 2)</b>		
<b>Subsequent events (Note 13)</b>		
<b>Shareholders' Equity</b>		
Share capital (note 6(b))	9,066,376	8,955,370
Contributed surplus (Note 6(f))	1,115,056	909,254
Deficit	<u>(6,798,723)</u>	<u>(6,526,200)</u>
	<u>3,382,709</u>	<u>2,763,218</u>
	<u>3,855,096</u>	<u>3,338,424</u>

Approved On Behalf Of The Board

Director (signed) "Stan Marshall"

Director (signed) "Max Morpurgo"

The accompanying notes form part of these financial statements

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**Consolidated Statement of Cash Flows**  
**FOR THE THREE MONTH PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

	Third Quarter		First Nine Months	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash flows from operating activities</b>				
Net loss for the period	(89,352)	(6,698)	(272,523)	(204,644)
Adjustment for:				
Stock-based compensation	-	80,760	54,282	109,160
Amortization	1,018	1,454	3,054	4,362
Gain on sale of property	-	(187,613)	-	(187,613)
Future income taxes	-	-	(70,704)	-
	<u>(88,334)</u>	<u>(112,097)</u>	<u>(285,891)</u>	<u>(278,735)</u>
<b>Change in non-cash working capital items</b>				
Accounts receivable	(4,869)	(13,610)	27,753	(35,166)
Prepaid expenses	-	-	5,000	-
Debenture proceeds	240,000	-	240,000	-
Accounts payable and accrued Liabilities	(15,903)	-	(97,544)	(27,848)
	<u>219,228</u>	<u>(13,610)</u>	<u>175,209</u>	<u>(63,014)</u>
<b>Cash flows from investing activity</b>				
Proceeds on disposal of property	-	300,000	-	300,000
Mineral property exploration costs	(29,832)	(119,224)	(179,792)	(397,428)
	<u>(29,832)</u>	<u>180,776</u>	<u>(179,792)</u>	<u>(97,428)</u>
<b>Cash flows from financing activity</b>				
Repayments of advances from shareholders and directors	146,151	(107,473)	170,451	(116,558)
Proceeds of share capital issuance, net of share issuance costs	(6,916)	248,223	333,230	718,970
	<u>139,235</u>	<u>140,750</u>	<u>503,681</u>	<u>602,412</u>
<b>(Decrease) increase in cash and cash equivalents</b>	<u>240,296</u>	<u>195,819</u>	<u>213,207</u>	<u>163,235</u>
<b>Cash and cash equivalents, beginning of period</b>	<u>1,848</u>	<u>31,764</u>	<u>28,938</u>	<u>64,349</u>
<b>Cash and cash equivalents, end of period</b>	<u>242,145</u>	<u>227,583</u>	<u>242,145</u>	<u>227,583</u>

*Supplemental cash flow disclosures (Note 9)*

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**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

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**1. Basis of Presentation**

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended August 31, 2007. The interim consolidated financial statements should be read in conjunction with the August 31, 2007 annual financial statements.

The consolidated financial statements of Micrex Development Corp. (the "Company") include the financial statements of the company and those of Gold Standard Mining Corp. in which the company holds a 100% interest. Gold Standard Mining Corp. is the registered owner of the Big Horn Mine property and related equipment and has no other assets or liabilities and has no separate ongoing operations.

The Company holds a 100% interest in Gee Cee Mines Ltd. This company essentially acts as a bare trustee and owns claims relating to the Wild Horse placer mine. The Company has recorded its 100% proportionate interest in these claims at the purchase price of the shares plus amounts expended on development. Gee Cee Mines Ltd. has no other operations, assets or liabilities.

**2. Nature of Operations and Going Concern**

Micrex Development Corp. was incorporated under the Business Corporations Act of Alberta on February 16, 1987.

The Company is considered to be primarily in the exploration stage with respect to its mineral properties. Based on the information available to date, the Company has not yet determined whether its mineral properties contain economically recoverable reserves. The Company has a working capital deficiency and has suffered recurring losses. The recoverability of the amounts shown for mineral properties is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing, receive continued support from its creditors and to commence profitable operations in the future.

These consolidated financial statements do not give effect to any adjustments which might be necessary if the "going concern" basis were not appropriate.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, transfers or Native land claims and may be affected by other undetected items.

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**3. Significant accounting policies**

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

**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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates pertain to the recovery of deferred exploration expenditures, the physical and economic lives of equipment and mining properties and to assumptions utilized in determining fair value of stock-based compensation and warrants.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and balances with banks net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of 3 months or less.

**Equipment**

Equipment is recorded at cost. The Company provides for amortization at rates designed to amortize the cost of the equipment over their useful lives. The annual amortization rates are as follows:

	<u>Methods</u>	<u>Rates</u>
Mining equipment	Diminishing balance	30%
Automotive equipment	Diminishing balance	30%
Computer equipment	Diminishing balance	30%
Furniture and fixtures	Diminishing balance	20%

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**3. Significant accounting policies (continued)**

**Mineral Properties**

*Development Properties*

At present, all activities of the Company are in the exploration stage. The cost of mineral properties or interests therein and all related exploration costs excluding administration costs are being capitalized until the respective properties are determined to be capable of sustained commercial production, or there has been an impairment in value. Each property is assessed periodically by management. When a property is determined to be non-commercial, non-productive or its carrying value is not considered to be fully recoverable based on the net present value of future expected cash flows, or its value is otherwise impaired, those costs in excess of estimated future recoveries are charged to operations. The ultimate recovery of the costs of deferred exploration expenditures and the satisfaction of future commitments is dependent on the Company's ability to raise sufficient capital in order to further develop and determine the commercial viability of the properties. The Company expenses administration costs as incurred. On commencement of commercial production, net acquisition costs and exploration and development costs on a property-by-property basis will be amortized to operations on the unit-of-production basis, based on the economic reserves of the property.

*Asset Retirement Obligations*

The Company recognizes the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, with a corresponding increase in the carrying amount of the long-lived asset. The liability accretes until the Company expects to settle the retirement obligation. These asset retirement costs are depleted using the unit of production method and actual costs to retire the asset will be deducted from the liability as incurred. At this time, the Company does not foresee the necessity to make any material expenditures in this area and the Company is not committed to any significant reclamation or other asset retirement obligations until such time as production commences.

*Value*

The amounts shown for the mineral properties represent costs to date (net of impairment write-downs), and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future reserves.

**Future Income Taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized and are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled.

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**3. Significant accounting policies (continued)**

**Flow-Through Shares**

The Company has issued flow-through shares to fund Canadian exploration and development expenses. Under this financing arrangement, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation, allowing the shareholder to claim the tax deductions arising from the exploration and development expenditures. In accordance with the recommendations of EIC 146 (Emerging Issues Committee Abstract of the Canadian Institute of Chartered Accountants) a future tax liability and a reduction to share capital is recorded when the related exploration and development expenditures are renounced.

If accumulated tax losses and deductions have not previously been recognized as future tax assets, a portion of such unrecognized losses are recorded as income up to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

**Stock-Based Compensation**

The company uses the fair value method of accounting for stock-based compensation. Under this method, compensation expense related to these programs is recorded in the statement of loss and comprehensive loss with a corresponding increase to contributed surplus. The fair value of options and warrants granted is determined using the Black-Scholes option pricing model at the date of grant and expensed over the vesting period.

The fair value of warrants issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus. The fair value of warrants issued to subscribers is recorded as a reduction in the proceeds from share issuance with a corresponding increase to contributed surplus.

Consideration received on the exercise of stock options and warrants is credited to share capital. In addition the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents' warrants that will not vest, but accounts for forfeitures as they occur.

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**3. Significant accounting policies (continued)**

**Earnings (Loss) per Share**

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market price.

**Change in accounting policy**

In January 2005, the CICA issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861, "Financial Instruments – Presentation and Disclosure" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis. The Company has adopted these new standards effective September 1, 2007.

a) Financial instruments - recognition and measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

(b) Comprehensive income (loss)

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. Comprehensive income includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

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**3. Significant accounting policies (continued)**

(c) Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. Section 3865 replaces and expands on Accounting Guideline 13 “Hedging Relationships”, and the hedging guidance in Section 1650 “Foreign Currency Translation” by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

(d) Impact upon adoption of Sections 1530, 3855 and 3865

Under adoption of these new standards, the Company designated its Cash and cash equivalents as held-for-trading, which are measured at fair value. Accounts receivable and prepaid expenses are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and advances from shareholders and directors are classified as other financial liabilities, which are measured at amortized cost.

The adoption of these Handbook Sections had no impact on opening deficit.

**Future accounting changes**

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These standards are effective for interim and annual consolidated financial statements for the Company's reporting period beginning on October 1, 2007.

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

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

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

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**Notes to the Consolidated Financial Statements**  
**PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

**4. Mineral properties and equipment**

Title to mineral properties involves certain inherent risks due to the difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties. The Company has investigated title to the mineral properties and, to the best of its knowledge, title to the properties are in good standing.

a) Net book value

Given below are the net book values of equipment and mining development properties.

	May 31, 2008	August 31, 2007	(Unaudited)	
	Equipment	Mining Development Properties	Net Book Value	Net Book Value
	\$	\$	\$	\$
Burmis Magnetite Deposit	-	1,927,531	1,927,531	1,751,434
Big Horn Mine	1,708	850,663	852,371	852,772
Quebec Magnetite deposit	-	408,208	408,208	404,608
Deadwood and Sunburst Mines	-	366,506	366,506	366,506
Other	5,341	-	5,341	6,883
Banks Mine	1,948	-	1,948	2,513
Wild Horse	1,555	-	1,555	2,007
	<u>10,552</u>	<u>3,552,908</u>	<u>3,563,460</u>	<u>3,386,723</u>

**MICREX DEVELOPMENT CORP.**  
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**Notes to the Consolidated Financial Statements**  
**PERIOD ENDED MAY 31, 2008**  
**(Unaudited – Prepared by Management)**

**4. Mineral properties and equipment (continued)**

b) Equipment

	May 31, 2008 (Unaudited)		August 31, 2007.	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Mining equipment	427,331	422,121	5,210	6,724
Automotive equipment	40,540	37,398	3,142	4,053
Computer equipment	36,322	34,199	2,123	2,739
Furniture & fixtures	750	673	77	91
	<u>504,943</u>	<u>494,391</u>	<u>10,552</u>	<u>13,607</u>

Amortization in the current period totaled \$1,018 (2007 - \$1,454)

c) The company has interest in the following mining development properties:

- (i) 87.5% (2007 – 100%) interest in Big Horn hard rock mine located in the Atlin area of British Columbia, Canada. In the 2007 year, the Company sold a 12.5% interest in this site to an arms length third party for proceeds of \$300,000, resulting in a gain on disposition of \$187,613. This property was acquired in 1993 by the issuance of 2,747,283 common shares having a value of \$631,875 (\$159,270 for plant and equipment; \$472,605 for mining property).
- (ii) 100% interest in Wild Horse placer mine located in the Fort Steele area of British Columbia, Canada. This property was originally acquired in 1996 by the issuance of 10,000 common shares having a value of \$21,500, plus \$39,000 cash. Management has assessed this property and has determined there to be an impairment in value. As a result \$285,225 of costs accumulated to date have been charged to operations over the past five years (2008 –\$10,000, 2007 – \$4,300, 2006 –nil, 2005 - \$2,630, 2004 - \$268,295).

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**MICREX DEVELOPMENT CORP.**  
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**4. Mineral properties and equipment (continued)**

c) The company has interest in the following mining development properties:

- (iii) 51% interest in Banks hard rock mine located in the Steeple Rock district of New Mexico, U.S.A. This property was originally acquired in 1996 by the issuance of 200,000 common shares having a value of \$50,000, plus a \$100,000 expenditure commitment which was fulfilled in a previous year. This interest is subject to a 2% net smelter royalty interest to the vendor upon commencement of production. Management has assessed this property and has determined there to be an impairment in value. As a result \$964,498 of costs accumulated to date have been charged to operations over the past five years (2008-nil, 2007-nil, 2006 - \$586, 2005 - \$475, 2004 - \$963,437).
- (iv) 100% interest in Deadwood patented hard rock mine and Sunburst patented hard rock mine claim located in Catron County, New Mexico, U.S.A. The Company owns the land and mineral rights.
- (v) 33% interest in Mount Royal patented hard rock mine claim located in the Steeple Rock district of New Mexico, U.S.A. The Company owns the land and mineral rights. Management has assessed this property and has determined there to be an impairment in value. As a result \$111,065 of costs accumulated to date have been charged to operations over the past three years (2008 -nil, 2007 -nil, 2006 - \$111,065).
- (vi) 32%; (2006 - 30%) equity interest in the claims and 100% interest in all production from the claims relating to the Burmis Magnetite deposit located in the Crowsnest Pass area of Alberta. The Company originally acquired a 12% equity interest in this property in 1997 by the issuance of 100,000 common shares having a value of \$103,000, plus \$10,000 cash, plus a \$200,000 expenditure commitment which was fulfilled in a previous year. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$70,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. Accordingly, future payments totaling \$2,380,000 would acquire the remaining 68% interest, although there is no commitment to acquire this additional interest.

During 2008 the Company has acquired an additional 2%; (2007 – nil) equity interest by the issuance of 250,000; (2007 – nil) common shares at their fair value of \$70,000; (2007 – nil).

The equity interest is subject to a gross overriding royalty to the vendor upon commencement of production at the greater of 1% of gross sales or \$0.25 per ton.

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**4. Mineral properties and equipment (continued)**

c) The company has interest in the following mining development properties:

- (vii) 100% interest in the Clear Hills diamond exploration project consisting of 72 square miles located in the Clear Hills and Chinchaga Hills, Alberta, Canada. Management has assessed this property and has determined there to be an impairment in value. As a result \$30,176 of costs accumulated to date have been charged to operations over the past three years (2008 – nil, 2007 – nil, 2006 - \$30,176).
  
- (viii) 100% interest in the Buffalo Hills diamond exploration project consisting of 72 square miles located in the Buffalo Head Hills, Alberta, Canada. Management has assessed this property and has determined there to be an impairment in value. As a result \$128,196 of costs accumulated to date have been charged to operations over the past three years (2008 – nil, 2007 – nil, 2006 - \$128,196).
  
- (ix) 22%; (2007 - 20%) equity interest in the claims and 100% interest in all production from the claims relating to the Quebec magnetite deposit located near Chicoutimi, Quebec, Canada. The Company originally acquired a 12% equity interest in this property in the 2005 fiscal year by the issuance of 290,323 common shares having a fair value of \$90,290. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$45,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. Accordingly, future payments totaling \$1,755,000 would acquire the remaining 78% interest, although there is no commitment to do acquire this additional interest.

During the 2007 fiscal year the Company acquired an additional 2%; (2006 - 2%) equity interest by the issuance of 152,452; (2006 – 90,000) common shares at their fair value of \$45,000; (2006 - \$45,000).

The equity interest is subject to a gross overriding royalty to the vendor upon commencement of production at the greater of 1% of gross sales or \$0.25 per ton.

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**4. Mineral properties and equipment (continued)**

d) Acquisition costs and deferred exploration costs for the properties are as follows:

	Acquisition Costs	Deferred Exploration Costs	Total
	\$	\$	\$
Burmis Magnetite Deposit	813,000	1,114,531	1,927,531
Big Horn Mine	413,530	437,133	850,663
Deadwood and Sunburst Mines	343,482	23,024	366,506
Quebec Magnetite deposit	315,290	92,918	408,208
	<u>1,885,302</u>	<u>1,667,606</u>	<u>3,552,908</u>

May 31,  
2008  
(Unaudited)

	Acquisition Costs	Deferred Exploration Costs	Total
	\$	\$	\$
Burmis Magnetite Deposit	743,000	1,008,434	1,751,434
Big Horn Mine	413,530	437,038	850,568
Deadwood and Sunburst Mines	343,482	23,024	366,506
Quebec Magnetite deposit	315,290	89,318	404,608
	<u>1,815,302</u>	<u>1,557,814</u>	<u>3,373,116</u>

August 31,  
2007

**5. Advances from shareholders and directors**

The advances are due on demand, non-interest bearing, unsecured and have no set repayment terms.

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**6. Share capital**

a) Share capital consists of:

Authorized  
 Unlimited number of common voting shares  
 10,000,000 preferred shares  
 10,000,000 convertible preferred shares

Preferred shares and convertible preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

b) Transactions during the period:

	<u>#</u>	<u>\$</u>
Balance August 31, 2006.	30,118,303	8,568,253
Common and flow through shares issued for cash	1,723,384	374,495
Issued for acquisition of mining properties	152,542	45,000
Issued on exercise of options	317,087	118,743
Issued on exercise of warrants	207,542	78,866
Extension of warrants previously issued	-	(94,620)
Tax benefit renounced to shareholders	-	(96,652)
	<u>32,518,858</u>	<u>8,994,085</u>
Cost of issuing shares	<u>-</u>	<u>(38,715)</u>
Balance August 31, 2007.	<u>32,518,858</u>	<u>8,955,370</u>
Issued for acquisition of mining properties	250,000	70,000
Common and flow through shares issued for cash	1,174,000	199,582
Tax benefit renounced to shareholders	-	(70,704)
Warrants issued for debenture	-	(57,600)
Cost of issuing shares	<u>-</u>	<u>(30,272)</u>
Balance May 31, 2008	<u>32,942,858</u>	<u>9,066,376</u>

Certain of the common shares issued by private placement for cash or other consideration are held in escrow. As at May 31, 2008 958,649; (August 31, 2007 – 958,649) common shares were deposited in performance escrow and are to be released on the basis of one share for each \$0.23 of development expenditures on the Big Horn mining property. During the quarter, nil (2007 – nil) common shares were released from escrow.

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**6. Share capital (continued)**

c) Warrants

At May 31, 2008, the company had 2,132,649 (2007 – 3,461,033) warrants outstanding:

- i) 958,649 warrants attached to shares which have been deposited in performance escrow. These warrants expire 6 months after the release of the performance shares from escrow.
- ii) 1,174,000 warrants, expiring December 27, 2008 entitling the subscribers to purchase one common share per warrant at a price of \$0.30 per share, issued as part of a private placement share issue on December 27, 2007. The fair value of the 1,174,000 warrants issued was estimated to be \$93,920. The assumptions used were a spot rate of \$0.21, strike price of \$0.30, risk free rate of 3.95%, volatility of 130%, expected dividend yield of nil and a maturity of period of 1.0 year.
- iii) 960,000 warrants, expiring May 15, 2009 entitling the subscribers to purchase one common share per warrant at a price of \$0.25 per share, issued as part of the debenture financing on May 15, 2008. The fair value of the 960,000 warrants issued was estimated to be \$57,600. The assumptions used were a spot rate of \$0.16, strike price of \$0.25, risk free rate of 3.00%, volatility of 130%, expected dividend yield of nil and a maturity of period of 1.0 year.

d) Stock options

The Company has a stock option plan administered by the Board of Directors, under which the Company may reserve a maximum of 10% of the issued and outstanding listed common shares. Under this plan, the Company has currently granted options for 3,394,285 common shares, having various exercise prices as determined on the date of issuance of the options. These options have no vesting period and may be exercised at any time within five years of issuance and expire thirty days following the date the optionee ceases to be a director, officer or employee, or one year following the date of death of the optionee. All options are exercisable as at the period end.

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**6. Share capital (continued)**

The following summarizes options activities:

	Number of Options	Weighted avg exercise price
Options outstanding August 31, 2006.	2,973,224	\$ 0.32
Granted	993,000	\$ 0.27
Expired	(278,200)	\$ 0.33
Exercised	<u>(317,087)</u>	<u>\$ 0.30</u>
Options outstanding August 31, 2007	3,370,937	\$ 0.30
Granted	241,764	\$ 0.18
Expired	<u>(218,416)</u>	<u>\$ 0.30</u>
Options outstanding May 31, 2008	<u>3,394,285</u>	<u>\$ 0.26</u>

The following summarizes the options outstanding at May 31, 2008.

Number of Options	Exercise Price	Expiry Date
230,000	\$ 0.35	December 2008
165,000	\$ 0.32	January 2009
225,000	\$ 0.31	February 2009
200,000	\$ 0.23	June 2009
85,000	\$ 0.22	November 2009
384,000	\$ 0.16	April 2010
75,000	\$ 0.23	September 2010
375,521	\$ 0.30	December 2010
520,000	\$ 0.25	March 2011
140,000	\$ 0.29	February 2012
673,000	\$ 0.27	May 2012
80,000	\$ 0.25	July 2012
<u>241,764</u>	\$ 0.18	February 2013
<u>3,394,285</u>		

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**6. Share capital (continued)**

e) Stock based compensation

The fair values of share options granted in the period ended May 31, 2008, using the Black-scholes option pricing model was \$nil.

Total stock based compensation expense for the period was \$nil (2007 - \$80,760). Option pricing models require the input of subjective assumptions, and, accordingly, the fair value estimates can vary as a result of changes in the assumptions.

f) Contributed surplus

Transactions affecting contributed surplus during the year are as follows:

Balance August 31, 2006.	397,857
Fair value of stock based compensation	225,790
Fair value of warrants issued	221,213
Fair value of warrants extended	94,620
Fair value of options exercised – to share capital	(24,000)
Fair value of warrants exercised – to share capital	<u>(6,226)</u>
Balance August 31, 2007	<u>909,254</u>
Fair value of stock based compensation	54,282
Fair value of warrants issued	<u>151,520</u>
Balance May 31, 2008	<u>1,115,056</u>

**7. Loss per Share**

The numerator used in the calculation of basic loss per common share is the Company's net loss of \$89,352; (May 31, 2007 - \$6,698); the denominator used in the calculation is the weighted average number of common shares outstanding during the quarter of 33,193,910; (May 31, 2007 - 31,246,509). This results in a basic loss per common share of \$0.003; (May 31, 2007 - \$0.0002).

Diluted loss per common share has not been presented for 2008 or 2007 as the effect of the conversion of options and warrants is anti-dilutive.

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**8. Financial instruments:**

The Company as part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

**Fair value**

The carrying amount of cash and short term deposits, accounts receivable, accounts payable and accrued liabilities approximates their fair value due to the short-term maturities of these items.

Canadian generally accepted accounting principles require the disclosure of fair value information for all financial instruments, except in cases where time and cost constraints make such information too difficult to reliably determine. Because relevant and reliable fair value information was not obtainable, the Company has not disclosed fair value information for its advances from shareholders and directors, which are non-interest bearing and have no set terms of repayment.

**9. Supplemental cash flow disclosures**

Significant non-cash transactions for the year to date consist of the issuance of common shares as consideration for acquisition of interests in mining properties.

- a) Burmis Magnetite deposit – issuance of 250,000; (2007 – nil) common shares with an attributed value of \$70,000; (2007 - nil) to acquire an additional 2%; (2007 – nil) equity interest in the property.

No interest or income taxes were paid or received during the current and prior years.

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**10. Income Taxes**

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to earnings before income taxes as follows:

	<u>May 31, 2008</u>	<u>May 31, 2007</u>
Statutory tax rate	32.12%	32.5%
	\$	\$
Expected tax recovery	87,534	66,509
Increase (decrease) resulting from:		
Non-deductible stock-based compensation		
Impairment of long-lived assets		
Other adjustments		
Effect of change in tax rate utilized		
Change in valuation allowance	<u>(87,534)</u>	<u>(66,509)</u>
Income tax recovery	<u>      -</u>	<u>      -</u>

The components of future income tax balances are as follows:

	<u>May 31, 2008</u>	<u>August 31, 2007</u>
	\$	\$
<u>Future tax assets</u>		
Tax basis of capital assets in excess of carrying values	144,008	144,008
Non-capital loss carryforwards	638,777	638,777
Undeducted share issue costs	27,552	27,552
Other	<u>2,572</u>	<u>2,572</u>
Net future tax assets	812,909	812,909
Less valuation allowance	<u>(812,909)</u>	<u>(812,909)</u>
Future tax liabilities	<u>      -</u>	<u>      -</u>

The valuation allowance reflects management's assumption that the tax assets, more likely than not, will not be realized.

*Flow-Through Shares and Future Tax Liability*

During the year ended August 31, 2007 the Company renounced expenditures totaling \$300,910 (2006 - \$302,269) as management expects this amount to be incurred in Canadian exploration and development expenses. The Company has until August 31, 2008 to incur qualifying expenditures totaling \$486,135 (2006 - \$185,225). If these expenditures are not incurred, penalties will be assessed by the Canada Revenue Agency under the Income Tax Act.

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The Company has non-capital income tax losses carried forward for tax purposes aggregating to \$2,129,255, (2006 - \$1,991,587) which are available for reduction of future years' taxable income. The losses expire as follows:

	\$
2008	312,189
2009	297,323
2010	276,012
2011	270,442
2012	300,787
2013 and thereafter	<u>672,502</u>
	<u>2,129,255</u>

In addition to the loss carryforwards, the Company has tax pools relating to its depreciable capital assets which exceed their book values by \$480,026; (2006 - \$470,210) as well as share issue costs deductible in future years of \$91,839 (2006 - \$99,618).

Mineral development properties with an original cost of \$2,350,644 (2006 - \$2,049,735) have no cost base for income tax purposes.

Other than the benefit of renounced exploration expenses, no further recognition has been made in these financial statements for potential tax savings arising from utilization of these items, as the likelihood of the utilization of the losses prior to expiration is uncertain.

**11. Related party transactions**

During the quarter, the Company recorded expenses of \$43,000; (May 31, 2007 - \$43,000) to a director for consulting and management services provided.

Of the amount owing to shareholders, the balance owing to directors as at May 31, 2008 was \$179,910; (August 31, 2007 - \$20,959).

During the quarter, the company recorded expenses of \$36,316 (May 31, 2007- \$28,500) to certain shareholders for subcontract services.

The above transactions occurred in the normal course of operations and are recorded at the exchange amount which represents the consideration established and agreed to by the related parties.

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**12. Segment disclosure**

The Company is segmented based on how management analyzes performance and makes decisions. Management has assessed that the Company operates in one business segment, being precious metals mining, geographically contained within the North American mining segment.

**13. Subsequent events**

On July 2, 2008 the company acquired an additional 2% equity interest in the Quebec Magnetite deposit in exchange for the issuance of 264,706 share at \$0.17 per share for total consideration of \$45,000.

**13. Debenture**

The company has, subject to regulatory approval, entered into an agreement with two arms length investors that will see them subscribe for a debenture in the principle amount of \$240,000. The debenture will be secured against the Corporation's St. Charles Magnetite Property in Quebec as to a two percent (2%) undivided working interest in (50%) compounded bi-annually and be convertible to principal at \$0.25 per share. In addition the holders will receive 960,000 warrants allowing the holders to acquire one common share at \$0.25.