

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

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

**May 31, 2009**

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

**May 31, 2009**

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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 OPERATIONS AND DEFICIT**  
**FOR THE THREE MONTH PERIOD ENDED MAY 31, 2009**  
**(Unaudited – Prepared by Management)**

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Revenue</b>	-	-	-	-
<b>Expenses</b>				
Stock based compensation (Note 8)	-	-	32,060	54,282
Consulting Fees (note 14)	37,500	43,000	112,500	103,000
Subcontract (note 14)	31,500	36,316	94,500	101,316
Professional fees	37,382	2,150	50,423	42,664
Insurance	-	-	1,450	1,449
Office	360	4,395	2,659	13,227
Amortization	713	1,018	2,140	3,055
Travel and promotion	1,742	-	5,392	3,217
Automotive	272	-	4,068	-
Telephone	2,118	2,443	6,838	5,869
Interest and bank charges	254	30	943	848
<b>LOSS BEFORE THE FOLLOWING ITEMS</b>	111,841	89,352	312,973	328,927
<b>OTHER INCOME (EXPENSE)</b>	-	-	(12,081)	14,300
<b>LOSS BEFORE INCOME TAXES</b>	(111,841)	(89,352)	(300,892)	(343,227)
<b>FUTURE INCOME TAX RECOVERY (notes 8 and 11)</b>	-	-	(58,946)	(70,704)
<b>NET AND COMPREHENSIVE LOSS</b>	(111,841)	(89,352)	(241,946)	(272,523)
<b>DEFICIT, beginning of period</b>	(7,100,183)	(6,709,371)	(6,970,078)	(6,526,200)
<b>DEFICIT, end of period</b>	(7,212,024)	(6,798,723)	(7,212,024)	(6,798,723)
<b>BASIC AND DILUTED LOSS PER SHARE (note 10)</b>	(0.003)	(0.003)	(0.007)	(0.008)

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED BALANCE SHEET**  
**(Unaudited – Prepared by Management)**

	May 31, 2009 (Unaudited)	August 31, 2008 (Audited)
	\$	\$
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	49,537	61,856
Accounts receivable	32,121	27,394
Deposits	15,250	10,250
	96,908	99,500
<b>PROPERTY, PLANT AND EQUIPMENT (note 5)</b>	7,395	9,534
<b>MINERAL EXPLORATION PROPERTIES (note 6)</b>	3,934,117	3,696,428
	4,038,420	3,805,462
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	168,306	33,817
Deferred revenue	200,000	-
Due to shareholders and directors (note 7)	91,547	235,259
	459,853	269,076
<b>DUE TO SHAREHOLDERS AND DIRECTORS (note 7)</b>	240,000	240,000
	699,853	509,076
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL (note 8)</b>	9,342,021	9,141,008
<b>CONTRIBUTED SURPLUS (Note 9)</b>	1,208,570	1,125,456
<b>DEFICIT</b>	(7,212,024)	(6,970,078)
	3,338,567	3,296,386
	4,038,420	3,805,462

Nature of operations (note 1)

Approved On Behalf Of The Board

Director (signed) "Stan Marshall"

Director (signed) "Max Morpurgo"

**MICREX DEVELOPMENT CORP.**  
**(An Exploration Stage Company)**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTH PERIOD ENDED MAY 31, 2009**  
**(Unaudited – Prepared by Management)**

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net and comprehensive loss	(111,841)	(89,352)	(241,946)	(272,523)
Items not affecting cash				
Stock-based compensation	-	-	32,060	54,282
Amortization	713	1,018	2,140	3,054
Future income taxes	-	-	(58,946)	(70,704)
	<u>(111,128)</u>	<u>(88,334)</u>	<u>(266,692)</u>	<u>(285,891)</u>
Change in non-cash working capital items				
Accounts receivable	(12,497)	(4,869)	(4,727)	27,753
Deposits	-	-	(5,000)	5,000
Debenture proceeds	-	240,000	-	240,000
Deferred revenue	100,000	-	200,000	-
Accounts payable and accrued Liabilities	<u>165,756</u>	<u>(15,903)</u>	<u>134,489</u>	<u>(97,544)</u>
	<u>142,131</u>	<u>219,228</u>	<u>58,070</u>	<u>175,209</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of mineral exploration properties	<u>(152,480)</u>	<u>(29,832)</u>	<u>(237,689)</u>	<u>(179,792)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net change in advance from shareholders and directors	3,375	146,151	(143,712)	170,451
Share issue costs	(9,400)	-	(16,988)	-
Issuance of share capital	<u>30,000</u>	<u>(6,916)</u>	<u>328,000</u>	<u>333,230</u>
	<u>23,975</u>	<u>139,235</u>	<u>167,300</u>	<u>503,681</u>
<b>CHANGE IN CASH POSITION</b>	13,626	240,296	(12,319)	213,207
<b>CASH, beginning of period</b>	<u>35,911</u>	<u>1,848</u>	<u>61,856</u>	<u>28,938</u>
<b>CASH, end of period</b>	49,537	242,145	49,537	242,145

**OTHER INFORMATION (note 12)**

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**MICREX DEVELOPMENT CORP.**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**PERIOD ENDED MAY 31, 2009**  
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**1. NATURE OF OPERATIONS**

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.

**2. 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, 2008. The interim consolidated financial statements should be read in conjunction with the August 31, 2008 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% (2008 - 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 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.

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**3. CHANGE IN ACCOUNTING POLICY**

On September 1, 2007, in accordance with the applicable transitional provisions, the company adopted without restating prior periods, the new recommendations of the CICA Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, Section 3865, Hedges, Section 3861, Financial Instruments – Disclosure and Presentation, and Section 3251, Equity.

Section 1530, Comprehensive Income, requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events, and circumstances not related to shareholders, Section 3251, Equity, establishes standards for the presentation of equity and changes in equity during the reporting period.

Section 3855, Financial Instruments – Recognition and Measurement, and Section 3861, Financial Instruments – Disclosure and Presentation, establish standards for classification, recognition, measurement, presentation and disclosure of financial instruments (including derivatives) and non-financial derivatives in the financial statements. This standard prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Company has made the following classifications:

- Cash is classified as “assets held for trading”. It is measured at fair value and the gains and losses resulting from the re-measurement at the end of each period are recognized in net income.
- Accounts receivable are classified as “loans and receivables”. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measures are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and due to shareholders and directors are classified as “other liabilities”. They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measures are recorded at amortized cost using the effective interest method.

Section 3865, Hedges, sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, Financial Instruments – Recognition and Measurement, to qualifying transactions that they elect to designate as hedges for accounting purposes.

These changes had no impact at the time of initial adoption of the recommendations on the opening balances.

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**4. SIGNIFICANT ACCOUNTING POLICIES**

These consolidated financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows

**Use of estimates**

The preparation of consolidated 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 balance sheet date 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 mineral exploration expenditures, the physical and economic lives of equipment, the completeness of the accounts payable and the assumptions utilized in determining fair value of stock-based compensation for options and the fair value of warrants.

**Cash**

Cash includes balances held in financial institutions.

**Property, plant and equipment**

Property, plant and equipment is recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over its estimated useful life. The annual amortization rates and methods are as follows:

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

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**4. 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 to see if there is an impairment in the overall value. 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 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 follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

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**4. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Flow-Through Shares**

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated upon the issuance of such shares. The liability is reduced when the related expenditures are incurred.

**Stock-Based Compensation**

The Company has a stock based compensation plan, which is described in note 8. Awards of options under this plan are expensed based on the fair value of the options at the grant date. The amount is credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

**Earnings (Loss) per share**

The calculation of basic earnings (loss) per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

**5. PROPERTY, PLANT AND EQUIPMENT**

		May 31, 2009 (Unaudited)	August 31, 2008.
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Mining equipment	415,250	411,602	3,648
Automotive equipment	40,540	38,341	2,199
Computer equipment	36,322	34,836	1,486
Furniture & fixtures	750	688	62
	<u>492,862</u>	<u>485,467</u>	<u>7,395</u>
			<u>9,534</u>

Amortization in the current period totaled \$713 (2008 - \$1,018)

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**6. MINERAL EXPLORATION PROPERTIES**

	May 31, 2009	August 31, 2008
Acquisition costs	2,028,732	2,028,732
Deferred exploration costs	1,905,385	1,667,696
	3,934,117	3,696,428
Consists of:		
Burmis Magnetite Mine, Alberta	2,251,732	2,025,651
Big Horn Mine, British Columbia	860,771	850,663
Deadwood Mine, New Mexico	366,506	366,506
St. Charles de Bourget, Quebec	455,108	453,608
	3,934,117	3,696,428

a) Burmis Magnetite Mine, Alberta

The Company has a 32% (2008 - 32%) 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 be necessary to acquire the remaining 68% interest, although there is no commitment to acquire this additional interest.

b) Big Horn Mine, British Columbia

The Company has an 87.5% (2008 87.5%) interest in Big Horn hard rock mine located in the Atlin area of British Columbia. 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).

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c) Deadwood Mine, New Mexico

The Company owns a 100% interest in Deadwood patented hard rock mine and Suburst patented hard rock mine claim located in Catron County, New Mexico, U.S.A. The Company owns the land and mineral rights. The license is current on this property and the Company still considers it an active property.

d) St. Charles de Bourget, Quebec

The Company owns a 24%; (2008 - 22%) 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. In the 2008 fiscal year 264,706 (2007 – 152,542) common shares were issued to purchase the 2% interest per year for \$45,000 per year. Accordingly, future payments totaling \$1,710,000 would acquire the remaining 76% interest, although there is no commitment to acquire this additional interest.

e) Wild Horse, British Columbia

The Company owns 100% (2008 – 100%) interest in Wild Horse placer mine located in Fort Steele, British Columbia. This property was originally acquired in 1996, however management has assessed this property and has determined there to be an impairment in value. As a result the value of this property has been written down to zero however the Company still holds a valid license on the property.

f) Mount Royal, New Mexico

The Company owns a 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 and this property has been written down to zero however the Company still holds a valid license on the property.

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**7. DUE TO SHAREHOLDERS AND DIRECTORS**

	May 31, 2009	August 31, 2008
<p>The balances due to shareholders and directors are unsecured, non-interest bearing and have no specific terms of repayment. All of the balances are shown as current as all of the loans are due on demand.</p>	91,547	235,259
<p>Consists of:</p>		
<p>Due to shareholders is a convertible debenture that expires in 2010 and bears interest at 25% per annum. Upon expiry, the loan will be repaid in either cash, shares or a 2% working interest in the St. Charles Magnetite deposit. As part of the terms of the convertible debentures 960,000 warrants were issued that expire on May 15, 2009 and are exercisable for one common share for the price of \$0.25 per share. The fair value of these warrants were calculated as \$57,600 and were recorded in contributed surplus (see note 9) and interest expense.</p>	240,000	240,000
<p>Less current portion</p>	<p>331,547 91,547</p>	<p>475,259 235,259</p>
	240,000	240,000

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**8. SHARE CAPITAL**

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.

Common share transactions during the period

	<u>Number</u>	<u>Amount</u>
Balance August 31, 2007	32,518,858	8,955,373
Flow through shares issued less warrants value of \$93,920	1,174,000	176,012
Issued for acquisition of mining properties	514,706	115,000
Tax effect of flow through shares	-	(70,704)
Share issue costs	-	(34,673)
Balance August 31, 2008	34,207,564	9,141,008
Private Placement shares issued less warrants value of \$23,500	293,750	23,500
Flow through shares issued less warrants value of \$49,698	2,484,900	201,302
Issued on exercise of options	300,000	52,144
Tax effect of flow through shares	-	(58,946)
Share issue costs	-	(16,987)
Balance May 31, 2009	<u>37,286,214</u>	<u>9,342,021</u>

A total of 514,706 (2007 – 250,000) common shares were issued for mineral properties in the year ended August 31, 2008 for a total value of \$115,000 (2007 - \$70,000).

Certain of the common shares issued by private placement for cash or other consideration were held in escrow. As at May 31, 2009 nil; (August 31, 2008 – 958,649) common shares were deposited in performance escrow and were 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, 958,649 (2008 –nil) common shares were released from escrow.

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**8. SHARE CAPITAL, continued**

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 3,008,621 (2008 – 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.

The following summarizes option activities:

	Number of Options	Weighted avg exercise price
Options outstanding August 31, 2007.	3,370,937	\$ 0.30
Granted	241,764	\$ 0.18
Expired	<u>(218,416)</u>	\$ 0.30
Options outstanding August 31, 2008	3,394,285	\$ 0.26
Granted	534,336	\$ 0.10
Exercised	(300,000)	\$ 0.10
Expired	<u>(620,000)</u>	\$ 0.33
Options outstanding May 31, 2009	<u>3,008,621</u>	\$ 0.23

The following summarizes the options outstanding and exercisable at May 31, 2009

Number of Options	Exercise Price	Expiry Date
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
241,764	\$ 0.18	February 2013
234,336	\$ 0.10	January 2014

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**8. SHARE CAPITAL, continued**

The fair values of the share options granted in the period ended May 31, 2009 and the year ended August 31, 2008, using the Black-Scholes option pricing model are as follows:

January 2, 2009: The assumptions utilized in determining the value of 534,336 stock options issued to a director was at a spot rate of \$0.07, a strike price of \$0.10, a risk-free interest rate of 1.75%, volatility of 130%, expected dividend yield of nil, an a maturity period of 5 years. The estimate of the fair value of options issued is \$32,060.

February 22, 2008: The assumptions utilized in determining the value of 241,764 stock options issued to a director was at a spot rate of \$0.18, a strike price of \$0.18, a risk-free interest rate of 3.42%, volatility of 130%, expected dividend yield of nil, an a maturity period of 5 years. The estimate of the fair value of options issued is \$38,682.

December 5, 2007: The board of directors approved the repricing of existing options from \$0.50 to \$0.25 for stock options issued to directors. The spot rate at the original date of grant was \$0.23, the new strike price is \$0.25, a risk-free interest rate of 3.69%, volatility of 130%, expected dividend yield of nil, a maturity period remaining of three years. The estimate of the additional fair value of the options relating to the repricing is \$26,000.

Total stock based compensation expense for the period was \$nil (2008 - \$nil). 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.

**Warrants**

At May 31, 2009, the Company had 3,737,339 (2008 – 2,132,649) warrants outstanding:

958,689 warrants attached to shares which had been deposited in performance escrow were released during the period. These warrants have an exercise price of \$0.30 per share and they expire October 7, 2009.

293,750 warrants expiring September 15, 2009 entitling the subscribers to acquire one common share per warrant at a price of \$0.20 per share. These warrants were issued as part of a private placement on September 15, 2008. The fair value of the warrants issued is estimated to be \$23,500. The assumptions used were a spot rate of \$0.18, strike price of \$0.20, risk-free rate of 2.77%, volatility of 130%, no expected dividend yield and one year to maturity.

2,484,900 warrants expiring December 30, 2009 entitling the subscribers to acquire one common share per warrant at a price of \$0.15 per share. These warrants were issued as part of a private placement of flow through shares on December 30, 2008. The fair value of the warrants issued is estimated to be \$49,698. The assumptions used were a spot rate of \$0.07, strike price of \$0.15, risk-free rate of 1.59%, volatility of 130%, no expected dividend yield and one year to maturity.

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**9. CONTRIBUTED SURPLUS**

Balance August 31, 2007.	909,254
Fair value of stock based compensation	64,682
Fair value of warrants issued	<u>151,520</u>
Balance August 31, 2008	1,125,456
Fair value of stock based compensation	32,060
Fair value of options exercised – to share capital	(22,144)
Fair value of warrants issued	<u>73,198</u>
Balance May 31, 2009	<u><u>1,208,570</u></u>

**10. EARNINGS (LOSS) PER SHARE**

		2009
Net and comprehensive loss	Shares	Loss per share
(111,841)	36,825,754	(0.003)

  

		2008
Net and comprehensive loss	Shares	Loss per share
(89,352)	33,193,910	(0.003)

**11. FUTURE INCOME TAXES**

a) The components of future income tax balances are as follows:

	May 31, 2009	August 31, 2008
	\$	\$
<i>Future income tax asset</i>		
Non-capital loss carryforwards	792,174	792,174
Share issue costs	22,656	22,656
Other	2,472	2,472
Future income tax liability		
Carrying amount of property, plant and equipment in excess of tax basis	<u>(375,777)</u>	<u>(375,777)</u>
	441,525	441,525
Valuation allowance	<u>(441,525)</u>	<u>(441,525)</u>
	=====	=====
	-	-

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**11. FUTURE INCOME TAXES, continued**

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 31.00% (2008 – 32.12%) to the loss for the periods as follows:

	May 31, 2009	May 31, 2008
Loss for the period before income taxes	(241,946)	(272,523)
Anticipated income tax recovery	(75,003)	(87,534)
Non-deductible stock-based compensation		
Other adjustments		
Effect of change in tax rate utilized		
Change in valuation allowance	75,003	87,534
Benefit of non-capital loss expired		
Income tax (recovery)	-	-

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

	\$
2009	297,323
2010	276,012
2011	270,442
2012	300,787
2016	358,184
2017	314,318
2028	594,187
	<u>2,411,253</u>

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**12. OTHER INFORMATION**

Significant non-cash transactions for the period consisted of the issuance of common shares as consideration for acquisition of interests in mining properties.

- a) Burmis Magnetite deposit – issuance of nil; (2008 – 250,000) common shares with an attributed value of \$nil; (2008 - \$70,000) to acquire an additional nil%; (2008 – 2%) equity interest in the property.

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

**13. FINANCIAL INSTRUMENTS**

Financial instruments consist of recorded amounts of cash and accounts receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities and due to shareholders and directors which will result in future cash outlays.

The Company is exposed to the following risks in respect of certain of the financial instruments held:

a) Fair Value

In management's opinion the Company's carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The fair value of the amounts due to shareholders and directors are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

b) Interest rate risk

The Company is exposed to interest rate risk through fixed rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

c) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

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**14. RELATED PARTY TRANSACTIONS**

During the quarter, the Company recorded expenses of \$37,500; (May 31, 2008 - \$43,000) to a director for consulting and management services provided.

During the quarter, the company recorded expenses of \$31,500 (May 31, 2008 - \$36,316) to certain shareholders for subcontract services.

During the quarter, the company incurred \$9,173 in legal fees to a law firm of which the corporate secretary is a partner.

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.

**15. 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.

**16. RECENT ACCOUNTING PRONOUNCEMENTS**

The Accounting Standards Board (AcSB) has approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations:

a) Financial instruments

In December 2006, the AcSB issued Section 3862, “Financial Instruments – Disclosure”, and Section 3863, “Financial Instruments – Presentation”. Section 3862 requires enhanced disclosure on the nature and extent of financial instrument risks and how an entity manages these risks. Section 3863 carried forward existing presentation requirements and provides additional guidance for the classification of financial instruments. These sections are effective for fiscal periods beginning on or after October 1, 2007. These new requirements are for disclosure only and will not impact the financial results of the Company.

b) Going concern

For fiscal years beginning on or after January 1, 2008 the AcSB issued recommendations for assessing and disclosing an entity’s ability to continue as a going concern. The revisions to section 1400, which were announced in June 2007, require management to assess their ability to continue as a going concern and make disclosures about the conclusions of this assessment.

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**16. RECENT ACCOUNTING PRONOUNCEMENTS, continued**

c) Capital disclosures

The AcSB have issued Section 1535 with an effective date for periods commencing on or after October 1, 2007. This standard will require the Company to make disclosures regarding:

- the Company's objectives, policies and processes for managing capital;
- quantitative data about what the Company regards as capital;
- whether the Company had complied with any capital requirements; and
- if it has not complied, the consequences of such non-compliance.

This new requirement is for disclosure only and will not impact the financial results of the Company.

**17. COMPARATIVE FIGURES**

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current period. The changes do not affect prior period earnings.

**18. SUBSEQUENT EVENTS**

On June 9, 2009 200,000 options to purchase shares at \$0.23 per share lapsed.

On July 6, 2009 715,000 options were granted to purchase shares at \$0.10 per share.