

CAVAN VENTURES INC.

Vancouver, B.C.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended August 31, 2008
(Unaudited – Prepared by Management)

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CAVAN VENTURES INC.

NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

"Ming Chiang"
President and Chief Executive Officer of Cavan Ventures Inc.

"Benjamin Wong"
Chief Financial Officer of Cavan Ventures Inc.

October 23, 2008

CAVAN VENTURES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT - UNAUDITED
FOR THE SIX MONTHS ENDED AUGUST 31, 2008

	For the three months ended August 31, 2008	For the three months ended August 31, 2007	For the six months ended August 31, 2008	For the six months ended August 31, 2007
	\$	\$	\$	\$
Expenses				
Audit fees	5,240	-	10,240	-
Filing fees	16,100	-	16,300	-
Management fees (Note 8)	17,632	15,250	25,776	28,750
Management fees - Stock-based compensation (Note 8)	-	306,000	8,528	306,000
Office and miscellaneous	1,234	5	1,965	789
Professional fees	64,922	1,500	70,041	3,000
Property Investigation	12,112	-	12,112	-
Telecommunications	626	18	673	130
Transfer agent fees	622	-	1,289	-
Travel, board and lodging	7,022	-	10,818	1,339
Bank charges	621	30	758	199
Interest	-	-	55	-
Loss before other item	(126,130)	(322,803)	(158,555)	(340,207)
Other item				
Interest income	1,416	201	3,574	533
Net loss for the period	(124,714)	(322,602)	(154,981)	(339,674)
Deficit - Beginning of period	(578,898)	(86,884)	(548,631)	(69,812)
Deficit - End of period	(703,612)	(409,486)	(703,612)	(409,486)
Basic and diluted loss per common share	(0.009)	(0.048)	(0.012)	(0.045)
Weighted average number of common shares outstanding - basic and diluted	13,371,518	6,700,278	13,371,518	7,612,639

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

CAVAN VENTURES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
FOR THE SIX MONTHS ENDED AUGUST 31, 2008

	For the three months ended August 31, 2008 \$	For the three months ended August 31, 2007 \$	For the six months ended August 31, 2008 \$	For the six months ended August 31, 2007 \$
Cash flows from operating activities				
Net loss for the period	(124,714)	(322,602)	(154,981)	(339,674)
Item not affecting cash				
Stock-based compensation (Note 6)	-	306,000	8,528	306,000
	<u>(124,714)</u>	<u>(16,602)</u>	<u>(146,453)</u>	<u>(33,674)</u>
Changes in non-cash working capital				
Accounts receivable	(13,989)	(1,908)	(1,134)	(4,918)
Prepaid expenses	128,367	-	3,367	-
Accounts payable and accrued liabilities	19,875	(116)	4,997	-
	<u>9,539</u>	<u>(18,627)</u>	<u>(139,222)</u>	<u>(38,592)</u>
Cash flows from investing activities				
Acquisition of mineral property (Note 3)	(82,000)	-	(82,201)	-
Deferred exploration costs (Note 4)	(204,979)	(3,000)	(204,979)	(3,000)
Incorporation cost	(1,046)	-	(1,046)	-
	<u>(288,025)</u>	<u>(3,000)</u>	<u>(288,226)</u>	<u>(3,000)</u>
Cash flows from financing activities				
Deferred finance fees	-	(26,574)	-	(69,276)
Share issuance costs (Note 5)	(27,902)	-	(27,902)	-
Issurance of common shares for cash (Note 5)	404,501	76,500	404,501	76,500
	<u>376,600</u>	<u>49,926</u>	<u>376,600</u>	<u>7,224</u>
Increase / (Decrease) in cash	<u>98,114</u>	<u>28,300</u>	<u>(50,848)</u>	<u>(34,368)</u>
Cash - Beginning of period	<u>429,635</u>	<u>45,363</u>	<u>578,597</u>	<u>108,031</u>
Cash - End of period	<u><u>527,748</u></u>	<u><u>73,663</u></u>	<u><u>527,748</u></u>	<u><u>73,663</u></u>

Supplemental cash flow information (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Cavan Ventures Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on February 28, 2006. The Company completed an Initial Public Offering (the “Offering”) with the British Columbia Securities Commission which became effective November 2, 2007. Pursuant to the Offering, the Company raised \$603,750 by issuing 2,625,000 non-flow-through units (the “NFT units”) and 1,400,000 flow-through units (the “FT units”) at a price of \$0.15 per unit on November 20, 2007 (Note 5 (f)) and commenced trading on the TSX Venture Exchange (“TSX-V”) on November 26, 2007.

The Company is a mineral property exploration company and has not yet determined whether its mineral properties contain economically recoverable reserves. The recoverability of the amounts shown for mineral properties and related deferred exploration costs 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 for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its mineral properties, and to commence profitable operations in the future. To date the Company has not generated any significant revenues and is considered to be in the exploration stage.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Fast Bridge Limited, incorporated in British Virgin Island. All intercompany accounts and transactions have been eliminated on consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the valuation of mineral properties, the fair value of financial instruments, the expected tax rates for future income tax recoveries and the fair value of stock options and stock-based transactions. Financial results as determined by actual events could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these properties are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold. The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable or fair value as this will be dependant on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates each mineral interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

Deferred exploration costs

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment. These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

Asset retirement obligations

The Company has adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, "Asset Retirement Obligations". Under this policy, the present value of future retirement obligations is recorded as a liability when that liability is incurred with a corresponding increase in the carrying value of the related assets. The liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. The Company currently does not have any asset retirement obligations.

Impairment of long-lived assets

The Company follows the recommendations of the CICA Handbook Section 3063, "Impairment of Long-Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The Company renounces the qualifying expenditures upon the issuance of the respective flow-through common shares and accordingly is not entitled to the related taxable income deductions from such expenditures.

The Company has adopted the recommendation by the Emerging Issues Committee (“EIC”) of the CICA relating to the recording of flow-through shares. EIC 146 stipulates that future income tax liabilities resulting from the renunciation of qualified resource expenditures by the Company from the issuance of flow-through shares are recorded as a reduction of share capital. Any corresponding realization of future income tax benefits resulting in the utilization of prior year losses available to the Company not previously recorded, whereby the Company did not previously meet the criteria for recognition, are reflected as part of the Company’s operating results in the period the Company files the appropriate tax documents with the Canadian tax authorities.

Stock-based compensation

The Company has adopted the accounting standards issued by the CICA Handbook Section 3870, “Stock-based compensation and other stock-based payments”, which recommends the fair-value based method for measuring compensation costs. The Company determines the fair value of the stock-based compensation using the Black-Scholes option pricing model.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Basic and diluted loss per common share is calculated using the weighted-average number of common shares outstanding during the period.

Financial instruments

Effective March 1, 2007, the Company adopted CICA Handbook Sections 3855, and 3861, “Financial instruments”; and Section 3856, “Hedges”. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

Financial instruments (continued)

These standards have been applied prospectively. The adoption of these standards has not resulted in any adjustments to the carrying amounts of financial assets and financial liabilities at March 1, 2007.

The Company does not use any hedging instruments.

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency risks, or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company has determined that it does not have derivatives or embedded derivatives.

Comprehensive income

On March 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income". Section 1530 establishes standards for the reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss. At August 31, 2008 the Company had no significant items that caused other comprehensive loss to be different than net loss.

Recent accounting pronouncements

The CICA accounting standards board amended Handbook Section 1400, "General standards of financial statement presentations", to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2008. The Company does not expect the adoption of this amendment to have a significant impact on its consolidated financial statements.

CICA Handbook Section 1535, "Capital Disclosures", is effective for annual and interim periods beginning on or after October 1, 2007 and requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

CICA Handbook Section 3862, "Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation". This new standard replaces accounting standard 3861, "Financial Instruments – Disclosure and Presentation" and is effective for annual and interim periods beginning on or after October 1, 2007. Presentation requirements have not changed. Enhanced disclosure is required to assist users of consolidated financial statements in evaluating the significance of financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial position or results of the Company.

Recent accounting pronouncements (continued)

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2010. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

3. MINERAL PROPERTIES

	February 29, 2008	Additions	August 31, 2008
Kaslo Property (previously called Emerald Property)	\$ 66,725	\$ 82,000	\$ 148,725
Kisgegas Property	51,030	201	51,231
	\$ 117,755	\$ 82,201	\$ 199,955

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

Kaslo Property (previously called Emerald Property)

The Company entered into an option agreement and subsequent amendments to earn a 100% interest, subject to a 2% net smelter royalty (“NSR”), in the Kaslo Property located in British Columbia, by making the following payments:

- (a) Total cash payment of \$150,000, payable in 4 instalments: \$25,000 was paid upon execution of the option agreement; \$25,000 was paid within 2 weeks following the date upon which the Company’s common shares were listed for trading on the TSX-V on November 26, 2007; \$50,000 was paid on June 15, 2008 and \$50,000 to be paid on or before June 15, 2009 (Note 11 (b)).
- (b) 200,000 common shares of the Company, to be issued as follow: 25,000 shares upon delivery of a budget and exploration program (issued at a fair value of \$2,500); 75,000 shares upon the Company commencing trading on the TSX-V (issued at a fair value of \$11,250); and 100,000 shares on or before June 15, 2008 (issued at a fair value of \$32,000).
- (c) The Company has committed to incur exploration or development expenditures totalling \$250,000 on the property as follows: at least \$100,000 in expenditures on or before November 15, 2006 (expended, see Note 4) and a cumulative total of at least \$250,000 in expenditures on or before November 15, 2008 (expended, see Note 4).

Kaslo Property (previously called Emerald Property) (continued)

The 2% NSR can be purchased at any time by the Company paying \$1,000,000 less all amounts previously paid under the option agreement as advances against the NSR. Commencing on June 15, 2009, and on the anniversary thereof each year until the property is placed in commercial production or abandoned by the Company, the Company shall pay \$10,000 in cash, or the equivalent in common shares of the Company, as an advance against the NSR to be paid on commercial production occurring. All advance royalties so paid by the Company shall be recoverable by the Company, together with interest at a rate equal to prime plus 2% per annum, from 90% owing of the royalty payable on commercial production.

During the six months ended August 31, 2008 and year ended February 29, 2008, the Company paid nil and \$1,462 in tenure fees on the Kaslo Property respectively.

Kisgegas Property (“KM Property”)

The Company entered into an option agreement to earn a 100% interest, subject to a 2% NSR, in the KM Property located in British Columbia, by making the following payments:

- (a) Total cash payment of \$195,000, payable in three instalments: \$25,000 was paid upon regulatory approval of the Property Option Agreement; \$60,000 will be paid on or before February 14, 2009; and \$110,000 will be paid on or before February 14, 2010.
- (b) 365,000 common shares of the Company, to be issued as follow: 65,000 shares upon receipt of regulatory approval of the option agreement (issued at a fair value of \$24,700); 100,000 shares on or before February 14, 2009; and 200,000 shares on or before February 14, 2010.
- (c) The Company has committed to incur exploration or development expenditures totalling \$450,000 on the property as follows: at least \$125,000 in expenditures on or before October 15, 2009; an additional \$160,000 on or before October 15, 2010; and an additional \$165,000 on or before October 15, 2011.

The 2% NSR can be purchased at any time by the Company paying \$1,000,000 less all amounts previously paid under the option agreement as advances against the NSR. Commencing on June 15, 2011, and on the anniversary thereof each year until the property is placed in commercial production or abandoned by the Company, the Company shall pay \$25,000 in cash, or the equivalent in common shares of the Company, as an advance against the NSR to be paid on commercial production occurring.

During the six months ended August 31, 2008 and the year ended February 29, 2008, the Company paid \$201 and \$1,330 in tenure fees on the KM property respectively.

4. DEFERRED EXPLORATION COSTS

The following exploration expenses were incurred on the Kaslo Property (previously called Emerald Property) during the six months ended August 31, 2008 and year ended February 29, 2008:

	Assays	Geological consulting	Field expenses	Total
February 28, 2007	\$ 24,458	\$ 56,000	\$ 19,648	\$ 100,106
Additions:	1,415	3,000	-	4,415
February 29, 2008	25,873	59,000	19,648	104,521
Additions:	70,098	16,086	118,796	204,979
August 31, 2008	\$ 95,971	\$ 75,086	\$ 138,444	\$ 309,500

The Company did not incur any deferred exploration expenses for the KM property.

5. SHARE CAPITAL

	Number of shares	Amount	Share issuance costs	Contributed surplus	Total
Authorized					
Unlimited number of common shares without par value					
Issued					
Balance as at February 28, 2007	8,525,001	\$ 258,501	\$ -	\$ 54,000	\$ 312,501
Shares consolidated 10 to 1 (a)	(5,400,000)	-	-	-	-
Shares issued for cash at \$0.01 per share (b)	3,400,000	34,000	-	-	34,000
Fair value of Founders' shares (b)	-	-	-	306,000	306,000
Shares issued for cash at \$0.10 per share (c)	425,000	42,500	-	-	42,500
Shares issued for cash at \$0.10 per share (d)	300,000	30,000	-	-	30,000
Shares issued for cash at \$0.10 per share (e)	50,000	5,000	-	-	5,000
Shares issued for cash at \$0.15 per share (f)	4,025,000	603,750	-	-	603,750
Shares issued to Agent at \$0.15 per share (f)	176,175	26,426	(26,426)	-	-
Share issuance costs paid (f)	-	-	(228,847)	-	(228,847)
Fair value of Agent's options granted (f)	-	-	(66,904)	66,904	-
Taxable benefit from FT units renounced (Note 10)	-	(71,562)	-	-	(71,562)
Shares issued for mineral property at \$0.15 per share (g)	75,000	11,250	-	-	11,250
Warrants exercised for shares at \$0.10 per share (h)	450,000	45,000	-	-	45,000
Warrants exercised for shares at \$0.25 per share (i)	205,000	51,250	-	-	51,250
Warrants exercised for shares at \$0.25 per share (j)	90,000	22,500	-	-	22,500
Shares issued for mineral property at \$0.38 per share (k)	65,000	24,700	-	-	24,700
Fair value of employees' options granted (Note 6)	-	-	-	145,608	145,608
Balance as at February 29, 2008	12,386,176	\$ 1,083,315	\$ (322,177)	\$ 572,512	\$ 1,333,650
Fair value of director's options granted (Note 6)	-	-	-	8,528	8,528
Shares issued for mineral property at \$0.32 per share (l)	100,000	32,000	-	-	32,000
Private Placement for shares at \$0.35 per share (m)	900,000	315,000	(27,902)	-	287,099
Warrants exercised for shares at \$0.10 per share (n)	425,000	42,500	-	-	42,500
Options exercised for shares at \$0.15 per share (o)	100,000	15,000	-	-	15,000
Balance as at August 31, 2008	13,911,176	\$ 1,487,815	\$ (350,079)	\$ 581,040	\$ 1,718,777

SHARE CAPITAL (continued)

- (a) On June 5, 2007, the Company consolidated 6,000,000 common shares previously issued at \$0.001 on a 10 to 1 basis.
- (b) On June 6, 2007, the Company issued 3,400,000 common shares at \$0.01 per share for total proceeds of \$34,000 to the founders of the Company. Management determined that the fair value of the 3,400,000 common shares issued to be \$340,000, or \$0.10 per share. As a result, an amount of \$306,000 was expensed in the period to management fees.
- (c) On July 31, 2007, the Company completed a private placement of 425,000 units at \$0.10 per unit for a total of \$42,500. Each unit is comprised of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at \$0.10 on or before July 31, 2008. The Company has not disclosed separately the fair value of the warrants.
- (d) On October 4, 2007, the Company issued 300,000 common shares at \$0.10 per share for total proceed of \$30,000 as a private placement.
- (e) On October 10, 2007, the Company issued 50,000 common shares at \$0.10 per share for total proceed of \$5,000 as a private placement.
- (f) On November 20, 2007, the Company completed its IPO by issuing 2,625,000 NFT units and 1,400,000 FT units in the capital of the Company at a price of \$0.15, for gross proceeds of \$603,750. Each NFT unit is comprised of one common share of the Company and one transferable common share purchase warrant. Each FT unit is comprised of one flow-through common share of the Company and one warrant. Each warrant is exercisable into one additional common share until May 20, 2009 at a price of \$0.25 per share. The Company has not disclosed separately the fair value of the warrants. Gateway Securities Inc. (the "Agent"), was issued 176,175 NFT units at a price of \$0.15 per unit for a total of \$26,426 as part of a commission payment; and was also granted 362,500 stock options with a fair value of \$66,904. The Company paid share issuance costs of \$228,847 in relation to the IPO.
- (g) On November 27, 2007, the Company issued 75,000 common shares at a fair value of \$11,250 as an option payment towards the Kaslo Property (Note 3).
- (h) In December 2007, 450,000 warrants were exercised at a price of \$0.10 per common share for gross proceeds of \$45,000.
- (i) In January 2008, 205,000 warrants were exercised at a price of \$0.25 per common share for gross proceeds of \$51,250.
- (j) In February 2008, 90,000 warrants were exercised at a price of \$0.25 per common share for gross proceeds of \$22,500.
- (k) On February 2, 2008, the Company issued 65,000 common shares at a fair value of \$24,700 as an option payment towards the KM Property (Note 3).
- (l) On June 15, 2008, the Company issued 100,000 common shares at a fair value of \$32,000 as an option payment towards the Kaslo Property (Note 3).

SHARE CAPITAL (continued)

- (m) On June 19, 2008, the Company completed a non-brokered private placement, by issuing 900,000 units at a price of \$0.35 per unit, for gross proceeds of \$315,000. A total of 483,900 FT shares were issued for total proceed of \$169,365 and total of 416,100 NFT shares were issued for total proceed of \$145,635. Each of the units consist of either one FT share or one NFT common share, plus one NFT non-transferable share purchase warrant entitling the holder to purchase one additional common share at a price \$0.50 per share for a period of two years from the issue thereof. In connection with the non-brokered private placement, the Company paid commissions and finders' fees to Fortune Creek Investments Inc. in an amount equal to 10% of the proceeds raised by them in this non-brokered private placement. The Company paid share issuance costs of \$27,902 in relation to the private placement.
- (n) In July 2008, 425,000 warrants were exercised at a price of \$0.10 per common share for gross proceeds of \$42,500.
- (o) In August 2008, 100,000 stock options were exercised at a price of \$0.15 per common share for gross proceeds of \$15,000.

Flow-through shares

In accordance with accounting recommendations relating to the issuance of flow-through shares (Note 2), the Company reduced from flow-through share proceeds assigned to share capital and recognized a future tax liability of \$71,562, the estimated tax effect of the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates and laws.

Concurrently the Company recognized a future income tax recovery from the utilization of available tax losses of prior periods to offset the future tax liability recognized. The Company has not previously recognized tax benefits relating to losses of prior periods as the criteria for recognition had not been met.

6. STOCK OPTIONS AND WARRANTS

Stock options

The Company follows the policies of the TSX-V under which it would be authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years.

Upon the initial listing date, the Company granted 500,000 stock options to the management and directors of the Company. The options are exercisable at \$0.15 per share, on or before the date which is five years from the date that the Company's common shares are listed for trading on the TSX-V. The Company has recorded as stock based compensation an aggregate fair value of \$145,608 in respect to these grants.

On November 20, 2007, the Company has recorded a share issue cost of \$66,904 in respect to the fair value associated with the Agent's option to acquire up to 362,500 shares at \$0.25 for a period of 18 months from the listing date.

Stock options (continued)

On May 8, 2008, the Company granted 50,000 stock options to the directors of the Company. The options are exercisable at \$0.32 per share, on or before the date which is five years from the date of the options grant. The Company has recorded as stock based compensation an aggregate fair value of \$8,528 in respect to this grant.

As at August 31, 2008, the following stock options were outstanding:

Expiry date	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable
May 20, 2009	362,500	0.72	\$ 0.25	362,500
November 26, 2012	400,000	4.24	0.15	400,000
May 8, 2013	50,000	4.69	0.32	50,000
Outstanding	812,500	2.70	\$ 0.21	812,500

The weighted average life of stock options outstanding is 2.7 years.

Stock option transactions are summarized as follows:

	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable
Balance as at February 28, 2007	-	-	\$ -	-
Granted	862,500	2.76	0.19	862,500
Balance as at February 28, 2008	862,500	2.76	0.19	862,500
Granted	50,000	4.69	0.32	50,000
Exercised	(100,000)		0.15	(100,000)
Balance as at August 31, 2008	812,500	2.70	\$ 0.21	812,500

The Company utilized the Black-Scholes option pricing model to calculate these amounts, with the following assumptions:

	2009	2008
Risk-free interest rate	2.58%	3.67%
Expected life	5 years	3.5 years
Volatility	58.86%	74.48%
Expected dividend yield	0.00%	0.00%

Warrants

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance as at February 28, 2007	500,000	\$ 0.10
Granted	4,626,175	0.24
Exercised	(745,000)	0.16
Expired	(50,000)	0.10
Balance as at February 29, 2008	4,331,175	\$ 0.24
Granted	900,000	0.50
Exercised	(425,000)	0.10
Balance as at August 31, 2008	4,806,175	\$ 0.30

The following warrants were outstanding at August 31, 2008:

Expiry date	Number of options	Weighted average remaining contractual life	Weighted average exercise price
May 20, 2009	3,906,175	0.72	0.25
June 19, 2010	900,000	1.80	0.50
Outstanding	4,806,175	0.92	\$ 0.30

The weighted average remaining life of the warrants is 0.92 years at August 31, 2008 and the weighted average exercise price is 0.30.

7. CONTRIBUTED SURPLUS

	August 31, 2008	February 28, 2008
Balance, beginning of period	\$ 572,512	\$ 54,000
Fair value of Founder's shares (Note 5)	-	306,000
Fair value of employees' stock options (Note 6)	8,528	145,608
Fair value of Agent's options (Note 6)	-	66,904
Balance, end of period	\$ 581,040	\$ 572,512

8. RELATED PARTY TRANSACTIONS

During six months ended August 31, 2008, the Company recorded \$8,528 (2007 \$306,000) of stock based compensation in management fees, which represents the fair value of 50,000 stock options granted to a director of the Company (Note 6). During the same period, the Company paid management fees in cash amounting \$25,776 (2007 \$28,750) to management and director of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

The amount due to related parties are non-interest bearing and unsecured, with no fixed term of payment.

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	For the three months ended August 31, 2008		For the three months ended August 31, 2007	
Cash paid for interest	\$ 55	\$ -	\$ 55	\$ -
Cash paid for income taxes	\$ -	\$ -	\$ -	\$ -

During the six months ended August 31, 2008, the Company granted 50,000 stock options with a fair value of \$8,528 as a part of the management fee was a non-cash transaction.

During the six months ended August 31, 2007, the Company recorded \$69,276 as a deferred finance costs. It is related to the listing of the Company on the TSX-V and undertaking an IPO.

10. INCOME TAXES

The Company has non-capital losses of approximately \$520,000 which may be available to offset future income for income tax purposes which commence expiring in 2027. Due to the uncertainty of realization of these loss carryforwards, the benefit is not reflected in the consolidated financial statements as the Company has provided a full valuation allowance for the potential future tax assets resulting from these loss carryforwards.

During the year ended February 29, 2008, the Company issued 1,400,000 flow-through shares at a price of \$0.15 per share for proceeds of \$210,000 pursuant to the completion of the IPO. The flow-through subscription agreements required the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. The Company filed the renunciation documentation for \$210,000 of expenditures to the subscribers during 2008 which was effective February 29, 2008. Accordingly, \$71,562, being the taxable benefit renounced, has been charged as a reduction to share capital (Note 5). As of February 29, 2008 the Company has expended \$Nil of the \$210,000 expenditures that were renounced. Concurrent with the renunciation, the Company realized a future tax benefit equal to the amount renounced. The realized tax benefit is recorded as a future income tax recovery during the year ended February 29, 2008, in accordance with CICA emerging issue pronouncement EIC-146.

11. SUBSEQUENT EVENTS

Subsequent to August 31, 2008, the Company entered into the following transactions:

- (a) On September 29, 2008, the Company decided not to pursue Joint Venture with Zhangjiajie XiangTie Mining Ltd. to explore China's Qingfeng Creek Iron Ore Mine. The parties were not able to agree on an economic arrangement that met each party's strategic goals, and as a result, the Company will no longer be pursuing a Joint Venture with Zhangjiajie XiangTie Mining Ltd. to explore the Iron Ore Property.
- (b) In September 2008, the Company and Cadre Capital Inc. agreed to amend the KM Property agreement for the work commitments to incur exploration or development expenditures totalling \$450,000 on the property as follows: at least \$125,000 in expenditures on or before October 15, 2009; an additional \$160,000 on or before October 15, 2010; and an additional \$165,000 on or before October 15, 2011.
- (c) On October 1, 2008, 50,000 stock options were exercised at a price of \$0.15 per common share for gross proceeds of \$7,500