Pacific Ridge Exploration Ltd.

Financial Statements
(An Exploration Stage Company)

December 31, 2008 and 2007

Management's Responsibility for Financial Reporting

The accompanying financial statements of Pacific Ridge Exploration Ltd. (the "Company") have been prepared by management in accordance with accounting principles accepted in Canada and contain estimates based on management's judgment. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada, and their report follows.

"*John S. Brock*" *(signed)*
John S. Brock
President and Chief Executive Officer

"*Lei Wang*" *(signed)*
Lei Wang
Chief Financial Officer

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
PricewaterhouseCoopers Place
250 Howe Street, Suite 700
Vancouver, British Columbia
Canada V6C 3S7
Telephone +1 604 806 7000
Facsimile +1 604 806 7806

Auditors’ Report

To the Shareholders of Pacific Ridge Exploration Ltd.

We have audited the balance sheets of Pacific Ridge Exploration Ltd. as at December 31, 2008 and 2007, and the statements of loss and comprehensive loss, deferred exploration and mineral property expenditures, shareholders’ equity and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, B.C.
April 16, 2009

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Balance Sheets
(Expressed in Canadian dollars)

			December 31, 2008		December 31, 2007
Assets					
Current assets					
Cash and cash equivalents		$	353,725	$	1,603,543
Short-term investment	Note 4		800,000		-
Accounts receivable and other			65,978		255,337
			1,219,703		1,858,880
Property, plant and equipment	Note 5		14,994		21,420
Resource assets	Note 6		3,974,503		6,729,904
		$	5,209,200	$	8,610,204
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	113,575	$	50,926
Due to related parties	Note 8		3,707		143,684
			117,282		194,610
Shareholders' Equity					
Capital stock	Note 7		33,346,072		33,136,019
Authorized unlimited common shares without par value					
Issued 83,990,939 (2007 - 77,740,939) common shares outstanding					
Contributed surplus			2,223,393		2,112,830
Deficit			(30,477,547)		(26,833,255)
			5,091,918		8,415,594
		$	5,209,200	$	8,610,204

Nature of operations (Note 1)
Commitments (Note 9)
Subsequent Event (Note 14)

Approved on behalf of the
Board of Directors:

"John S. Brock" (signed)	*"Douglas Proctor"(signed)*
John S. Brock	Douglas Proctor

The accompanying notes are an integral part of the financial statements

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		Year ended December 31, 2008	2007
Administration expenses			
Consulting		$ 25,300	$ 2,093
Insurance		21,319	17,735
Legal and audit		159,515	50,999
Management and administrative services		165,079	69,277
Office operations and facilities		37,003	56,207
Shareholder communications and investor relations		78,669	176,534
Stock-based compensation	Note 7(b)	110,563	296,097
Transfer agent and regulatory fees		44,755	60,529
Travel		4,903	6,562
Operating expenses		647,106	736,033
Other expenses (income)			
Interest		(34,717)	(51,904)
Exploration costs		48,403	2,207
Write-off of mineral properties	Note 6	3,766,870	17,863
		3,780,556	(31,834)
Loss before income taxes		(4,427,662)	(704,199)
Future income tax recovery	Note 12	783,370	526,455
Loss and comprehensive loss for the year		$ (3,644,292)	$ (177,744)
Basic and diluted loss per common share		$ (0.05)	$ (0.00)
Weighted average number of common shares		79,968,121	70,063,439

The accompanying notes are an integral part of the financial statements

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Deferred Exploration and Mineral Property Expenditures
(Expressed in Canadian dollars)

	Year ended December 31, 2008	2007
Deferred exploration and mineral property expenditures		
Accommodation	$ 43,059	$ 270,752
Assays and geochemical analysis	10,665	17,747
Consulting	250,362	42,979
Depreciation	6,426	9,180
Drilling	-	670,160
Engineering and metallurgical	23,575	189
Environmental and permitting	27,454	24,461
Expediting	2,536	16,194
Field supplies	1,556	102,336
Maps, printing and drafting	129	23,668
Project management fees	51,788	288,998
Property acquisition and maintenance costs	384,810	468,309
Salary and wages	137,987	631,615
Stock-based compensation	-	66,951
Transportation	124,269	1,858,305
Recovery	(53,147)	-
	1,011,469	4,491,844
Balance - Beginning of year	6,729,904	2,265,124
Less:	7,741,373	6,756,968
Reclamation bond returned	-	9,201
Write-off of mineral properties	3,766,870	17,863
Balance - End of year	$ 3,974,503	$ 6,729,904

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended December 31, 2008	2007
Cash flows used in operating activities		
(Loss) for the year	$ (3,644,292)	$ (177,744)
Items not affecting cash		
Future income tax recovery	(783,370)	(526,455)
Stock-based compensation	110,563	296,097
Write-off of mineral properties	3,766,870	17,863
	(550,229)	(390,239)
Changes in non-cash working capital items	121,193	(85,397)
	(429,036)	(475,636)
Cash flows used in investing activities		
Mineral property expenditures	(95,543)	(55,331)
Deferred exploration expenditures	(629,662)	(3,981,330)
Short-term investment	(800,000)	-
Reclamation bond returned	-	9,201
	(1,525,205)	(4,027,460)
Cash flows from financing activities		
Issue of capital stock, net of issue costs	704,423	4,268,853
	704,423	4,268,853
(Decrease) in cash and cash equivalents	(1,249,818)	(234,243)
Cash and cash equivalents - beginning of the year	1,603,543	1,837,786
Cash and cash equivalents - end of the year	$ 353,725	$ 1,603,543
Supplemental cash flow information		
Interest received	$ 32,157	$ 51,865
Income tax paid	$ -	$ -
Issuance of shares for mineral properties	$ 289,000	$ 388,000
Mineral property expenditures included in accounts payable	$ 15,252	$ 24,414
Issuance of warrants for mineral properties	$ -	$ 24,980
Issuance of warrants for share issue costs	$ -	$ 85,340

Pacific Ridge Exploration Ltd.
(An Exploration Stage Company)
Statements of Shareholders' Equity
(Expressed in Canadian dollars)

	Common Shares				Contributed				Total Shareholders'
	Shares		Amount		Surplus		Deficit		Equity
Balance at December 31, 2005	44,041,039	$	26,476,134	$	213,944	$	(19,201,758)	$	7,488,320
Shares issued for cash, net of issue costs	6,500,000		1,390,226						1,390,226
Shares issued for mineral property	100,000		22,000						22,000
Shares issued pursuant to flow-through arrangements	6,500,000		1,625,000						1,625,000
Shares issued for warrants and options	2,760,000		636,700						636,700
For share issue costs	379,900		94,975						94,975
Value of stock options and warrants exercised	-		19,480						19,480
Value of warrants attributed in connection with private placement	-		(891,607)						(891,607)
Stock-based compensation					1,143,570				1,143,570
Net loss for the year							(7,453,753)		(7,453,753)
Balance at December 31, 2006	60,280,939		29,372,908		1,357,514		(26,655,511)		4,074,911
Shares issued for cash, net of issue costs	7,000,000		1,545,313						1,545,313
Shares issued pursuant to flow-through arrangements	7,220,000		2,527,000						2,527,000
Shares issued for warrants and options	940,000		111,200						111,200
Shares issued for mineral property	2,300,000		388,000						388,000
Value of stock options and warrants exercised	-		33,720						33,720
Value of warrants attributed in connection with private placement	-		(336,422)						(336,422)
Future income taxes	-		(505,700)						(505,700)
Stock-based compensation					755,316				755,316
Net loss for the year							(177,744)		(177,744)
Balance at December 31, 2007	77,740,939		33,136,019		2,112,830		(26,833,255)		8,415,594
Shares issued pursuant to flow-through arrangements, net of issue costs	1,850,000		364,423						364,423
Shares issued pursuant to private placement with Aurora Energy Resources Inc.	2,000,000		340,000						340,000
Shares issued for mineral property	2,400,000		289,000						289,000
Future income taxes	-		(783,370)						(783,370)
Stock-based compensation					110,563				110,563
Net loss for the year							(3,644,292)		(3,644,292)
Balance at December 31, 2008	83,990,939	$	33,346,072	$	2,223,393	$	(30,477,547)	$	5,091,918

The accompanying notes are an integral part of the financial statements

1. NATURE OF OPERATIONS

Pacific Ridge Exploration Ltd. (the "Company" or "Pacific Ridge") is in the business of acquiring and exploring mineral properties. All of the Company's mineral property interests are currently located in Canada. The Company has no source of revenue, and has cash requirements to meet its exploration commitments to pay for its administrative overhead and maintain its mineral interests. The Company has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary capital to finance the operations and expected growth, and upon future profitable production or proceeds from the disposition of its properties.

As at December 31, 2008, the Company had working capital of $1,102,421 (2007: $1,664,270). Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses, maintain its mineral property interest and to meet its liabilities for the ensuing year.

2. SIGNIFICANT ACCOUNTING POLICIES

The Company prepares its accounts in accordance with Canadian generally accepted accounting principles ("GAAP") and their basis of application is consistent with that of the previous year. The following is a summary of significant accounting policies used in the preparation of these financial statements:

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments with original maturities of less than three months.

Short-term Investment

Short-term investment consists of cash invested in a guaranteed investment certificate ("GIC") with maturity of one year at the time of acquisition. The investment is liquid and can be converted to cash at any time. The balance is carried at fair market value, which includes interest earned and/or accrued on the investment.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided on a declining balance basis at the annual rate of 30% for all property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resource Assets

The Company records its interests in mineral properties and areas of geological interest at cost less option payments received and other recoveries. Exploration and development costs and royalties relating to these interests and projects 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, allowed to lapse or become impaired. The Company expenses all administration costs incurred during the year.

Impairment of Long-Lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered.

Flow-through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investors. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to deferred exploration and mineral property expenditures. A future income tax liability is recognized, and shareholders' equity reduced, on the date the Company renounces the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made.

The Company may also recognize the benefit of previously unrecognized future income tax assets relating to non-capital loss carry-forwards to offset the future income tax liability arising on a renouncement of expenditures. The corresponding credit reduces income tax expense.

Income Taxes

Future income tax assets and liabilities are determined based on the differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. The future tax assets or liabilities are calculated using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. Future tax assets are recognized only to the extent that they are considered more likely than not to be realized.

Loss per Common Share

Loss per common share is calculated using the weighted average number of shares outstanding during the year. Basic and diluted loss per share is the same, as the effect of the exercise of share options and warrants would be anti-dilutive.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-based Compensation

The Company accounts for stock-based compensation using a fair value-based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. For directors, employees and non-employees, the fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus, over the vesting period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company does not incorporate an estimated forfeiture rate for options that will not vest, but rather accounts for actual forfeitures as they occur.

Use of Estimates and Measurement Uncertainty

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets, liabilities, expenses, other income, and contingent assets and liabilities. Significant areas requiring the use of management estimates relate to amortization of equipment, the determination of the recoverability of mineral property costs, the valuation allowance of future tax assets and the assumptions about the variables used in the calculation of stock-based compensation. Management believes the estimates are reasonable; however, actual results could differ from those estimates and would impact future results of operations and cash flows.

Financial Instruments

The Company accounts for certain financial assets and liabilities at fair value at each balance sheet date. Financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

3. ACCOUNTING CHANGES

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the following amended and new Canadian Institute of Chartered Accountants ("CICA") accounting pronouncements:
Section 1400 (amended) – General Standards of Financial Statement Disclosure
Section 1535 - Capital Disclosures
Section 3862 – Financial Instruments – Disclosure
Section 3863 – Financial Instruments – Presentation

The amendments to Section 1400 were in connection with the requirement to assess and disclose an entity's ability to continue as a going concern. There was no effect on the Company's financial statement disclosure, or on its financial position or its results of operations.

Section 1535 requires a company to disclose information that enables users of its financial statements to evaluate the company's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. Sections 3862 and 3863 require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how a company manages these risks.

The disclosures required by these standards are included in Notes 10 and 11.

Recent Accounting Pronouncements

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. The Company will therefore be required to report using IFRS commencing with its unaudited interim financial statements for the three months ended March 31, 2011, which must include the interim results for the prior period ended March 31, 2010 prepared on the same basis. IFRS uses a conceptual framework similar to Canadian GAAP, but there are some significant differences on recognition, measurement and disclosures.

4. SHORT-TERM INVESTMENT

The Company invested $800,000 (2007 - $Nil) in a one-year GIC at an interest rate of 3.05% maturing November 23, 2009.

(Expressed in Canadian dollars)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated amortization with details listed below:

	December 31, 2008			December 31, 2007		
	Cost	Accumulated amortization	Net book value	Cost	Accumulated amortization	Net book value
Field equipment	$ 36,000	$ 21,006	$ 14,994	$ 36,000	$ 14,580	$ 21,420

6. RESOURCE ASSETS

The Company has interests in mineral properties in British Columbia, Nunavut, and Yukon Canada. A summary of capitalized acquisition and exploration expenditures for the year ends was as follows:

Mineral Properties	Baker Basin	Tumbler Ridge	Wapiti	Phos Phosphate	Fyre Lake	Other	Total
Acquisition							
Balance, December 31, 2007	$ 510,293	$ -	$ -	$ -	$ 1	$ 1	$ 510,295
Additions during the year	271,449	21,244	18,000	56,267	17,850	-	384,810
Written-off during the year	(685,742)	-	(5,000)	(56,267)	(17,850)	-	(764,859)
Balance, December 31, 2008	96,000	21,244	13,000	-	1	1	130,246
Exploration							
Balance, December 31, 2007	6,200,551	-	-	-	-	-	6,200,551
Additions during the year, net of recovery	171,862	364,195	63,990	26,061	550	-	626,658
Written-off during the year	(2,975,399)	-	-	(26,061)	(550)	-	(3,002,010)
Balance, December 31, 2008	3,397,014	364,195	63,990	-	-	-	3,825,199
Reclamation deposits						19,058	19,058
Total acquisition and exploration at December 31, 2008	$ 3,493,014	$ 385,439	$ 76,990	$ -	$ 1	$ 19,059	$ 3,974,503

(Expressed in Canadian dollars)

6. RESOURCES ASSETS (Continued)

Mineral Properties	Baker Basin	Tumbler Ridge	Wapiti	Phos Phosphate	Fyre Lake	Other	Total
Acquisition							
Balance, December 31, 2006	$ 59,834	$ -	$ -	$ -	$ 1	$ 1	$ 59,836
Additions during the year	450,459				17,850		468,309
Written-off during the year	-				(17,850)		(17,850)
Balance, December 31, 2007	510,293	-	-	-	1	1	510,295
Exploration							
Balance, December 31, 2006	2,177,031	-	-	-	-	-	2,177,031
Additions during the year	4,023,520				13		4,023,533
Written-off during the year	-				(13)		(13)
Balance, December 31, 2007	6,200,551	-	-	-	-	-	6,200,551
Reclamation deposits						19,058	19,058
Total acquisition and exploration at December 31, 2007	$ 6,710,844	$ -	$ -	$ -	$ 1	$ 19,059	$ 6,729,904

a) Baker Basin Uranium Project

In 2007, the Company acquired a 60% interest in the Baker Basin Uranium Project from Kaminak Gold Corporation, who subsequently assigned its 40% interest to Kivalliq Energy Corp. ("Kivalliq"). During the year ended December 31, 2008, the Company acquired the remaining 40% interest from Kivalliq by issuing 2,000,000 shares for $240,000.

With a 100% ownership of the project, the Company entered into an option/joint venture agreement ("Agreement") with Aurora Energy Resources Inc. ("Aurora") on September 23, 2008. To earn 51% interest in the project, Aurora subscribed for a 2,000,000 share private placement at $0.17 per share, and will incur staged exploration expenditures totalling $15,000,000 up to December 31, 2011. The 2,000,000 shares were issued for total proceeds of $340,000 in October 2008.

Upon earning a 51% interest, Aurora may elect either to i) earn an additional 14% by funding 100% of on-going costs and commit to producing a preliminary feasibility study on or before December 31, 2013; or ii) enter into a joint venture with Pacific Ridge (51% Aurora, 49% Pacific Ridge). The Company may elect to contribute to the joint venture. Should the Company elect to not participate in the joint venture; its interest will be reduced to not less than 35%. Aurora may then contribute 100% of on-going costs until a preliminary feasibility study is produced.

6. RESOURCES ASSETS (Continued)

a) Baker Basin Uranium Project (Continued)

When a preliminary feasibility study is produced, Kivalliq will have the right to back-in to a 20% joint venture interest by reimbursing 40% of the exploration costs incurred including the cost of production of the preliminary feasibility study. The reimbursement will be distributed on a pro-rata basis to the Company and Aurora after the Company has received the first $7,300,000. Should Kivalliq elect to back in but fail to contribute to the joint venture, its interest would be subject to dilution and if reduced to 5% or less, converted to a royalty. The Company’s joint venture interest would then range from a minimum of 15% to a maximum of 29%, depending on prior elections of Aurora and the Company. The Company and Aurora’s joint venture interests would also be subject to dilution for non-contribution, and if reduced to 5% or less, converted to a royalty.

At December 31, 2008, the carrying value of the Baker Basin Uranium Project was deemed to be impaired and $685,742 acquisition costs, $2,750,389 deferred exploration expenditures and $225,010 exploration expenditures were written off bringing the book value to $3,493,014.

b) Tumbler Ridge Phosphate Project

In 2008, the Company acquired a 100% interest in 122 mineral claims through direct staking.

c) Phos Phosphate Project

In June 2008, the Company entered into an agreement with vendors, David J. Bridge and Godwin Consultants Ltd., pursuant to which the Company may acquire a 100% interest in three claims located in the Fort Steele mining division, British Columbia, known as the Phos property. The Company paid $20,000 and issued 200,000 common shares for a value of $36,000.

The Company terminated the option agreement in November 2008 and no longer has interest in the Phos Phosphate property. The entire Phos Phosphate property in the amount of $82,328 ($56,267 – acquisition, $26,061 – exploration) was written off at December 31, 2008.

d) Wapiti Phosphate Project

In July 2008, the Company entered into an agreement with Lateegra Gold Corp., pursuant to which the Company has an option to acquire up to a 65% interest in 15 claims located in east-central British Columbia, known as the Wapiti property. To earn a 51% interest, the Company paid $5,000 and issued 200,000 shares and must undertake $1,000,000 in exploration expenditures over a three-year period. To earn an additional 14% interest, the Company may pay an additional $250,000 and issue an additional 1,000,000 shares and make a further $1,000,000 of exploration expenditures over a two-year period.

At year end December 31, 2008, the carrying value of the property was impaired and $5,000 acquisition costs were expensed.

6. RESOURCES ASSETS (Continued)

e) Fyre Lake Project

The Company owns a 100% interest in Fyre Lake property. The carrying value of the property was written down to $1 in 2006 and additional $17,850 acquisition costs and $550 exploration expenditures in 2008 were expensed.

7. CAPITAL STOCK

a) Common share: unlimited common shares without par value.

During 2008, the Company issued 1,850,000 flow-through common shares at $0.20 per share for gross proceeds of $370,000. $3,900 finders' fees were paid for this flow through financing.

In October 2008, pursuant to the Aurora agreement, the Company received $340,000 proceeds for a private placement of 2,000,000 units at $0.17 per unit from Aurora.

During 2007, the Company closed a private placement of 5,970,000 units at $0.30 per unit and issued 6,000,000 flow-through common shares at $0.35 per share, for gross proceeds of $3,891,000. Each unit consists of one common share and one-half of one transferable common share purchase warrant. One whole warrant will entitle the holder to purchase one common share at $0.40 on or before December 22, 2008 (expired). The company also issued to brokers 778,050 warrants exercisable at $0.35 per common share until December 22, 2008 (expired) valued at $85,340.

In connection with the non-brokered portion of the 2007 private placement, the company issued 1,030,000 units at $0.30 per unit and 1,220,000 flow-through common shares at $0.35 per share, for gross proceeds of $736,000. Each unit consists of one common share and one-half of one transferable common share purchase warrant. One whole warrant will entitle the holder to purchase one common share at $0.40 on or before December 26, 2008 (expired).

b) Stock Options

In 2006, the Company adopted a stock option plan (the "Plan") authorizing the granting of stock options to qualified optionees to purchase a total of up to 10% of the then issued and outstanding common shares of the Company. Under the terms of the Plan, the options are subject to vesting provisions, and the term of stock options granted may not exceed five years from the date of grant.

Stock option transactions and the number of stock options outstanding are summarized below:

(Expressed in Canadian dollars)

7. CAPITAL STOCK (Continued)

b) Stock Options

	December 31, 2008			December 31, 2007		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of the year	4,470,000	$	0.21	3,990,000	$	0.17
Granted	1,500,000	$	0.17	2,140,000	$	0.26
Expired	(50,000)	$	0.26	(820,000)	$	0.29
Forfeited	(270,000)	$	0.25	-	$	-
Exercised	-	$	-	(840,000)	$	0.11
Outstanding, end of the year	5,650,000	$	0.20	4,470,000	$	0.21

Stock options outstanding and exercisable at December 31, 2008 are as follows:

Awards Outstanding				Expiry Date	Awards Exercisable			
Quantity	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price		Quantity	Weighted Average Remaining Contractual Life		Weighted Average Exercise Price
200,000	0.24	$	0.26	28-Mar-09	200,000	0.24	$	0.26
200,000	0.27	$	0.30	10-Apr-09	200,000	0.27	$	0.30
1,900,000	0.71	$	0.11	17-Sep-09	1,900,000	0.71	$	0.11
800,000	2.22	$	0.32	23-Mar-11	800,000	2.22	$	0.32
1,050,000	3.24	$	0.26	28-Mar-12	525,000	3.24	$	0.26
1,500,000	4.83	$	0.17	30-Oct-13	375,000	4.83	$	0.17
5,650,000	**1.69**	**$**	**0.20**		**4,000,000**	**1.69**	**$**	**0.19**

The Company applies the fair value method of accounting for stock options and, accordingly, the fair value of stock options of $110,563 (2007 - $296,097) has been included in the statement of loss and comprehensive loss and $Nil ($33,169 expensed for 2008 due to impairments; 2007 - $66,951) was included in the statements of deferred exploration and mineral property expenditures.

The fair value of options granted was estimated at the grant date based on the Black-Scholes option-pricing model, using the following assumptions:

	December 31, 2008	December 31, 2007
Risk-free interest rate	3.81%	4.25%
Expected share price volatility	116.83%	98% to 132%
Expected option life in years	5	2-5 years
Expected dividend yield	Nil	Nil

Option pricing models require the input of highly subjective assumptions including the expected pr ice volatility. Changes in the subjective input assumptions can materially affect the fair value estimate.

(Expressed in Canadian dollars)

7. CAPITAL STOCK (Continued)

c) Share Purchase Warrants

There were no warrants outstanding at December 31, 2008.

	December 31, 2008			December 31, 2007		
	Number of Warrants		Weighted Average Exercise Price	Number of Warrants		Weighted Average Exercise Price
Outstanding, beginning of the year	4,578,050	$	0.38	3,539,950	$	0.35
Issue				4,578,050	$	0.38
Expired	(4,578,050)	$	0.38	(3,439,950)	$	0.35
Exercised	-		-	(100,000)	$	0.22
Outstanding, end of the year	-	$	-	4,578,050	$	0.38

8. RELATED PARTY TRANSACTIONS

The Company had the following related party transactions during the year ended December 31, 2008:

a) $40,900 (2007 - $Nil) paid to the President and CEO of the Company for administration, management and exploration services. In connection with these services, $2,310 (2007 - $Nil) was due by the Company at December 31, 2008.

b) $63,330 (2007 - $Nil) paid to the Vice President of Exploration for professional geological services. In connection with these services, $1,397 (2007 - $Nil) was due by the Company at December 31, 2008.

Effective April 1, 2001, the Company entered into management agreements with Badger & Co. Management Corp. (“Badger”) which was owned by the Company’s executive officers. In 2007, the Company paid Badger the following:

a) $100,095 for operations and administration

b) $111,049 for professional services provided at per diem rates

c) $776,793 for exploration salaries and project management fees

Amounts payable under the agreements at December 31, 2007 was $143,684.

(Expressed in Canadian dollars)

9. COMMITMENTS

The Company entered into a service agreement in 2008 with a private company for its office space, administrative, corporate and other services at a monthly fee of $8,000. The agreement can be cancelled at anytime upon one year notice. The current expiry date is June 30, 2012. The Company also has an operating lease for a copy machine expiring March 31, 2010.

The summary for the commitments are listed below:

	Operating Lease	Service Agreement	Total
Years ending December 31, 2009	$ 6,536	$ 96,000	$ 102,536
Years ending December 31, 2010	1,634	96,000	97,634
Years ending December 31, 2011		96,000	96,000
Years ending December 31, 2012		48,000	48,000
Total	$ 8,170	$ 336,000	$ 344,170

10. CAPITAL MANAGEMENT

The Company’s objective in managing its capital is to maintain the ability to continue as a going concern and to continue to explore on various properties for the benefits of its stakeholders.

The Company’s capital includes the components of shareholders’ equity. Capital requirements are driven by the Company’s exploration activities on its mineral property interests. To effectively manage the Company’s capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget on all exploration projects and overheads to manage costs, commitments and exploration activities.

As the Company is in the exploration stage, its operations have been and will continue to be funded by the sale of equity to investors. Although the Company has been successful in raising funds in the past through issuing common shares, it is uncertain whether it will continue this financing due to difficult conditions.

11. FINANCIAL INSTRUMENTS

The Company has classified cash and cash equivalents, short-term investment as held-for-trading; accounts receivable and other as loans and receivables; accounts payable and accrued liabilities and due to related parties as other financial liabilities.

Fair Values

As at December 31, 2008, the recorded amounts for cash and cash equivalents and short-term investment are at fair value. Accounts receivables, accounts payable and accrued liabilities, and due to related parties approximate their fair values due to their short-term nature.

(Expressed in Canadian dollars)

11. FINANCIAL INSTRUMENTS (Continued)

Currency Risk

The Company has no foreign currency denominated assets or liabilities except for occasional and immaterial US dollar invoices. Foreign currency risk is minimal.

Interest Rate Risk

The Company's cash held in bank accounts earn interest at variable interest rates and the short term investment is held in a GIC. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a material impact on the expected cash flows.

Credit Risk

The Company has its cash and short-term investment deposited with a large, federally insured, commercial bank which it believes to be creditworthy. Other credit risk is limited to trade receivables in the ordinary course of business, which consist primarily of GST receivable. The balance of trade receivables are not significant.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities and through the management of its capital structure. At December 31, 2008, the Company had cash, cash equivalents and short-term investment of $1,153,604 and requires no further funding to meet its financial commitments.

12. INCOME TAXES

A reconciliation of the combined Canadian federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2008	2007
Income tax recovery at statutory rates	$ (1,350,437)	$ (240,272)
Increase (decrease) in taxes from		
Non-deductible expenses	33,896	102,734
Reduction in tax rates and other	1,129,992	336,075
Change in valuation allowance	(596,821)	(724,992)
	$ (783,370)	$ (526,455)

(Expressed in Canadian dollars)

12. INCOME TAXES (Continued)

A potential future income asset of approximately $3,827,101 arises from the following:

	2008	2007
Non-capital loss carry-forwards	$ 470,741	$ 478,068
Other deductible tax pools	3,742,790	4,332,284
	4,213,531	4,810,352
Valuation allowance	4,213,531	4,810,352
	$ -	$ -

The Company has reduced the value of the potential future income tax asset to $nil through the application of a valuation allowance as the Company does not have any current source of income to which the tax losses can be applied.

At December 31, 2008, the Company had approximately $1,810,542 of losses available for carry-forward. The loss carry-forward can be offset against income for Canadian income tax purposes in future years and expire between 2009 and 2028.

Under the provisions of CICA EIC 46, in respect of flow-through shares, a future income tax liability must be recognized, and shareholders' equity reduced, on the date that the Company renounces the tax credits associated with flow-through expenditures, provided that there is reasonable assurance that the expenditures will be made. As the Company has unrecognized future tax assets and the taxable temporary differences relating to the flow-through shares are expected to reverse during the loss carry forward period, these tax assets can be applied against the future taxable temporary difference. The recognition of the benefits resulted in a future income tax recovery of $783,370 (2007 - $526,455).

13. SEGMENTED INFORMATION

The Company has one business segment, the exploration of mineral properties. The Company's entire assets are located in Canada.

14. SUBSEQUENT EVENT

500,000 stock options were forfeited on January 27, 2009 at an average exercise price of $0.21 and 400,000 options expired at an average exercise price of $0.28.