ROYAL ROADS CORPORATION

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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AUDITORS' REPORT

To the Shareholders of
Royal Roads Corporation:

We have audited the consolidated balance sheets of Royal Roads Corporation as at December 31, 2008 and 2007 and the consolidated statements of income (loss) and comprehensive income (loss), deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Wasserman Ramsay

Markham, Ontario
April 24, 2009

Chartered Accountants
Licensed Public Accountants

ROYAL ROADS CORPORATION

CONSOLIDATED BALANCE SHEETS - DECEMBER 31, 2008 AND 2007

	2008	2007 (non-consolidated)
ASSETS		
Current:		
Cash and cash equivalents	$ 1,274,576	$ 2,515,335
Cash - flow-through funds *(Note 5)*	828,134	1,932,339
Due from Acadian Mining Corporation *(Note 10)*	2,779,411	-
Marketable securities	14,625	-
Amounts receivable	31,166	264,977
Prepaid expenses and deposits	32,105	297,190
	4,960,017	5,009,841
Property, plant and equipment *(Note 7)*	50,170	44,430
Investment in Buchans River Ltd. *(Note 6)*	-	3,855,152
Mineral resource properties *(Note 8)*	11,530,005	3,967,811
	$ 16,540,192	$ 12,877,234
LIABILITIES		
Current:		
Accounts payable and accrued liabilities	$ 243,801	$ 305,240
Due to related parties *(Note 10)*	-	30,022
	243,801	335,262
Future income taxes *(Note 11)*	1,479,300	699,167
SHAREHOLDERS' EQUITY		
Capital stock *(Note 9)*	16,736,911	14,658,218
Contributed surplus *(Note 13)*	1,392,299	870,201
Deficit	(3,312,119)	(3,685,614)
	14,817,091	11,842,805
	$ 16,540,192	$ 12,877,234

See Incorporation and Nature of business (Note 1)

Approved on behalf of the Board:

(signed) ***"GW (Will) Felderhof"***
GW (Will) Felderhof, Director

(signed) ***"William Rogers"***
William Rogers, Director

The accompanying notes form an integral part of these consolidated financial statements

ROYAL ROADS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 (non-consolidated)
Interest income *(Note 10)*	$ 220,394	$ 161,537
Expenses:		
Professional fees	338,536	194,709
Depreciation	10,768	4,937
General and administrative *(Note 10)*	988,894	626,338
Stock-based compensation expense *(Note 9)*	-	652,990
Mark to market on marketable securities	27,625	-
	1,365,823	1,478,974
Net (loss) for the year before undernoted item	(1,145,429)	(1,317,437)
Equity interest in Buchans River Ltd. to date of acquisition	40,730	(172,972)
Loss recognized on issuance of shares by Buchans River Ltd. *(Note 6)*	-	(191,309)
Net (loss) before income tax	(1,104,699)	(1,681,718)
Future income tax (recovery)	(1,478,197)	(464,743)
Net income (loss) and comprehensive income (loss) for the year	$ 373,498	$ (1,216,975)
Income (loss) per share - basic and diluted	$ -	$ (0.02)
Weighted average number of shares outstanding - basic and diluted	95,485,292	68,001,680

CONSOLIDATED STATEMENTS OF DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 (non-consolidated)
Deficit, beginning of year	$ (3,685,616)	$ (2,468,639)
Net income (loss) for the year	373,498	(1,216,975)
Deficit, end of year	$ (3,312,118)	$ (3,685,614)

The accompanying notes form an integral part of these consolidated financial statements

ROYAL ROADS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007 (non-consolidated)
Cash was provided by (used in) the following activities:		
Operating:		
Net income (loss) for the year	$ 373,498	$ (1,216,975)
Item not requiring an outlay of cash:		
Depreciation	10,768	4,937
Mark to market available for trading financial instruments	27,625	474
Future income tax	(780,133)	(81,056)
Equity pick-up Buchans River Ltd.	(40,730)	172,972
Loss recognized on issuance of shares by Buchans River Ltd.	-	191,309
Stock-based compensation	-	652,990
Net change in non-cash working capital items *(Note 12)*	312,559	(119,876)
	(96,413)	(395,225)
Investing:		
Cash acquired on acquisition of Buchans River Ltd.	3,197,277	-
Expenditures on mineral resource properties	(2,734,754)	(2,581,682)
Purchase of Property, plant and equipment	(26,539)	(49,367)
	435,984	(2,631,049)
Financing:		
Issuance of capital stock for cash	-	4,840,003
Loans and advances to Acadian Mining Corporation	(2,684,535)	-
Cash - flow-through funds	1,104,205	(1,932,339)
Proceeds on sale of investments	-	37,012
	(1,580,330)	2,944,676
Net change in cash and cash equivalents for the year	(1,240,759)	(81,598)
Cash and cash equivalents, beginning of the year	2,515,335	2,596,933
Cash and cash equivalents, end of the year	$ 1,274,576	$ 2,515,335

The accompanying notes form an integral part of these consolidated financial statements

1. Incorporation and nature of business:

The Company, considered to be in the development stage, is in the process of exploring mineral properties in Canada. The Company has not yet determined whether these properties contain economic reserves. Effective July 28, 2008 , these consolidated financial statements include the accounts of Buchans River Ltd., which became a wholly owned subsidiary of the Company on that date, following the Plan of Arrangement as more fully described in Note 6.

While these financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business, adverse conditions could cast doubt upon the validity of this assumption. At December 31, 2008, the Company had an accumulated deficit of $3,312,119 (2007 - $3,685,614). Management has estimated that the Company will have adequate funds from existing working capital to meet its corporate, administrative and property obligations for the coming year. If the Company is to advance or develop its mineral properties further, it will be necessary to obtain additional financing, and while the Company has been successful in the past, there can be no assurance that it will be able to do so in the future.

The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production. The amounts shown as mineral properties represent net costs to date and do not necessarily represent present or future values.

If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary to the carrying values of assets and liabilities, the reported loss and the balance sheet classifications used.

2. Accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below:

(a) Basis of Consolidation:

Effective July 28, 2008, these financial statements are consolidated with Buchans River Ltd. ("Buchans"), which became a wholly owned subsidiary of the Company on that date, following the Plan of Arrangement as more fully described in Note 6.

During fiscal 2007 Buchans had issued sufficient shares that the Company's ownership interest had dropped to 26.39% at which point the investment was accounted for using the equity method of accounting.

(b) Cash and cash equivalents:

Cash and cash equivalents consists of cash, demand deposits and highly liquid short term investments with an initial term of 90 days or less.

(c) Mining interests and deferred development and exploration expenditures:

The Company is in the exploration stage and does not derive any income from its mining operations. It is the Company's policy to defer expenditures related to the exploration and development of its mining properties (including direct administrative expenditures, if any) until such time as they are brought into production or are deemed economically unfeasible. Upon commencement of commercial production, the cost of acquiring the mining property and all related deferred exploration and development expenditures will be amortized on a unit of production basis. Should the properties be abandoned or be determined to be economically unfeasible they will be written off in their entirety.

The amounts shown for the mineral properties represent costs incurred to date and do not reflect present or future values. The Company is in the process of exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. Accordingly, the recoverability of these capitalized costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete their exploration and development and upon future profitable production.

2. Accounting policies (continued):

(d) Property, plant and equipment:

Property, plant and equipment are recorded at cost and amortized over their estimated useful lives using the following rates and methods:

Leasehold improvements	3 years straight line
Office fixtures and equipment	20% declining balance

(e) Stock based compensation:

The Company has a stock-based compensation plan that is described in Note 9. The Company has adopted the accounting recommendations relating to stock-based compensation and other stock-based payments as detailed in the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870. CICA 3870 establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments in exchange for goods and services. Compensation expense is recognized when the granted options become vested, with the same amount being recorded as contributed surplus. Stock-based compensation calculations have no effect on the Company's cash position.

(f) Earnings per share:

The Company has adopted the recommendations of the CICA Handbook section 3500, Earning per Share ("EPS"). The section requires the presentation of both basic and diluted EPS on the face of the income statement regardless of the materiality of the difference between them. In addition, the recommendations require the use of the treasury stock method to compute the dilutive effects of options, warrants and similar instruments. The section also requires the disclosure of a reconciliation of the calculation of basic and diluted EPS.

(g) Flow-though shares:

The Company accounts for the future income tax effect of flow-through share offerings as laid out in Emerging Issues Committee ("EIC") 146. As required under EIC 146 the future income tax effect of the flow-through offering is recognized as a share issue expense in the period in which the expenditures are renounced under the provision of the Income Tax Act.

(h) Asset retirement Obligations:

The recommendation of CICA Handbook Section 3110, *Asset Retirement Obligations*, became effective on January 1, 2004. This section requires the recognition of a liability for legal obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development or normal operations of those assets. Such asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which one is identifiable with a liability, the change in fair value over the course of the year is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

No liability accrual has been recorded as the Company is in the exploration stage on its properties and no reasonable estimate of fair value of the liability can be made.

(i) Long-lived assets:

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

(j) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

3. Change in Accounting Policies

Effective January 1, 2008, the Company adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). The new standards and accounting policy changes are as follows

(i) Section 3862 - Financial Instruments – Disclosures

This section updates the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent offrisks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, "Financial Instruments – Presentation" replaced Section 3861, "Financial Instruments – Disclosure and Presentation".

(ii) Section 3863 - Financial Instruments – Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives.

(iii) Section 1535 - Capital Disclosures

Establishes standards for disclosing information about an entity's capital and how it is managed. It describes the disclosure requirements of the entity's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The additional disclosures, required as a result of the adoption of (i) Section 3862 and 3863, have been included in Note 14, Financial Instruments and (ii). Section 1535, have been included in Note 4, Capital management.

(iv) Section 3031 - Inventories

In June 2007, the CICA issued Section 3031, "Inventories", to harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of inventories and requires the reversal of previous write downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to fiscal years beginning on or after January 1, 2008. As the Company presently does not have any items of inventory the adoption of this section had no effect on the Company.

Future accounting changes

(i) In February 2008, the CICA issued new Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and Other intangible assets", and Section 3450, "Research and development costs". Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, "Financial Statement Concepts". These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective January 1, 2009. The objectives of the changes are to reinforce a principles-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards ("IFRS") and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, preproduction and similar costs that do not meet the definition and recognition criteria of an asset. The Company has determined that adoption of the new standards will not have a significant effect on the Company's financial statements.

(ii) The Canadian Accounting Standards Board confirmed in February 2008 plans to converge Canadian GAAP with IFRS over a transition period expected to be effective for interim and annual periods commencing January 1, 2011. The Company is monitoring and reviewing plans to make the transition to IFRS and has not yet determined the impact of the transition on its financial statements.

4. Capital Management:

The Company manages its capital to ensure that the Company will be able to continue as a going concern while attempting to maximize the return to shareholders through the optimization of a reasonable equity balance commensurate with current operating requirements. The strategy remains unchanged from 2007. The Company raises capital, as necessary, to meet its needs and to take advantage of perceived opportunities and therefore, does not have a numeric target for its capital structure. There were no changes to the Company's approach to capital management during the year ended December 31, 2008 compared to the year ended December 31, 2007.

The Company does not have any covenants respecting its capital ratios.

5. Cash - flow-through funds:

As disclosed in Note 9, the Company raised funds on flow-through offerings during the prior year. The Company raised $3,277,500 in 2007 pursuant to the issuance of 6,555,000 flow-though common shares. These funds are required to be expended on Canadian Exploration Expenditures ("CEE"). Of the total amount raised $2,449,366 had been expended on CEE by December 31, 2008 leaving a balance to be spent of $828,134. It is the Company's intention to expend these funds on CEE in the coming fiscal year. The funds raised under the flow-through offerings and not spent by year end are not available for working capital purposes and are therefore shown separately.

During the year the Company renounced $3,277,500 in CEE which created $1,183,833 in future taxes which has been charged as a cost of issuing the shares as required by EIC 126. This allowed the Company to recognize non-capital losses which were previously not recogized to reduce future income tax payable.

6. Investment in and acquisition of Buchans River Ltd.:

a) Investment

On December 18, 2006, the Company completed a friendly take over bid for Buchans River Ltd. ("Buchans") by way of an exchange of one common share and $0.10 cash for each share of Buchans tendered under the offer. 8,890,577 shares were tendered by the Buchans shareholders and 6,668,215 shares of the Company were issued. The Company incurred $131,033 in costs associated with transaction and paid $889,096 in cash to Buchans shareholders. During fiscal 2007, as part of management's final fair value estimate of the transaction, the Company recognized a future tax liability in the amount of $699,167 related to tax elections filed in the prior year on the acquisition of certain shares of Buchans.

As at December 31, 2006 the Company owned 53.06% of Buchans representing a control position, and therefore for the year ended December 31, 2006 the results of Buchans were consolidated with those of the Company. During fiscal 2007 Buchans issued 16,937,567 shares. As a result of these share issuances the Company's interest in Buchans was diluted to 26.39% by year end and it was no longer appropriate to consolidate the results of Buchans with the Company. The investment in Buchans is now accounted for using the equity method of accounting. The Company had recognized a loss on the dilution of its investment in Buchans in the amount of $191,309 in fiscal 2007.

b) Acquisition

In early 2008, management provided a case to the Boards of Directors of the Company and of Buchans River Ltd. identifying compelling synergies between the Company and Buchans and for the Board to consider a merger by way of a plan of arrangement. In February 2008, both Boards formed independent committees to evaluate the proposal and engaged financial advisors to assist in and investigate a possible merger by plan of arrangement. On May 2, 2008 the Company and Buchans approved a binding agreement that, subject to Court and shareholder approval, all outstanding securities of Buchans not already owned by Royal Roads be exchanged for common shares, common share purchase warrants and common share options. On July 23, 2008 the shareholders of Buchans approved the proposal to accept an exchange rate of 1.55 common shares of the Company for each common share of Buchans River Ltd held. and to exchange all outstanding warrants and options of Buchans River for economically equivalent warrants and options of the Company. Court approval was obtained on July 24, 2008 and Buchans became a wholly owned subsidiary on July 25, 2008. The aggregate purchase price to the Company was $7,725,673. Effective July 28, 2008 the Company once again began consolidating the accounts of Buchans.

6. Investment in and acquisition of Buchans River Ltd.(continued):

The purchase has been accounted for using the purchase method, whereby the purchase consideration was allocated to the estimated fair values of the assets acquired and the liabilities assumed at the effective date of the acquisition July 25, 2008.

Details of this allocation are as follows:

Fair value of net assets acquired:	
Cash and cash equivalents	$ 3,197,277
Other current assets	26,696
Capital assets	11,170
Mineral properties	6,585,841
	9,820,984
Current liabilities	395,191
Future income taxes	1,074,497
Loans and advance due Royal Roads	625,623
	$ 2,095,311
Net assets acquired	$ 7,725,673
Aggregate purchase price	7,725,673
Excess of fair vlaue over purchase price	$ -

7. Property, plant and equipment:

	Cost	Accumulated Depreciation	Net
Leasehold improvements	$ 11,616	$ 4,538	$ 7,078
Office fixtures and equipment	64,290	21,198	43,092
Balance December 31, 2008	$ 75,906	$ 25,736	$ 50,170

	Cost	Accumulated Depreciation	Net
Leasehold improvements	$ 5,809	$ 581	$ 5,228
Office fixtures and equipment	43,558	4,356	39,202
Balance December 31, 2007	$ 49,367	$ 4,937	$ 44,430

8. Mineral resource properties:

Tulks North

	Balance Dec. 31, 2006	Expenditures during the year	Balance Dec. 31, 2007	Expenditures during the year (i)	Balance Dec. 31, 2008
Acquisition costs					
Tulks	$ 533,219	$ 17,700	$ 550,919	$ -	$ 550,919
Buchans (ii)	-	-	-	1,094,352	1,094,352
	533,219	17,700	550,919	1,094,352	1,645,271
Deferred exploration costs					
Tulks	852,910	2,563,982	3,416,892	855,923	4,272,815
Buchans (ii)	-	-	-	5,611,919	5,611,919
	852,910	2,563,982	3,416,892	6,467,842	9,884,734
	$ 1,386,129	$ 2,581,682	$ 3,967,811	$ 7,562,194	$ 11,530,005

(i) Net of government assistance received
(ii) The Buchans Property is held through the Company's subsidiary, Buchans River Ltd..

8. Mineral resource properties (Continued):

The Tulks North property comprises nine mineral claim licenses located in the Victoria Lake Mining district of west-central Newfoundland.

The Company has earned a 100% interest in the Tulks claims from Noranda Inc. Upon the property vesting, 250,000 shares of the Company were issued to Noranda Inc. and a further 500,000 shares are to be issued upon achieving commercial production. Noranda Inc. will retain a 1.5% net smelter return interest from any production from the property and Noranda Inc., upon discovery of a single deposit greater than 15 million tonnes, has the right to buy back 50% of the interest for $3,000,000 plus twice the Company's aggregate exploration expenditures.

Buchans River Ltd. has been issued approximately 40 mineral licences covering various areas of Newfoundland, including the historic Buchans Mining Camp and all the Camp's former producing Mines, consisting of 690 mineral exploration claims. The Company also has an interest in a further 1022 claims subject to the option arrangements as disclosed below.

A summary of the claims by mineral property, outlining the geographical area and minerals being sought, is as follows:

Property	Number of Claims	Geographical Area	Minerals Sought
Buchans	537	Central Newfoundland	Zinc, lead, copper, silver and gold
Barasway de Serf	12	South coast Newfoundland	Zinc, lead, copper, silver and gold
West Tully	25	Central Newfoundland	Zinc, lead, copper, silver and gold
Burnt Pond	15	Central Newfoundland	Zinc, lead, copper, silver and gold
Burtons Pond	27	North Coast Newfoundland	Gold and copper
Tulks Hill Joint venture	20	Central Newfoundland	Zinc, lead, copper, silver and gold
Granite Lake joint venture	23	Central Newfoundland	Molybdenum, tungsten and tin
Great Northern Zinc	29	Central Newfoundland	Zinc
Tulks North	727	Central Newfoundland	Zinc, lead, copper, silver and gold
Long Range joint Venture	888	Central Newfoundland	Nickel, copper and cobalt

In December 2004, the Company finalized a joint venture agreement with Prominex Resources Corp (“Prominex”) (formally Sino Pacific Development Limited). This agreement pertains to the Company’s Burton’s Pond property for which Prominex had an option to earn a 70% interest in the Burton’s Pond property over a four year period by incurring exploration expenses of $625,000, making cash payments totaling $35,000 and by issuing 400,000 free trading common shares over a three year period. As of December 31, 2007, $35,000 in option payments and 400,000 shares had been received; however, Prominex expenditures were approximately $250,000 short of the required amount. After subsequent discussions, Prominex terminated its option on the property and returned the entire property including adjacent claims staked by Prominex (total 29 claims, 7.25 km2) to Royal Roads (March 2009). As a result of Prominex terminating the option agreement, Royal Roads now controls a 100% interest in the property.

In December 2005, the Company finalized a joint venture agreement with Prominex for its Tulks Hill property hosting the Tulks Hill base metal, massive sulphide deposit in central Newfoundland. The agreement granted Prominex the option to earn a 51% interest in the property over a four year period by incurring exploration expenses of $1,000,000, making cash payments of $70,000 and issuing 900,000 free trading shares to the Company over a three year period. In November 2007, Prominex earned its 51% interest in the property after meeting all conditions. Upon earning its interest, a joint venture was formed whereby further work is to be funded jointly by Prominex and the Company, with Prominex being the operator. Prominex are yet to propose a 2009 exploration budget and program.

In January 2006, the Company finalized a joint venture agreement with Playfair Mining Ltd., (“Playfair”) for the Company’s Granite Lake property in central Newfoundland. The agreement grants Playfair rights to earn up to 100% interest in the property over three years by incurring exploration expenses of $50,000 and issuing the Company 100,000 free trading shares.

8. Mineral resource properties (Continued):

On January 31st, 2008, Playfair notified the Company of having met the conditions. Upon receipt of this notice, Royal Roads has until the earlier of 24 months from the date of exercise of the option (January 31, 2010) or the expenditure of $300,000 on the property, to either: (a) purchase from Playfair a 35% participating interest in the property for an amount equal to 65% of all expenditures incurred on the property; or (b) acquire a 3% net smelter royalty of which Playfair could purchase half for $1.5 million. In the event the Company elects to acquire the 3% NSR, it will pay the equivalent of 2% of the NSR to Newfoundland Mining and Exploration Ltd ("Newminex"). In the event the Company elects to purchase a 35% participating interest, it will pay Newminex 66.66% of all net revenues received in the event the joint venture with Playfair generates revenue after all costs incurred by the Company to purchase and maintain the 35% participating interest.

9. Capital stock:

Authorized:
Unlimited number of common shares
Unlimited number of preference shares

Capital stock is made up as follows:	2008	2007
Common shares (i)	$ 15,725,899	$ 13,445,400
Warrants (ii)	1,011,012	1,212,818
	$ 16,736,911	$ 14,658,218

(i) Common shares issued:

	# of shares	$ Value
Balance December 31, 2006	59,088,787	$ 8,941,504
Issued on acquisition of Buchans River Ltd.	184,437	101,440
Issued for cash pursuant to Flow-Through private placement	6,555,000	3,277,500
Issued for cash pursuant to private placement	7,775,000	2,063,450
Warrants exercised	78,684	38,243
Less: Share issue costs		(976,737)
Balance December 31, 2007	73,681,908	$ 13,445,400
Issued on the acquisition of Buchans River Ltd.	38,445,581	3,464,332
Less: Future income tax on renunciation of flow-through expenditures		(1,183,833)
Balance December 31, 2008	112,127,489	$ 15,725,899

(ii) Warrants issued:

	# of warrants	$ Value
Balance December 31, 2006	4,875,522	$ 142,050
Exercised	(78,684)	(2,252)
Expired	(328,866)	(13,049)
Issued during the year - private placements	3,887,500	1,046,550
Issued during the year - Brokers warrants	828,100	135,934
Less: issue costs		(96,415)
Balance December 31, 2007	9,183,572	$ 1,212,818
Expired	(6,272,571)	(262,683)
Issued on acquistion of Buchans River Ltd.	9,207,499	60,877
Balance December 31, 2008	12,118,500	$ 1,011,012

During the prior year the Company completed private placements for a total of 7,775,000 units at $0.40 per unit and 6,555,000 flow-through common shares at $0.50 per flow-through common share. The gross proceeds raised under these offerings amounted to $6,387,500 of which $1,046,550 has been allocated to the warrants issued with the balance of $5,340,950 being allocated to the common shares. Of the total amount of proceeds $3,277,500 was received on account of the flow-through common shares issued. Each Unit issued is comprised of one common share and one-half of one common share purchase warrant ("Warrant"). One whole Warrant will entitle the holder to subscribe for one common share at $0.54 at any time until expiry on January 18, 2009. On December 18, 2008 the expiry date of these warrants were extended to July 18, 2010 with all other terms remaining the same.

9. Capital stock (continued):

The Agents of the offering received a cash commission of 7.0% of the gross proceeds raised and in addition were granted Finder's fee warrants equivalent to 7% of the number of flow-though shares and units sold to subscribers with the exception of the 2.5 million units subscribed for by Acadian Mining Corporation a party which owned 44.44% of the Company at the time of the transaction. The Finder's fee warrants were exercisable into common shares at a price of $0.40 per share until expiry on November 18, 2008. The Finder's fee warrants were valued at $135,934 and expired unexercised.

During the year, pursuant to a Plan of Arrangement, the Company issued 38,445,586 common shares, 9,207,499 warrants to purchase common shares and 4,975,500 options to acquire common shares as consideration for all of the remaining outstanding common shares, warrants and options of Buchans River Ltd., which it did not previously own.

During the year, pursuant to flow-through shares issued in the prior year, the Company renounced to investors $3,277,500 (2007 - $1,219,159) in CEE. Under EIC 146 the Company recognized, as a share issue cost, the tax benefits given up by renouncing the expenditures which amounted to $1,183,833 (2007 - $464,743).

Stock-based compensation plan:

The Company has a common share purchase option plan (the "Plan") for directors, officers, and employees. Options granted under the Plan have a five-year term. Options are granted at a price no lower than the market price of the common shares less any discounts allowed by the TSX-V at the time of the grant.

In determining the stock-based compensation expense, the fair value of the options issued were estimated using a Black-Scholes option pricing model with the following weighted average assumptions used: dividend yield of 0% (2007-0%), expected volatility of 114% (2007-118%), risk-free interest rate of 3.45% (2007-4.2%) and expected life of 60 months (2007 - 60 months).

A summary of the Company's options at December 31, 2008 and 2007 and the changes for the years then ended is presented below:

	Options Outstanding	Weighted-Average Exercise price
At December 31, 2006	2,475,000	$ 0.28
Granted	3,255,000	$ 0.35
At December 31, 2007	5,730,000	$ 0.32
Issued on acquisition of Buchans River Ltd.	4,975,500	$ 0.37
Expired	(2,980,000)	$ 0.27
At December 31, 2008	7,725,500	$ 0.28

The weighted average fair value of options granted during the period was $0.05 (2007 - $0.20).

The following table summarizes information about the options outstanding at December 31, 2008:

Exercise Price	Options outstanding and exercisable	Remaining contractual life (in years)
$ 0.15	46,500	2.10
$ 0.22	3,545,625	2.30
$ 0.25	1,150,875	3.40
$ 0.30	77,500	3.75
$ 0.35	2,905,000	3.40
	7,725,500	3.30

9. Capital stock (continued):

The following table summarizes information about the options outstanding at December 31, 2007:

Exercise Price	Options outstanding and exercisable	Remaining contractual life (in years)
$ 0.22	1,525,000	3.85
$ 0.35	950,000	4.00
$ 0.35	3,155,000	4.40
$ 0.34	100,000	4.75
	5,730,000	4.20

Share purchase warrants:

A summary of the Company's warrants at December 31, 2008 and 2007 and the changes for the years then ended is presented below:

	Warrants Outstanding	Weighted-Average Exercise price
At December 31, 2006	4,875,522	$ 0.32
Granted during the year	4,715,600	$ 0.52
Exercised during the year	(78,684)	$ 0.33
Expired during the year	(328,866)	$ 0.28
At December 31, 2007	9,183,572	$ 0.32
Issued during the year on the acquistion of Buchans River Ltd.	9,207,499	$ 0.35
Expired during the year	(6,272,571)	$ 0.32
At December 31, 2008	12,118,500	$ 0.42

The following table summarizes information about the warrants outstanding at December 31, 2008:

Exercise Price	Warrants outstanding and exercisable	Remaining contractual life (in years)
$ 0.35	4,650,000	1.50
$ 0.37	3,581,000	1.50
$ 0.54	3,887,500	1.50
	12,118,500	1.50

The following table summarizes information about the warrants outstanding at December 31, 2007:

Exercise Price	Warrants outstanding and exercisable	Remaining contractual life (in years)
$ 0.32	4,467,972	0.15
$ 0.52	4,715,600	1.00
	9,183,572	0.60

10. Related Party Transactions:

i) The Company shares certain employment and overhead costs with Buchans River Ltd. and Acadian Mining Corporation ("Acadian") (a company which owns 29.18% of the Company). During the year $207,893 (2007 - $76,088) was paid to Acadian as office overhead costs.

The balances due from related parties in the prior year were non-interest bearing, repayable on demand and unsecured.

The above transactions were in the normal course of operations and were measured at the exchange amount, which are the amounts agreed to by the related parties.

ii) Loans and advances between the Company and Acadian and its subsidiaries have fluctuated during the year, and stood at a balance due from Acadian of $2,779,411 at December 31, 2008. The advances, as evidenced by a promisorry note, are due November 30, 2009, bear interest at 10% per annum payable quarterly and are secured by a fix first charge on all assets of Acadian. Included in the amount owing is accrued interest in the amount of $124,898 which is included in interest income on the statement of loss and comprehensive loss.

11. Income taxes:

The Company has available approximately $4,578,850 (2007 - $1,300,000) in non-capital loss carry-forwards which can be used to reduce future taxable income until expiry as noted below. The potential benefit associated with this item has been recognized in these financial statements to offset future income tax related to flow-through share renunciations as noted below.

The loss carry-forwards expire, if unused, as follows:

2009	$ 217,750
2010	89,600
2014	130,000
2015	138,500
2026	329,600
2027	1,874,400
2028	1,799,000
	$ 4,578,850

The following reconciles the effective tax rate to the statutory rate on a percentage basis:

	2008	2007
Statutory tax rate	33.50 %	36.12 %
Recognition of loss carryforwards	(167.31)	(63.76)
Valuation allowance	-	-
Effective tax rate	(133.81)%	(27.64)%

The Company has the following future income tax assets/(liabilities):

	2008	2007
Tax loss carryforwards	$ 1,534,000	$ 470,000
Mineral properties and property, plant and equipment	(3,013,300)	(470,000)
Investment in Buchans River Ltd.	-	(699,167)
Liability recognized in the financial statements	$ (1,479,300)	$ (699,167)

12. Supplemental cash flow information:

Change in non-cash working capital:

	2008	2007
Accounts receivable	$ 233,811	$ (207,594)
Prepaid expenses and deposits	265,085	(9,946)
Accounts payable and accrued liabilities	(186,337)	67,642
Due from related parties	-	30,022
	$ 312,559	$ (119,876)

Non-cash financing and investing activities:	2008	2007
Value of warrants and options issued on acquisition of Buchans River Ltd.	$ 320,391	$ -
Issued on acquisition of shares of Buchans River Ltd.	$ 3,464,332	$ 101,440
Value of brokers warrants issued	$ -	$ 135,934
Future income tax recognized on CEE renounced in the current year	$ 1,183,833	$ 464,743
Future income tax recognized on acquisition of Buchans	$ 264,000	$ 699,167

13. Contributed surplus:

Balance, December 31, 2006	$ 217,211
Stock-based compensation expense	652,990
Balance, December 31, 2007	870,201
Stock option issued on Buchans River ltd. acquisition	259,415
Transfer to contributed surplus for expired warrants	262,683
Balance December 31, 2008	$ 1,392,299

14. Financial Instruments:

Credit Risk

The Company financial assets are cash and cash equivalents, restricted cash and accounts receivable – HST receivable. The Company's maximum exposure to credit risk as at December 31, 2008, is the carrying value of it financial assets. The Company manages credit risk by maintaining bank accounts with reputable banks and financial institutions and investing only in Government of Canada Treasury Bills. Cash and cash equivalents, and restricted cash are held with on Canadian Chartered Banks and Investment firm and the risk of default is considered to be remote.

The Company is also exposed to credit risk from its related party loan receivable. The Company advanced a related party $2,654,513 during the year (see Note 10(ii)). At December 31, 2008 the company's maximum exposure is the full amount of the loan plus the accrued interest of $124,898 for a total of $2,779,411. Although management does not consider the loan to be impaired at year end the Company does feel that there is a sigificant potential credit risk associated with it. The loan is not considered to have been made in the normal course of operations.

Fair value of financial instruments

The book value of cash and cash equivalents, receivables, and accounts payable and accrued liabilities all approximate their fair values at December 31, 2008. The Marketable secutities owned by the Company at the end of the year were marked to market resulting in a loss in the amount of $27,625.

Interest rate risk

The Company's debt is limited to accounts payable and accrued liabilities and due from related parties and therefore there is limited exposure to interest rate risk.

Foreign currency rate risk

The Company does not currently have any significant foreign currency dominated transactions.