(A Development Stage Enterprise)

Financial Statements

Year Ended June 30, 2009 and 2008

BDO Dunwoody LLP
Chartered Accountants
And Advisors

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Auditors' Report

To the Shareholders of Armistice Resources Corp.

We have audited the balance sheet of Armistice Resources Corp. ("Armistice") as at June 30, 2009 and the statement of loss and deficit and comprehensive loss and deficit and the statement of cash flows for the fiscal year then ended. These financial statements are the responsibility of Armistice's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance about 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 Armistice as at June 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The prior year financial statements were audited by another firm of Chartered Accountants, who expressed an unqualified opinion in their report dated August 19, 2008.

(signed) BDO Dunwoody **LLP**

CHARTERED ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario
September 28, 2009

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Balance Sheets

June 30, 2009 and 2008

	2009	2008
ASSETS		
CURRENT		
Cash	**$ 65,720**	$ 817,527
Short term investments *(Note 4)*	**-**	1,698,900
Accounts receivable and sundry assets	**92,839**	218,511
Prepaid expenses	**35,461**	75,701
	194,020	2,810,639
RESTRICTED INVESTMENTS *(Note 4)*	**410,400**	589,100
MINERAL PROPERTY *(Note 5)*	**19,554,868**	16,736,556
PLANT AND EQUIPMENT *(Note 6)*	**34,229**	32,425
	$ 20,193,517	$ 20,168,720
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	**$ 500,711**	$ 1,130,325
Loan payable *(Note 7)*	**500,000**	-
	1,000,711	1,130,325
ASSET RETIREMENT OBLIGATION *(Note 8)*	**215,042**	199,113
	1,215,753	1,329,438
COMMITMENTS AND CONTINGENCIES *(Note 9)*		
SUBSEQUENT EVENTS *(Note 18)*		
SHAREHOLDERS' EQUITY *(Note 10)*		
Capital stock	**46,627,068**	46,385,982
Contributed surplus	**1,932,357**	1,206,997
Stock options	**955,021**	907,880
Warrants	**542,690**	859,254
Deficit	**(31,079,372)**	(30,520,831)
	18,977,764	18,839,282
	$ 20,193,517	$ 20,168,720

ON BEHALF OF THE BOARD

"Todd Morgan" *Director*

"Greg Smith" *Director*

See accompanying notes.

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Statement of Loss and Deficit and Comprehensive Loss and Deficit

Years Ended June 30, 2009 and 2008

	2009	2008
EXPENSES		
Accounting and audit fees	**$ 113,471**	$ 91,553
Accretion expense	**15,929**	14,748
Amortization of plant and equipment	**4,554**	6,118
Consulting fees	**175,735**	166,050
Directors meetings	**27,991**	26,439
Interest and bank charges	**34,385**	15,991
Legal fees	**125,892**	65,570
Office	**151,447**	190,331
Repairs and maintenance	**-**	6,163
Shareholder relations	**55,087**	67,748
Stock option compensation *(Note 10)*	**180,235**	218,912
Tax on unspent flowthrough	**-**	65,745
	884,726	935,368
LOSS BEFORE UNDERNOTED	**(884,726)**	(935,368)
INTEREST INCOME	**12,840**	107,802
LOSS BEFORE INCOME TAXES	**(871,886)**	(827,566)
FUTURE INCOME TAXES (RECOVERED) *(Note 11)*	**(313,345)**	(728,555)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(558,541)**	(99,011)
DEFICIT - beginning of year	**(30,520,831)**	(30,421,820)
DEFICIT - END OF YEAR	**$ (31,079,372)**	$ (30,520,831)
LOSS PER SHARE *(Note 12)*	**$ (0.01)**	$ 0.00
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING *(Note 12)*	**62,232,331**	49,304,588

See accompanying notes.

Armistice RESOURCES CORP.

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Statement of Cash Flows

Years Ended June 30, 2009 and 2008

	2009	2008
OPERATING ACTIVITIES		
Net loss for the year	$ (558,541)	$ (99,011)
Items not affecting cash:		
Amortization of plant and equipment	4,554	6,118
Future income taxes recovered	(313,345)	(728,555)
Stock option compensation	180,235	218,912
Accretion expense	15,929	14,748
	(671,168)	(587,788)
Changes in non-cash working capital:		
Accounts receivable and sundry assets	125,672	(118,341)
Prepaid expenses	40,240	(75,701)
Accounts payable and accrued liabilities	(115,079)	(117,709)
	50,833	(311,751)
Cash flow used by operating activities	(620,335)	(899,539)
INVESTING ACTIVITIES		
Investment in mineral property	(3,332,848)	(5,549,556)
Purchase of equipment	(6,358)	(3,626)
Change in restricted and short term investments	178,700	1,831,996
Cash flow used by investing activities	(3,160,506)	(3,721,186)
FINANCING ACTIVITIES		
Loan payable	500,000	-
Proceeds from issuance of capital stock	935,600	6,558,530
Share issue costs	(105,466)	(644,509)
Cash flow from financing activities	1,330,134	5,914,021
INCREASE (DECREASE) IN CASH FLOW	(2,450,707)	1,293,296
Cash - beginning of year	2,516,427	1,223,131
CASH - END OF YEAR	$ 65,720	$ 2,516,427
CASH FLOWS SUPPLEMENTARY INFORMATION		
Interest paid	$ 34,385	$ 15,989
Income taxes paid	$ -	$ -
CASH CONSISTS OF:		
Cash	$ 65,720	$ 817,527
Short term investments *(Note 4)*	-	1,698,900
	$ 65,720	$ 2,516,427

See accompanying notes.

Armistice RESOURCES CORP.

1. DESCRIPTION OF BUSINESS

Armistice Resources Corp.'s (the "Company") activities are directed towards developing a mining property in Virginiatown, Ontario. To date, the Company has not earned significant revenue and is considered to be "an Enterprise in the Development Stage", as defined in the Canadian Institute of Chartered Accountants Accounting Guideline number eleven.

2. CONTINUING OPERATIONS

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. At June 30, 2009, the Company has working capital deficiency of $806,691. The Company's existence is dependent upon its ability to secure financing necessary to meet its obligations, finance development expenditures and to obtain profitable operations. Should the Company be unable to secure such financing, it may have to, at any time, cease its operations.

Accordingly, readers are cautioned that these financial statements do not reflect adjustments that would be necessary if the "going concern" basis were not appropriate. Changes in future conditions could require material write downs of the carrying value of certain assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements have been prepared using Canadian Generally Accepted Accounting Principles (GAAP) and are expressed in Canadian dollars.

Cash and Cash Equivalents

The Company considers unrestricted short term debt securities purchased with a maturity of three months or less to be cash equivalents. The restricted investments are excluded from cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known.

The carrying values of the mineral property, plant and equipment, mine closure provision and the valuation of stock options and warrants are estimated by management based on various assumptions.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Mineral Property and Deferred Expenditures

Mineral property acquisition costs and expenditures for plant, equipment, exploration and development, less recoveries, are deferred until the property is placed into production. These net costs will be amortized when the property is developed to the stage of commercial production using the unit of production method based on the expected economic life of the property, or written off if the property is abandoned or the carrying value is determined to be in excess of possible recoverable amounts.

Where the Company's exploration agreements for a property are with a third party, the proceeds of any option payments under such agreements will be applied to the property to the extent of costs incurred. The excess, if any, will be credited to income.

The amounts shown for the mineral property represent costs to date and do not necessarily reflect present or future values except when there is a permanent decline in value or an abandonment of a mining property. Future development of the mineral property, recovery of related costs and the ability to meet financial commitments on existing claims will depend upon the development of commercially viable reserves, capital financing arrangements, mineral market conditions, environmental considerations and general economic conditions.

The Company assesses mineral property for recoverability on an annual basis or more frequently if changes in circumstances suggest that possible impairment may exist. Where information is available and conditions suggest impairment, estimated future net cash flows are calculated using estimated future prices and operating, capital and reclamation costs on an undiscounted basis. If the net carrying value of the property exceeds the estimated future net cash flows, the mineral property will be written down to fair value.

Asset Retirement Obligation

The Company recognizes the liability arising from legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of a long-lived asset. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred. When the liability is initially recorded, the cost is capitalized by increasing the carrying amount of the related long-lived asset. The Company amortizes the amount added to the asset using the amortization method established for the related asset. The amortization expense is included in the statement of operations and accounted for in accumulated depletion and amortization. An accretion expense in relation with the discounted liability over the remaining life of the mining properties is accounted for in the statement of operations and added to the asset retirement obligation. The liability is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. Upon settlement of the liability, a gain or loss is recorded.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Plant and Equipment

Plant and equipment are recorded at cost less accumulated amortization. Amortization is being provided for on the declining balance basis at the following annual rates:

Buildings	4%
Motor vehicles	30%
Computer equipment	45%

The Company regularly reviews its plant and equipment to eliminate obsolete items.

Flow-through Shares

The Company has financed part of its exploration activities through the issuance of flow-through shares. Under the terms of the flow-through agreements, the tax attributes of the related expenditures are renounced to subscribers.

When expenditures are renounced to the subscribers and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized (renounced expenditures multiplied by the effective tax rate) thereby reducing share capital.

If the Company has sufficient unused tax losses and deductions ("losses") to offset all or part of the future income tax liabilities and no future income tax assets have been previously recognized on such losses, a portion of such unrecognized losses (losses multiplied by the effective corporate tax rate) is recorded as a reduction of income tax expense to the amount of the future income tax liability that was previously recognized on the renounced expenditures.

Stock-Based Compensation

The Company has a stock-based compensation plan, which is described in (Note 10(c)). The Company accounts for all stock-based payments to employees using the fair value based method. Under the fair value based method, compensation cost attributable to options granted is measured at fair value at the grant date and amortized on a straight line basis over the vesting period. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

Loss Per Share

Basic loss per common share are calculated using the weighted-average number of common shares outstanding during the year. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted earnings per share if their inclusion would be anti-dilutive.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method of tax allocation, future income and mining tax assets and liabilities are determined based on differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using the rates expected to be in effect when the temporary differences are likely to reverse. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Recent Accounting Pronouncements Issued and Not Yet Applied

i) Goodwill and Intangible Assets

In 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets ("CICA 3064"). CICA 3064, which replaces Section 3062, Goodwill and Intangible Assets, and Section 3450, Research and Development Costs. The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements for periods commencing July 1, 2009. The Company is assessing the impact of the new standard on its financial statements.

ii) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) and the Canadian Securities Administrators (CSA) have confirmed January 1, 2011 as the date IFRS will replace Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable, profit-oriented enterprises. This presents a change in the fundamental principles upon which financial reporting is conducted and requires significant analysis and planning to ensure a proper transition.

Changes in accounting policies

Accounting Changes

The Canadian Institute of Chartered Accountants (CICA) issued Section 1506, "Accounting changes", which describes the criteria for changing accounting policies, along with the accounting and disclosure for changes in accounting policies, changes in accounting estimates and corrections of errors. These changes came into effect for years beginning on or after January 1, 2007.

Comprehensive Income and Financial Instruments

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Effective January 1, 2008, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) under Section 1530, "Comprehensive income", Section 3250, "Equity", Section 3855, "Financial instruments – measurement and disclosure", Section 3861, "Financial instruments – presentation and disclosure", and Section 3865, "Hedges". These new Handbook Sections, which apply to years beginning on or after October 1, 2007 provide requirements for the recognition, measurement, presentation and disclosure of financial instruments. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held for trading, held-to-maturity investments, loans and receivables, available for sale financial assets or other financial liabilities. All financial instruments are measured in the opening balance sheet of the year of adoption at fair value.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Held for trading
Short term investments	Held do maturity
Accounts receivable and sundry assets	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities

The carrying value and fair value of the financial assets and liabilities are summarized as follows:

Classification	Carrying value	Fair value
Cash	$ 65,720	$ 65,720
Short term investments	-	410,400
Accounts receivable and sundry assets	92,839	92,839
Accounts payable and accrued liabilities	500,710	500,710
Loan payable	500,000	500,000

Subsequent measurement and treatment of any gain or loss on the financial instruments is recorded as follows:

(a) Held for trading financial assets are measured at fair value at the balance sheet date with any gain or loss recognized immediately in net income. Interest and dividends earned from held for trading assets are also included in income for the period.

(b) Loans and receivables are measured at amortized cost using the effective interest method. Any gain or loss is recognized in net income.

(c) Held to maturity financial assets are measured at amortized cost using the effective interest method. Any gain or loss is recognized in net income.

(continues)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Available for sale financial assets are measured at fair value at balance sheet date with any gain or loss recognized in other comprehensive income and, cumulatively, in accumulated other comprehensive income in the equity Section of the balance sheet. Such accumulated gain or loss is transferred through net income to retained earnings on disposition of the asset.

(e) Other financial liabilities are measured at amortized cost using the effective interest method.

(f) Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception, and are recognized over the term of the assets or liabilities using the effective interest method.

The adoption of these new recommendations has no material impact on the opening retained earnings or on the Company's financial statements for the year ended June 30, 2009.

Capital Disclosures and Financial Instruments - Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards have been adopted effective November 1, 2007.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. This information will enable financial statements' users to evaluate the entity's objectives, policies and processes for managing capital. The Company has included the required disclosure in Note 13 to the financial statements.

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

4. RESTRICTED INVESTMENTS

The short term investments represent bankers acceptances bearing interest at 0.95% (2008 - 2.87%) per annum maturing September 21, 2009 (2008 - July 28, 2008). The Company has investments totaling $410,400 (2008 - $2,288,000) of which the full amount of $410,400 is restricted to finance the outstanding letter of credit (Note 9(c)).

Short term investments are as follows:

	2009	2008
Investments	**$ -**	$ 1,698,900
Restricted Investments	**410,400**	589,100
	$ 410,400	$ 2,288,000

5. MINERAL PROPERTY

	2009	2008
Exploration and development expenditures:		
Balance, beginning of year	**$ 22,327,288**	$ 16,364,493
Diamond drilling	**388,070**	1,081,148
Bulk sampling	**1,670,727**	4,339,032
Technical services	**634,295**	500,288
Environmental	**31,372**	42,327
Balance, end of year	**25,051,752**	22,327,288
Property acquisition costs:		
Balance, beginning of year	**6,159,268**	6,067,013
Royalty payments	**93,848**	92,255
	6,253,116	6,159,268
Write-down of deferred expenditures (2000 fiscal year)	**(11,750,000)**	(11,750,000)
Total mineral property, end of year	**$ 19,554,868**	$ 16,736,556

The Company has an undivided 75% interest in 31 mining claims and 3 licences of occupation in the McGarry Township within the Larder Lake Mining Division of Ontario through an agreement with Sheldon-Larder Mines Limited ("Sheldon-Larder"). The remaining 25% interest is a carried interest entitling Sheldon-Larder to a royalty as outlined in Note 9(a). This results in complete control by the Company including 100% of any proceeds of production subject to only the royalty interest.

6. PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2009 Net book value**	2008 Net book value
Buildings	$ 41,000	$ 14,868	**$ 26,132**	$ 21,221
Motor vehicles	20,520	16,253	**4,267**	6,096
Computer equipment	29,253	25,423	**3,830**	5,108
Totals	$ 90,773	$ 56,544	**$ 34,229**	$ 32,425

7. LOAN PAYABLE

	2009	2008
Kirkland and District Community Development Corporation demand loan bearing interest at 7% per annum. The loan is secured by a general security agreement and an assignment of insurance. Repayable in monthly payments of $46,014 plus interest beginning January 2010.	**$ 500,000**	$ -

8. ASSET RETIREMENT OBLIGATION

The Company's asset retirement obligation relates to the cost of removing and restoring of the Armistice Mine in the Township of McGarry. This estimate depends on the development of environmentally acceptable mine closure plans. The Company developed and filed a closure plan for the Company's McGarry project under the Ontario Ministry of Northern Development and Mines.

A summary of the changes in the provision for reclamation liabilities is set out below.

	2009	2008
Balance, beginning of year	**$ 199,113**	$ 184,365
Accretion expense for the year	**15,929**	14,748
Balance, end of year	**$ 215,042**	$ 199,113

The mine closure provision liability is based upon numerous estimates and assumptions, as follows:

a) Total undiscounted amount of future retirement costs was determined to be $410,400 to which the Company has provided a letter of credit as disclosed in Note 9(c);
b) Credit-adjusted risk-free interest rate at 8%;
c) Expected timing of cash outflows required to settle the obligation are for the full amount to be paid in 2021;
d) Inflation over the period from 2007 to 2021 was determined to be 2% per annum.

9. COMMITMENTS AND CONTINGENCIES

a) Sheldon-Larder Mines Limited, the royalty holder, is entitled to the greater of:
  i) a Net Smelter Return royalty of a percentage of the price per troy ounce as follows:
    2% when less than US$ 500
    3% when greater than US$ 500 and less than US$ 800
    4% when greater than US$ 800;
  (ii) $1.00 per short ton of ore derived from the properties;
  (iii) an advance royalty payment of $21,573 payable quarterly

b) As at June 30, 2009, the Company was committed to spend $NIL on future Canadian exploration expenditures (2008 - $589,100).

c) The Company had a letter of credit outstanding at year end in the amount of $410,400 (2008 - $410,400). (Note 4).

10. CAPITAL STOCK

a) i) Authorized

The Company is authorized to issue an unlimited number of common shares.

ii) Issued

	Number of Shares		Amount
Balance, June 30, 2007	46,615,898	$	41,791,243
Private placements (Note 10(a)(iii) & (iv))	13,514,537		6,558,530
	60,130,435		48,349,773
Fair value of warrants issued to brokers and unit holders	-		(445,223)
Share issuance costs	-		(790,013)
Tax benefits renounced to flow-through subscribers	-		(728,555)
Balance, June 30, 2008	60,130,435		46,385,982
Private placement (Note 10(a)(v))	6,237,335		935,600
Stock proceeds allocated to warrants	-		(275,703)
Broker fees	-		(57,120)
Tax benefits renounced to flow-through subscribers	-		(313,345)
Share issuance costs	-		(48,346)
Balance, June 30, 2009	66,367,770	$	46,627,068

iii) On December 28, 2007 the Company closed a private placement raising gross proceeds of $3,320,280 through the sale of 1,659,342 units of the Company (the "Units") at $0.65 per Unit and 2,988,944 flow-through units of the Company (the "FT Units") at $0.75 per FT Unit. Each Unit was comprised of one common share of the Company (a "Common Share") and one half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each FT Unit was comprised of one Common Share issued on a flow-through basis and one-half of one Warrant. Each Warrant was exercisable into one Common share at an exercise price of $1.00 per Common Share expiring on June 2009. The Warrant was subject to terms of acceleration if, after four months and a day after closing, the closing price of the Common Shares was equal to or exceeded $1.15 for 30 consecutive trading days. The financing costs consisted of a 7% broker's commission plus 464,829 broker's warrants entitling the holder to acquire one common share at a price of $0.70 per share expiring in June 2009. The share purchase warrants issued as part of this placement had been recorded at a fair value of $213,150 using the Black-Scholes option-pricing model (Note 10)(b).

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10. CAPITAL STOCK *(continued)*

iv) On June 16, 2008 the Company closed a private placement raising gross proceeds of $3,238,250 through the sale of 6,165,001 units of the Company (the "Units") at $0.35 per Unit and 2,701,250 flow-through shares of the Company (the "FT Shares") at $0.40 per FT Share. Each Unit is comprised of one common share of the Company (a "Common Share") and one half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will be exercisable into one Common share at an exercise price of $0.45 per Common Share expiring in December 2009. The share purchase warrants issued as part of this placement have been recorded at a fair value of $377,576 using the Black-Scholes option-pricing model (Note 10)(b). The Warrant is subject to terms of acceleration if, after four months and a day after closing, the closing price of the Common Shares is equal to or exceeds $0.70 for 30 consecutive trading days. The financing costs consist of a 7% broker's commission plus 829,268 warrants entitling the holder to acquire one common share at a price of $0.35 per share expiring in June 2009.

v) On February 27, 2009 the Company closed a private placement raising gross proceeds of $935,600 through the sale of 6,237,335 units of the Company (the "Units") at $0.15 per Unit. Each Unit is comprised of one common share of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will be exercisable into one Common Share at an exercise price of $0.25 per Common Share for a period of 18 months from closing. The Warrant term will be subject to acceleration if, after four months and a day after closing, the closing price of the Common Shares is equal to or exceeds $0.35 for 30 consecutive trading days.

The Company issued 797,333 Units directly to subscribers and these securities were not subject to a cash commission. D&D Securities Company ("D&D") received a cash commission equal to 7% of the gross proceeds of the remaining portion of the offering. D&D also received 544,000 warrants exercisable into that number of Units equal to 10% of the aggregate number of Units sold through D&D in the offering. Each broker's warrant will be exercisable to acquire one Unit at a price of $0.20 per Unit for a period of 18 months after closing. The share purchase warrants issued as part of this placement have been recorded at a fair value of $232,392 using the Black-Scholes option-pricing model (Note 10)(b).

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10. CAPITAL STOCK *(continued)*

b) Warrants

	Number of Warrants	Amount	Weighted Average Exercise Price
Balance, June 30, 2007	10,175,231	$ 451,647	$ 0.76
Private placement	2,788,972	213,150	0.95
Private placement	3,911,768	377,576	0.43
Warrants expired January 2008	(1,187,731)	(183,119)	0.50
Balance June 30, 2008	15,688,240	$ 859,254	$ 0.71
Private placement (Note 10(a)(iii))	3,662,668	232,392	0.24
Warrants expired during year	(11,980,740)	(548,956)	0.80
Balance June 30, 2009	7,370,168	$ 542,690	$ 0.39

i) Each of the original warrants is exercisable for one common share at an exercise price of $0.80 per share until August 18, 2007 and thereafter at $1.00 per share until August 18, 2008. The 1,187,371 warrants were exercisable for one common share at a price of $0.50 per share that expired January 2008.

The fair value of each warrant at the date of issue was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2009	2008
Expected life of warrant	**1.5 years**	**1 - 1.5 years**
Risk-free interest rate	**1.23%**	**3.25% - 3.56%**
Expected stock price volatility	**60%**	**60%**
Expected dividend yield	**0%**	**0%**
Weighted-average fair value of warrants	**$0.06**	**$0.089**

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's warrants.

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10. CAPITAL STOCK *(continued)*

The warrants expire as follows:

Number of warrants	Exercise Price	Expiry date
3,082,500	**0.45**	**December 2009**
625,000	**1.00**	**August 2010**
3,118,668	**0.25**	**August 2010**
544,000	**0.20**	**August 2010**
7,370,168		

c) **Stock Options**

During 2005, the Company adopted a stock option plan. The purpose of the plan is to provide incentives to directors, officers, employees and consultants of the Company. The maximum number of common shares reserved for issuance upon exercise of the options is 10% of issued and outstanding shares. The Board of Directors may designate the recipients of options and determine the number of common shares covered by each option, its exercise price (which may not be less than closing market price of the common shares on the trading day prior to the grant) and its expiry date. The stock option will vest immediately on the date of the grant. The term of the options shall not exceed five years from the date of grant.

The change in stock options issued during the year ended June 30, 2009 are as follows:

	Number of shares	Weighted average exercise price
Options outstanding - June 30, 2007	**2,950,000**	**$ 0.71**
Granted	**1,170,000**	**0.69**
Forfeited/Cancelled	**(600,000)**	**0.82**
Options outstanding - June 30, 2008	**3,520,000**	**0.68**
Granted	**2,200,000**	**0.25**
Forfeited/Cancelled	**(450,000)**	**0.68**
Options outstanding - June 30, 2009	**5,270,000**	**0.50**

The following table summarizes information about stock options outstanding and exercisable at June 30, 2008:

(continues)

10. CAPITAL STOCK *(continued)*

Exercise price	**Options outstanding**	**Options exercisable**	Outstanding options weighted average remaining life (years)	Exercisable options weighted average remaining life (years)
$ 0.68	**1,900,000**	**1,900,000**	0.14	0.14
0.68	**300,000**	**300,000**	0.03	0.03
0.68	**150,000**	**150,000**	0.02	0.02
0.70	**420,000**	**420,000**	0.13	0.13
0.68	**300,000**	**300,000**	0.10	0.10
0.25	**2,200,000**	**2,200,000**	1.13	1.13
$ 0.68	**5,270,000**	**5,270,000**	1.54	1.54

The Company grants all employee stock options with an exercise price equal to or greater than the market value of the underlying common shares on the date of grant. Compensation costs for all grants under the employee stock option plan have been determined by the fair value method. Compensation expense recorded for the year ended June 30, 2009 was $180,235 (2008 - $218,912).

The weighted average fair value of options granted during the year, at the date of grant during the year ended June 30, 2009 was $0.08 (2008 - $0.19).

The fair value of each option at the date of grant was estimated using the Black-Scholes option-pricing model.

	2009	**2008**
Expected life of options	**3 years**	**3 years**
Risk-free interest rate	**1.57%**	**3.05 - 4.20%**
Expected stock price volatility	**60%**	**60%**
Expected dividend yield	**0%**	**0%**

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the company's stock options.

For the year ended June 30, 2009, the value ascribed to unexercised options recorded as a component of shareholders' equity is as follows:

(continues)

10. CAPITAL STOCK *(continued)*

	Number of Shares	Weighted Average Exercise Price	2009	2008
Balance - Beginning of year	**3,520,000**	**$ 0.68**	**$ 907,880**	$ 902,096
Options granted	**2,200,000**	**0.25**	**180,235**	218,912
Options forfeited	**(450,000)**	**0.69**	**(133,094)**	(213,128)
Balance - End of year	**5,270,000**	**$ 0.50**	**$ 955,021**	$ 907,880

d) Contributed Surplus

	June 30, 2009	June 30, 2008
Balance, beginning of year	**$ 1,206,997**	$ 810,750
Options forfeited (Note 10 (c))	**133,094**	213,128
Warrants expired (Note 10 (b))	**592,266**	183,119
Balance, end of year	**$ 1,932,357**	$ 1,206,997

11. INCOME TAXES

A reconciliation of income taxes at the statutory tax rate of **31.25**% (2008 - **33.31**%) with the reported taxes is as follows:

	2009	2008
Loss before income taxes	**$ (871,886)**	$ (827,566)
Expected income tax recovery	**$ (272,464)**	$ (275,662)
Non-deductible expenses	**61,803**	65,877
Share issue costs	**(32,958)**	(201,695)
Tax rate changes	**12,764**	341,550
Non-capital losses expired	**96,439**	106,470
Change in valuation allowance	**(178,929)**	(765,095)
Tax recovered	**$ (313,345)**	$ (728,555)

The significant components of the Company's future income tax assets (liabilities) are as follows:

	2009	2008
Future income tax assets (liabilities):		
Non-capital loss carryforwards	**$ 909,145**	$ 645,116
Other assets	**314,913**	313,519
Other timing differences	**207,922**	290,071
Resource expenditures	**(738,881)**	(372,102)
Net capital losses	**222,076**	217,500
	915,175	1,094,104
Valuation allowance	**(915,175)**	(1,094,104)
Net future income tax assets	**$ -**	$ -

The Company has incurred non-capital losses for income tax purposes of approximately $3,100,000 and net-capital losses of $1,500,000 at June 30, 2009. Unless sufficient taxable income is earned, the non-capital losses will expire in various amounts from 2010 to 2029. Subject to certain restrictions, the Company also has resource expenditures of approximately $17,000,000 available to reduce taxable income in future years. The benefits of these losses and resource expenditures, in excess of any taxable temporary differences, have not been recorded in these financial statements and have been offset by a valuation allowance because it is not more than likely than not that the future tax asset will be realized.

12. BASIC AND DILUTED LOSS PER SHARE

		2009		2008
Net loss for the year	**$**	**(558,541)**	$	(99,011)
Weighted average number of common shares outstanding		**62,232,331**		49,304,588
Basic and diluted loss per share	**$**	**(0.01)**	$	0.00

The determination of the weighted average number of common shares outstanding for the calculation of diluted loss per share does not include the effect of outstanding options and warrants since they are anti-dilutive. If all options and warrants were exercised the weighted average number of common shares outstanding would increase by approximately 12,640,168 shares.

13. CAPITAL MANAGEMENT

The Company has no debt other than accounts payable and accrued liabilities and loan payable and consequently defines capital as all of the components of shareholders' equity. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company's objectives and strategies when managing capital as follows:

a) to safeguard the Company's ability to continue as a going concern,
b) to provide sufficient capital through flow through share issues for exploration and development purposes on the McGarry project. All flow through share proceeds must be spent on qualifying expenditures and by a specific point in time,
c) to raise sufficient non-flow through proceeds from share issues to meet general and administrative expenditures, and
d) to provide an adequate return to shareholders by advancing the McGarry project to production while ensuring it meets the listing requirements of the Toronto Stock Exchange.

The Company has complied with all of its externally imposed capital requirements during 2009 and 2008.

14. FINANCIAL INSTRUMENTS

<u>Fair Value</u>

The carrying amounts of cash, short term investments, accounts receivable and sundry assets, accounts payable and accrued liabilities and callable debt approximate their fair value due to the short-term maturities of these financial instruments.

(continues)

14. FINANCIAL INSTRUMENTS *(continued)*

Commodity Price Risk

The ability of the Company to develop its mining properties and the future profitability of the Company is directly related to the market price of gold.

Credit Risk

Credit risk is the risk that its counter parties to its financial instruments will be unable to pay any amounts owed by the Company. Management's assessment of the Company's risk is low as it is primarily attributable to money market funds held in a Canadian bank, goods and services tax due from the Federal Government of Canada and a deposit held with Ontario Hydro which are included in accounts receivable and sundry assets. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

Interest Rate Risk

The Company has cash balances and some short term interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution. The short term note bears interest at a fixed rate.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company intends on fulfilling its obligations through additional debt and equity financings.

Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a twelve month period.

(i) The Company has a short-term investment as at June 30, 2009 at a fixed interest rate of 0.95% per annum. Therefore, percentage change in interest rates will not have a significant impact on the Company.

15. SEGMENTED INFORMATION

The Company is engaged exclusively in mining exploration activities in Canada.

16. RELATED PARTY TRANSACTIONS

One officer is a partner in the legal firm that provides legal services to the Company and another is a partner in an accounting firm that supplies non-audit services to the Company. The payments made to these firms relating to services provided in the normal course of business at the exchange amount agreed to by the parties during the year ended June 30, 2009 were $161,320 (2008 - $367,935).

During the year, the Company was invoiced by the Chief Executive Officer, who is also a director, for project management and administrative services in the amount of $126,677, the Chief Operating Office, who is also a director, for $12,000 in lieu of relocation expenses and the Chief Financial Officer, for $15,450 consulting services (2008 - $156,000 & $10,050 respectively). At June 30, 2009 $96,716 was owing to directors and related parties (2008 - $44,154).

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

17. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.

18. SUBSEQUENT EVENTS

On July 16, 2009 the Corporation signed an engagement letter with Sandfire Securities Inc. (Sandfire) to complete an equity offering of approximately $2.2 million dollars composed of common shares and flow-through common shares. Sandfire was also engaged to complete a debt facility in the amount of $15 million. On September 28, 2009 the Corporation closed the equity financing for gross proceeds of $1,172,400 by issuing 7,947,749 common shares and 4,808,382 warrants (the warrants include 834,508 broker's warrants). An amount of $895,676 must be spent on qualifying exploration expenditures. There is a further tranche scheduled to close mid October for an additional $350,000. These amounts will be used for further exploration as well as development of the McGarry mine toward production and for general corporate purposes.