ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Financial Statements

Years Ended June 30, 2008 and 2007

KRAFT BERGER LLP CHARTERED ACCOUNTANTS

AUDITORS' REPORT

To the Shareholders of
ARMISTICE RESOURCES CORP.

We have audited the balance sheets of ARMISTICE RESOURCES CORP. as at June 30, 2008 and 2007 and the statements of loss and comprehensive loss and deficit 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 June 30, 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.

Kraft Berger LLP

KRAFT BERGER LLP
Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
August 19, 2008

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Balance Sheets

June 30, 2008 and 2007

	2008	2007
ASSETS		
CURRENT		
Cash	**$ 817,527**	$ 344,227
Short term investments (*Note 4*)	**2,288,000**	3,300,000
Accounts receivable and sundry assets	**218,511**	100,170
Prepaid expenses	**75,701**	-
	3,399,739	3,744,397
MINERAL PROPERTY *(Note 5)*	**16,736,556**	10,681,506
PLANT AND EQUIPMENT *(Note 7)*	**32,425**	34,917
	$ 20,168,720	$ 14,460,820
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT		
Accounts payable and accrued liabilities	**$ 1,130,325**	$ 742,540
MINE CLOSURE PROVISION *(Note 6)*	**199,113**	184,365
	1,329,438	926,905
COMMITMENTS AND CONTINGENCIES *(Note 12)*		
SUBSEQUENT EVENTS *(Note 16)*		
SHAREHOLDERS' EQUITY *(Note 8)*		
Capital stock	**46,385,982**	41,791,243
Contributed surplus	**1,206,997**	810,750
Stock options	**907,880**	902,096
Warrants	**859,254**	451,646
Deficit	**(30,520,831)**	(30,421,820)
	18,839,282	13,533,915
	$ 20,168,720	$ 14,460,820

ON BEHALF OF THE BOARD

"Todd Morgan" *Director*

"Greg Smith" *Director*

See accompanying notes.

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Statements of Loss and Comprehensive Loss and Deficit

Years Ended June 30, 2008 and 2007

	2008	2007
EXPENSES		
Accounting and audit fees	**$ 91,553**	$ 61,938
Amortization of plant and equipment	**6,118**	8,010
Consulting fees	**166,050**	138,988
Interest and bank charges	**15,991**	18,363
Legal fees	**65,570**	136,764
Office	**190,331**	138,278
Repairs and maintenance	**32,602**	5,920
Shareholder relations	**67,748**	89,988
Stock option compensation *(Note 8)*	**218,912**	938,096
Tax on unspent flow-through funds	**65,745**	90,293
Accretion expense	**14,748**	13,657
	935,368	1,640,295
LOSS BEFORE UNDERNOTED	**(935,368)**	(1,640,295)
INTEREST INCOME	**107,802**	165,666
LOSS BEFORE INCOME TAXES	**(827,566)**	(1,474,629)
FUTURE INCOME TAXES RECOVERED *(Note 9)*	**(728,555)**	(1,320,743)
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**(99,011)**	(153,886)
DEFICIT - beginning of year	**(30,421,820)**	(30,267,934)
DEFICIT - end of year	**$ (30,520,831)**	$ (30,421,820)
BASIC AND DILUTED LOSS PER SHARE *(Note 10)*	**$ 0.00**	$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING *(Note 10)*	**49,304,588**	**45,049,586**

See accompanying notes.

ARMISTICE RESOURCES CORP.

(A Development Stage Enterprise)

Statements of Cash Flow

Years Ended June 30, 2008 and 2007

	2008	2007
OPERATING ACTIVITIES		
Net loss for the year	**$ (99,011)**	$ (153,886)
Items not affecting cash:		
Amortization of plant and equipment	**6,118**	8,010
Future income taxes	**(728,555)**	(1,320,743)
Stock option compensation	**218,912**	938,096
Accretion expense	**14,748**	13,657
	(587,788)	(514,866)
Changes in non-cash working capital:		
Accounts receivable and sundry assets	**(118,341)**	(70,869)
Prepaid expenses	**(75,701)**	-
Accounts payable and accrued liabilities	**387,785**	(683,593)
	193,743	(754,462)
Cash flow used by operating activities	**(394,045)**	(1,269,328)
INVESTING ACTIVITIES		
Investment in mineral property	**(6,055,050)**	(1,250,154)
Purchase of equipment	**(3,626)**	(5,942)
Change in restricted investment	**1,831,996**	(2,421,096)
Cash flow used by investing activities	**(4,226,680)**	(3,677,192)
FINANCING ACTIVITIES		
Note payable	**-**	(150,000)
Proceeds from issuance of capital stock	**6,558,530**	6,812,251
Exercise of warrants	**-**	10,000
Share issue costs	**(644,509)**	(605,509)
Cash flow from financing activities	**5,914,021**	6,066,742
INCREASE IN CASH FLOW	**1,293,296**	1,120,222
Cash - beginning of year	**1,223,131**	102,909
CASH - END OF YEAR	**$ 2,516,427**	$ 1,223,131
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	**$ 817,527**	$ 344,227
Short term investments *(Note 4)*	**1,698,900**	878,904
	$ 2,516,427	$ 1,223,131

See accompanying notes.

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 Accounts Handbook Accounting Guideline number 11.

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. 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

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.

(continues)

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.

On a quarterly basis, the Company reviews the carrying values of deferred mineral property acquisition and exploration expenditures to assess whether there has been an impairment in value. The Company recognizes write-downs for impairment where the carrying value of the mineral property exceeds its estimated long term net recoverable value. Recoverable value is estimated based upon current exploration results, project economics and management's assessment of future probability of positive cash flows from the property or from its ultimate disposition.

Mine Closure Provision

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.

(continues)

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

Plant and Equipment

Plant and Equipment are recorded at cost. 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 income up 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 8 (c)). The Company accounts for all stock-based payments 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.

Earnings Per Common Share

Basic earnings per common share are calculated using the weighted-average number of common shares outstanding during the year. Diluted earnings 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.

(continues)

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.

Government Assistance

Government assistance received or receivable in respect of mineral properties and deferred costs is reflected as a reduction of the cost of the property and the related deferred exploration costs when the related qualifying expenditures are incurred.

Accounting Changes

Handbook Section 1506, Accounting Changes permit voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, require changes in accounting policy to be applied retrospectively unless doing so is impracticable, require prior period errors to be corrected retrospectively and require enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective (see Recent Accounting Pronouncements Issued and Not Yet Applied).

Financial Instruments, Comprehensive Income (Loss), Hedges and Capital Disclosures

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments - Recognition and Measurement", 1530, "Comprehensive Income", 3251, "Equity" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective July 1, 2007.

a) Financial instruments - recognition and measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and

(continues)

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

- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

b) Comprehensive income (loss)

Section 1530 "Comprehensive Income", along with section 3251 "Equity" which amends section 3250, "Surplus", introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

c) Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

d) 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 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.

e) Impact Upon Adoption of Sections 1530, 1535, 3251, 3855, 3862, 3863 and 3865

All of these sections have been adopted prospectively as the change in accounting policies are due to the initial application of a primary source of generally accepted accounting principles and in accordance with the specific transitional provisionals.

(continues)

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

Under the new standards all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available for sale financial assets, or other financial liabilities. All financial instruments, except other financial liabilities which are measured at cost, are included on the Statement of Financial Position and are initially measured at fair value. Loans and receivables, held-to-maturity investments and other financial liabilities are subsequently measured at amortized cost. Held for trading financial instruments are subsequently measured at fair value, and all gains and losses are included in net income in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income until the instrument is derecognized or impaired. Other financial liabilities are initially measured at cost or at amortized cost depending on the nature of the instrument. As a result of adoption of these standards, the Company has classified its cash and cash equivalents as held for trading. Short term investments are classified as held for trading. Accounts receivable and sundry assets are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The Company has evaluated the impact of the adoption of Sections 1530, 3251, 3855, 3862, 3863 and 3865 on its audited annual financial statements and determined that no adjustments are currently required.

Section 1535 has resulted in additional disclosures as outlined in Note 11.

Recent Accounting Pronouncements Issued and Not Yet Applied

i) 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, 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) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011, when IFRS will be fully adopted. The impact of the transition to IFRS on the Company's financial statments is not yet determinable.

iii) CICA Handbook Section 1400, General Standards of Financial Statement Presentation, is the new standard that clarifies what constitutes fair presentation in accordance with Canadian generally accepted accounting standards, going concern assessment and disclosures and comparative information disclosures. This new standard is effective for interim and annual financial statements beginning on July 1, 2008. This standard is expected to affect the Company's disclosures but is not expected to have a significant impact on the Company's financial position or results.

4. SHORT TERM INVESTMENTS

The short term investments represent bankers acceptances bearing interest at 2.87% per annum maturing monthly. The Company has investments totaling $2,288,000 of which an amount of $589,100 is restricted to be spent on qualifying Canadian exploration expenses (Note 12).

Short term investments are as follows:

	2008	2007
Investments	**$ 1,698,900**	$ 878,904
Restricted Investments	**589,100**	2,421,096
	$ 2,288,000	$ 3,300,000

5. MINERAL PROPERTY

	2008	2007
Exploration and development expenditures:		
Balance, beginning of year	**$ 16,364,493**	$ 15,036,720
Diamond drilling	**1,081,148**	343,151
Bulk sampling	**4,339,032**	714,190
Technical services	**500,288**	23,655
Environmental	**42,327**	76,069
Present value of mine closure costs	**-**	170,708
Balance, end of year	**22,327,288**	16,364,493
Property acquisition costs:		
Balance, beginning of year	**6,067,013**	5,973,924
Royalty payments	**92,255**	93,089
	$ 6,159,268	$ 6,067,013
Write-down of deferred expenditures (2000 fiscal year)	**$ (11,750,000)**	$ (11,750,000)
Total mineral property, end of year	**$ 16,736,556**	$ 10,681,506

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 12(a). This results in complete control by the Company including 100% of any proceeds of production subject to only the royalty interest.

6. MINE CLOSURE PROVISION

The Company's asset retirement obligation relates to the dismantling of the Armistice Mine in the Township of McGarry. The estimate of future site removal and restoration costs 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.

	2008	2007
Balance, beginning of year	**$ 184,365**	$ -
Accretion expense for the year	**14,748**	13,657
Measurement of mine closure provision	**-**	170,708
Balance, end of year	**$ 199,113**	$ 184,365

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 12;
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 2006 to 2021 was determined to be 2% per annum.

7. PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2008 Net book value**	2007 Net book value
Buildings	$ 35,000	$ 13,779	**$ 21,221**	$ 22,105
Motor vehicles	20,520	14,424	**6,096**	8,709
Computer equipment	28,643	23,535	**5,108**	4,103
	$ 84,163	$ 51,738	**$ 32,425**	$ 34,917

8. CAPITAL STOCK

a) i) <u>Authorized</u>

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

(continues)

8. CAPITAL STOCK *(continued)*

ii) Issued

	Number of Shares	Amount
Balance, June 30, 2006	34,626,092	$ 36,991,990
Private placement (Note 8(a)(iii))	11,777,306	6,812,250
Settlement of debt owing (Note 8(a)(iv))	200,000	86,000
Warrants exercised	12,500	10,000
Black Scholes value of warrants exercised	-	373
	46,615,898	43,900,613
Fair value of warrants issued to brokers	-	(183,119)
Share issuance costs	-	(605,508)
Tax benefits renounced to flow-through subscribers	-	(1,320,743)
Balance, June 30, 2007	46,615,898	$ 41,791,243
Private placements (Note 8(a)(vi)	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

iii) On August 14, 2006, the Company closed a private placement raising gross proceeds of $6,812,250 through the sale of 5,620,000 common shares at $0.50 per share and 6,157,306 flow-through common shares at $0.65 per share. The share issue costs consist of related legal and accounting expenses, as well as a 7% broker's commission plus 1,187,730 broker's warrants entitling the holder to reacquire one common share at a price of $0.50 per share. These warrants expired in January 2008.

iv) Also, on August 14, 2006, a payable to the Chief Executive Officer in the amount of $50,000 was settled by the issuance of 100,000 common shares which were in addition to the above mentioned. On May 24, 2007, another obligation was settled by the issuance of 100,000 common shares valued at $0.36 per share.

v) On August 16, 2006 the Company received final approval for the listing of its common shares on the Toronto Stock Exchange (the "TSX"). The Company's shares began trading on the TSX market open on Friday, August 18, 2006 under the trading symbol "AZ".

(continues)

8. CAPITAL STOCK *(continued)*

vi) 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 corporation (the "Units") at $0.65 per Unit and 2,988,944 flow-through units of the Corporation (the "FT Units") at $0.75 per FT Unit. Each Unit is comprised of one common share of the Corporation (a "Common Share") and one half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each FT Unit is comprised of one Common Share issued on a flow-through basis and one-half of one Warrant. Each Warrant will be exercisable into one Common share at an exercise price of $1.00 per Common Share expiring in June 2009. The Warrant should be 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 $1.15 for 30 consecutive trading days. The financing costs consist 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.

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 corporation (the "Units") at $0.35 per Unit and 2,701,250 flow-through shares of the Corporation (the "FT Shares") at $0.40 per FT Share. Each Unit is comprised of one common share of the Corporation (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 Warrant should be 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 broker's warrants entitling the holder to acquire one common share at a price of $0.35 per share expiring in June 2009.

b) Warrants

	Number of Warrants	Amount	Weighted Average Exercise Price
Balance, June 30, 2006 (i)	9,000,000	$ 268,900	$ 0.80
Private placement	1,187,731	183,119	0.50
Warrants exercised	(12,500)	(373)	0.80
Balance June 30, 2007	10,175,231	$ 451,646	$ 0.76
Private placement	2,788,972	213,150	0.95
Private placement	3,911,768	377,576	0.43
Brokers warrants expired January 2008	(1,187,731)	(183,119)	0.50
Balance June 30, 2008	15,688,240	$ 859,253	$ 0.71

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 1,187,730 brokers warrants were exercisable for one common share at a price of $0.50 per share that expired January 2008.

(continues)

8. CAPITAL STOCK *(continued)*

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

	2008	2007
Expected life of warrant	1 - 1.5 years	1 - 1.5 years
Risk-free interest rate	3.25% - 3.56%	3.22% - 4.04%
Expected stock price volatility	60%	60% - 70%
Expected dividend yield	0%	0%
Weighted-average fair value of warrants	$0.089	$0.008 - $0.15

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.

The warrants expire as follows:

Number of warrants	Exercise Price	Expiry date
8,987,500	1.00	August 2008
2,324,143	1.00	June 2009
464,829	0.70	June 2009
829,268	0.35	June 2009
3,082,500	0.45	December 2009
15,688,240		

c) **Stock Options**

During 2005, the Company adopted a new 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%. 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, 2008 are as follows:

	Number of shares	Weighted average exercise price
Options outstanding - June 30, 2006	-	$ -
Granted	2,950,000	0.68
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

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

(continues)

8. 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	**2,200,000**	**2,200,000**	1.37	1.37
0.68	**300,000**	**300,000**	1.51	1.51
0.68	**150,000**	**150,000**	1.37	1.37
0.70	**570,000**	**570,000**	2.53	2.53
0.68	**300,000**	**300,000**	2.68	2.68
$ 0.68	**3,520,000**	**3,520,000**	-	-

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, 2008 was $218,912 (2007 - $938,096).

The weighted average fair value of options granted during the year, at the date of grant during the year ended June 30, 2008 was $0.19 (2007 - $0.32).

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

	2008	**2007**
Expected life of options	**3 years**	**3 years**
Risk-free interest rate	**3.05 - 4.20%**	**3.95%**
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, 2008, the value ascribed to unexercised options recorded as a component of shareholders' equity is as follows:

	JUNE 30 2008	**JUNE 30 2007**
Balance - Beginning of year	**$ 902,096**	**$ -**
Options granted	**218,912**	**902,096**
Options forfeited	**(213,128)**	**-**
Balance - End of year	**$ 907,880**	**$ 902,096**

(continues)

8. CAPITAL STOCK *(continued)*

d) Contributed Surplus

	June 30 2008	June 30 2007
Balance, beginning of year	$ 810,750	$ 810,750
Options forfeited (Note 8 (c))	213,128	-
Brokers warrants expired (Note 8 (b))	183,119	-
Balance, end of year	$ 1,206,997	$ 810,750

9. INCOME TAXES

A reconciliation of income taxes at the statutory tax rate of 33.31% (2007 - 33%) with the reported taxes is as follows:

	2008	2007
Loss before income taxes	$ (827,566)	$ (1,474,629)
Expected income tax recovery	$ (275,662)	$ (486,628)
Stock-based compensation not deductible for tax purposes	72,920	309,572
Impact of future changes in enacted tax rates	202,742	177,056
Benefit of tax assets not previously recognized	(728,555)	(1,320,743)
Future income tax recovery	$ (728,555)	$ (1,320,743)

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

	2008	2007
Future income tax assets (liabilities):		
Non-capital loss carryforwards	$ 645,116	$ 606,700
Other assets	313,519	354,744
Other timing differences	290,071	176,308
Resource expenditures	(372,102)	1,115,335
Net capital losses	217,500	252,707
	1,094,104	2,505,794
Valuation allowance	(1,094,104)	(2,505,794)
Net future income tax assets	$ -	$ -

The Company has incurred non-capital losses for income tax purposes of approximately $2,200,000 and net-capital losses of $1,500,000 at June 30, 2008. Unless sufficient taxable income is earned, the non-capital losses will expire in various amounts from 2009 to 2028. Subject to certain restrictions, the Company also has resource expenditures of approximately $15,000,000 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.

10. BASIC AND DILUTED LOSS PER SHARE

	2008	2007
Net loss for the year	$ (99,011)	$ (153,886)
Weighted average number of common shares outstanding	49,304,588	45,049,586
Basic and diluted loss per share	$ 0.00	$ 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.

11. CAPITAL MANAGEMENT

The Company has no debt other than accounts payable and accrued liabilities 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 are unchanged from the previous years 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 2008 and 2007.

12. 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, 2008, the Company was committed to spend $589,100 (Note 4) on future Canadian exploration expenditures (2007 - $2,421,096).

c) The Company had a letter of credit outstanding at year end in the amount of $410,400 (2007 - $365,700).

13. FINANCIAL INSTRUMENTS

Fair Value

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

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 a client or vendor will be unable to pay or receive any amounts owed or owing 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 no 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.

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.

(continues)

13. FINANCIAL INSTRUMENTS *(continued)*

Sensitivity Analysis

The Company has designated its cash and short-term investments as held-for-trading, which are measured at fair value. Financial instruments included in amounts receivable are classified as accounts receivable, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same.

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, 2008 at a fixed interest rate of 2.87% per annum. Therefore, percentage change in interest rates will not have a significant impact on the Company.

(ii) The Company does not hold foreign currencies to give rise to exposure to foreign exchange risk. Therefore a percentage change in certain foreign exchange rates will not have a significant impact on the Company.

14. SEGMENTED INFORMATION

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

15. RELATED PARTY TRANSACTIONS

One officer is a partner in a legal firm that provides legal services to the Company and another officer is a partner in an accounting firm that supplies non-audit services to the company. The payments made to these firms during the year ended June 30, 2008 totalled $367,935 (2007 - $234,082). Included in accounts payable as at June 30, 2008 is $119,931 (2007 - $104,246) owing to these firms.

During the year, the Company paid the Chief Executive Officer, who is also a director, for management and administrative services in the amount of $156,000 (2007 - $138,988). Included in accounts payable as at June 30, 2008 is $44,154 owing to the Chief Executive Officer.

On August 14, 2006 a payable to the Chief Executive Officer in the amount of $50,000 was settled by the issuance of 100,000 shares.

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.

16. SUBSEQUENT EVENTS

Of the remaining 8,987,500 warrants outlined in Note 8 (b), 8,362,500 expired on August 18, 2008 and the remaining 625,000 were extended to August 18, 2010 on the same terms and conditions.

17. COMPARATIVE FIGURES

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