# INLET RESOURCES LTD.

## INTERIM FINANCIAL STATEMENTS

**June 30, 2009**
**(Expressed in Canadian Dollars)**

***(Unaudited)***

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by
the Canadian Securities Administrators, the Company discloses
that its auditors have not reviewed the unaudited financial statement
for the period ended June 30, 2009

# NOTICE TO READER

The interim balance sheet as at June 30, 2009 and the interim statements of operations and comprehensive loss, and the interim statements of cash flows for the six-month period then ended are the responsibility of the Company's management.

These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Morgan & Company.

The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian Generally Accepted Accounting Principles.

***/s/ David Baker***
David Baker, Director
Vancouver, BC Canada
August 31, 2009

***/s/ Earl Terris***
Earl Terris, Director
Vancouver, BC Canada
August 31, 2009

# INLET RESOURCES LTD.

## INTERIM BALANCE SHEETS
**(Expressed in Canadian Dollars)**

| | June 30, 2009 (Unaudited) | December 31, 2008 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | **$ 1,587,194** | $ 1,441,693 |
| Amounts receivable | **3,585** | 29,011 |
| Prepaid expenses | **15,052** | 13,257 |
| Marketable securities (Note 3) | **373,600** | 162,200 |
| | **1,979,431** | 1,646,161 |
| **Equipment** (Note 4) | **4,285** | 5,525 |
| **Mineral Property** (Note 5) | **138,216** | 138,216 |
| | **$ 2,121,932** | $ 1,789,902 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 9,509** | $ 33,046 |
| **SHAREHOLDERS' EQUITY** | | |
| **Share Capital** (Note 6) | **15,928,450** | 15,668,450 |
| **Contributed Surplus** | **373,450** | 373,450 |
| **Accumulated other comprehensive income (loss)** | **85,760** | (125,640) |
| **Deficit** | **(14,275,237)** | (14,159,404) |
| | **2,112,423** | 1,756,856 |
| | **$ 2,121,932** | $ 1,789,902 |

Approved on Behalf of the Board of Directors:

"David Baker"
Director

"Earl Terris"
Director

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

# INLET RESOURCES LTD.

## INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

**(Expressed in Canadian Dollars)**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Expenses** | | | | |
| Accounting fees | **$ 4,112** | $ 24,125 | **$ 6,737** | $ 26,750 |
| Amortization | **620** | 620 | **1,240** | 1,240 |
| Consulting and administration fees | **15,000** | 20,962 | **35,963** | 41,925 |
| Interest and bank charges | **108** | 135 | **220** | 244 |
| Legal fees | **1,683** | - | **4,673** | - |
| Management fees | **12,000** | 12,000 | **24,000** | 24,000 |
| Rent, telephone, office expenses | **12,540** | 18,070 | **26,601** | 33,166 |
| Shareholders' communication | **589** | 3,104 | **3,711** | 6,215 |
| Transfer agent and filing fees | **4,257** | 3,703 | **12,688** | 11,356 |
| **Loss Before Other Items** | **(50,909)** | (82,719) | **(115,833)** | (144,896) |
| **Other Items** | | | | |
| Interest income | **-** | 3,327 | **-** | 8,592 |
| **Net Loss For The Period** | **(50,909)** | (79,392) | **(115,833)** | (136,304) |
| **Other Comprehensive Loss (Income)** (Note 3) | | | | |
| Net unrealized (loss) gain arising on available for sale investments during the year | **147,000** | (183,600) | **211,400** | (393,800) |
| **Comprehensive (Loss) Income For The Period** | **96,091** | (262,992) | **95,567** | (530,104) |
| **Loss Per Share, Basic and Diluted** | | | **$ (0.01)** | $ (0.02) |
| **Weighted Average Common Shares Outstanding** | | | **15,361,323** | 8,723,589 |

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

# INLET RESOURCES LTD.

## INTERIM STATEMENTS OF CASH FLOWS
**(Expressed in Canadian Dollars)**

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| **Cash Flows Provided By (Used In):** | | | | |
| **Operating Activities** | | | | |
| Net loss for the period | **$ (50,909)** | $ (79,392) | **$ (115,833)** | $ (136,304) |
| Items not involving cash: | | | | |
| Amortization | **620** | 620 | **1,240** | 1,240 |
| | **(50,289)** | (78,772) | **(114,593)** | (135,064) |
| Net changes in non-cash working capital items: | | | | |
| Accounts receivable | **(90)** | (32,924) | **25,426** | (36,163) |
| Prepaid expenses | **(243)** | 12,693 | **(1,795)** | 13,127 |
| Accounts payable and accrued liabilities | **(12,254)** | 6,943 | **(23,537)** | (750) |
| | **(62,876)** | (92,060) | **(114,499)** | (158,850) |
| **Investing Activities** | | | | |
| Deferred expenses | **-** | - | **-** | (5,000) |
| **Financing Activity** | | | | |
| Issue of share capital | **20,000** | 722,470 | **260,000** | 891,470 |
| **Increase (Decrease) In Cash And Cash Equivalents** | **(42,876)** | 630,410 | **145,501** | 727,620 |
| **Cash And Cash Equivalents, Beginning Of Period** | **1,630,070** | 976,801 | **1,441,693** | 879,591 |
| **Cash And Cash Equivalents, End Of Period** | **$ 1,587,194** | $ 1,607,211 | **$ 1,587,194** | $ 1,607,211 |

| | | | |
|---|---|---|---|
| **Supplemental Cash Flow Information** | | | |
| Cash paid for income taxes | **$** | **-** | $ - |
| Cash paid for interest | **$** | **-** | $ - |

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

# INLET RESOURCES LTD.

## INTERIM STATEMENTS OF SHAREHOLDERS' EQUITY

### June 30, 2009

| | SHARE CAPITAL | | | ACCUMULATED OTHER | | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | CONTRIBUTED SURPLUS | COMPREHENSIVE INCOME (LOSS) | DEFICIT | TOTAL |
| Balance, December 31, 2007 (restated, Note 2(q)) | 8,151,817 | $ 14,691,855 | $ 458,575 | $ 500,760 | $ (13,878,010) | $ 1,773,180 |
| Exercise of warrants | 3,315,000 | 803,750 | - | - | - | 803,750 |
| Exercise of options | 365,500 | 87,720 | - | | | 87,720 |
| Value associated with options exercised | | 85,125 | (85,125) | | | - |
| Revaluation of marketable securities to market value at December 31, 2008 | - | - | - | (626,400) | - | (626,400) |
| Net loss for the year | - | - | - | - | (281,394) | (281,394) |
| Balance, December 31, 2008 (restated, Note 2(q)) | 11,832,317 | 15,668,450 | 373,450 | (125,640) | (14,159,404) | 1,756,856 |
| Private placement at $0.06/share | 4,000,000 | 240,000 | | | | 240,000 |
| Exercise of warrants | 100,000 | 20,000 | | | | 20,000 |
| Revaluation of marketable securities to market value at June 30, 2009 | - | - | - | 211,400 | - | 211,400 |
| Net loss for the period | - | - | - | - | (115,833) | (115,833) |
| **Balance, June 30, 2009** | **15,932,317** | **$ 15,928,450** | **$ 373,450** | **$ 85,760** | **$ (14,275,237)** | **$ 2,112,423** |

### 1. NATURE OF OPERATIONS AND GOING CONCERN

Inlet Resources Ltd. ("the Company") carries out its business activities exclusively in Canada, and is engaged in the acquisition, exploration, development and subsequent production relating to mineral properties. The Company is incorporated in British Columbia, Canada.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters cannot be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

During the six months ended June 30, 2009, the Company incurred a net loss of $115,833 ($136,304 for the six months ended June 30, 2008) and has an accumulated deficit of $14,275,237 ($14,159,404 as at December 31, 2008). The Company is in the process of acquiring, exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production. The operations of the Company have primarily been funded by the issuance of common shares. Continued operations of the Company are dependent on the Company's ability to complete equity financing or generate profitable operations in the future. Management's plan in this regard is to secure additional funds through future equity financings, which may be unavailable or unavailable on reasonable terms.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

Cash consists of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing purposes. The Company did not have cash equivalents as of June 30, 2009 and December 31, 2008.

b) Marketable Securities

The Company classifies its marketable securities as "available for sale" and records the marketable securities at their fair values.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Equipment

Equipment and furniture are carried at cost and are amortized over their estimated useful lives of five years on a straight-line basis.

d) Mineral Property Interests and Deferred Exploration Costs

*Costs and Amortization*

Mineral properties, including options to mineral claims, are stated at cost. The recorded cost of mineral properties and exploration and development interests is based on cash paid and the value, if any, of share considerations given for mineral properties and exploration and development costs incurred.

All direct and indirect costs relating to the acquisition of mineral properties are capitalized until the properties to which they relate are placed into production, sold or when management has determined that there is an impairment in the carrying values of those mineral properties.

The Company defers expenditures directly attributable to the exploration of mineral properties, pending a decision as to the commercial viability of a property. When the Company loses or abandons title on its interest in the property, the accumulated expenditures on such property are charged to operations. If any property reaches commercial production, the applicable costs of the mineral property and the deferred exploration and development expenditures will be amortized against related production revenues on the unit of production method, based on the property's estimated reserves.

*Values*

Based on the information available to date, the Company has not yet determined whether the mineral property it is exploring contains economically recoverable reserves. The recoverability of the amounts capitalized as mineral property and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete its exploration and development program and upon future profitable production.

The amounts shown for mineral properties and deferred exploration expenses represent costs incurred to date, and do not necessarily represent present or future values as they are entirely dependent upon various factors as noted above.

*Cost of Maintaining Mineral Properties*

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

e) Property Option Agreements

The Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded; option payments are recorded as resource property costs or recoveries when the payments are made or received.

f) Environmental Issues

The Company is not aware of any environmental studies made and of any present or past obligations.

The operations of the company may in the future be affected from time to time to varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the company vary greatly and are not predictable. The company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

g) Long-Lived Assets Impairment

Long-lived assets are reviewed whenever events or changes in circumstances indicate that carrying value of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted future cash flow expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value. Fair value is generally determined using a discounted cash flow analysis.

h) Asset Retirement Obligations

The Company follows CICA Handbook Section 3110 – "Asset Retirement Obligations". Under this standard, future obligations to retire an asset including dismantling, remediation and ongoing treatment and monitoring of the site are initially recognized and recorded as a liability at fair value, assuming a credit adjusted risk-free discount rate and an inflation factor. The liability is adjusted for changes in the expected amounts and timing of cash flows required to discharge the liability and accreted to full value over time through periodic charges to earnings. The amount of the asset retirement liability initially recognized is capitalized as part of the asset's carrying value and amortized over the asset's estimated useful life.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Asset Retirement Obligations (Continued)

Under the standard, future asset retirement obligations are only recorded when the timing or amount of remediation costs can be reasonably estimated.

i) Stock Option Plan

The Company grants stock options under a fixed stock option plan in accordance with the TSX Venture Exchange policies. Canadian generally accepted accounting principles require the fair value of all share purchase options to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

j) Fair Value of Warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued. Warrants issued to brokers are evaluated using the Black-Scholes method.

k) 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Significant areas where management's judgment is applied include asset and investment valuations, equipment lives, contingent liabilities, tax provisions and future income tax balances, asset retirement obligations and other accrued liabilities. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from these estimates.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

l) Income Taxes

Income taxes are recorded using the liability method of tax allocation. Future income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax values, using the enacted or substantively enacted, as applicable, income tax rates at each balance sheet date. Future income tax assets also result from unused loss carry-forwards and other deductions. The recognition of future income tax assets is limited to the amount that is more likely than not to be realized.

m) Loss Per Common Share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the stock options and warrants that are used to purchase common shares at the average market price during the period. During the six months ended June 30, 2009, all of the outstanding stock options and warrants were anti-dilutive.

n) Foreign Currency

Transactions denominated in foreign currencies are translated into Canadian dollars, using the temporal method. A summary of this method is as follows:

- Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;
- Non-monetary assets and liabilities are translated at the rate prevailing when the transaction occurred;
- Revenue, general and administration expenses, and gains and losses are translated at the average exchange rate in effect during the period;
- Exchange gains or losses from conversion are included in the current statement of loss;
- Depreciation or amortization of assets translated at historical exchange rates are translated at the same exchange rates as the assets to which they relate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Flow-Through Financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to share capital and the related exploration costs have been charged to mineral property deferred exploration costs. When transferring the tax deductibility of exploration expenditures to the investor (renunciation), future income tax recovery income has been recognized and share capital has been reduced accordingly.

p) Recent Accounting Pronouncements:

The following accounting pronouncements are applicable to annual and interim periods beginning on or after January 1, 2008. There was no material impact on the Company's financial condition or operating results as a result of the adoption of these new standards.

i. CICA Section 1506, Accounting Changes, establishes criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. The disclosure is to include, on an interim and annual basis, a description and the impact on the Company on any new primary source of GAAP that has been issued but is not yet effective.

ii. CICA Section 1535, Capital Disclosures, requires that a company disclose information that enables users of its financial statements to evaluate its objectives, policies and procedures for managing capital including disclosures of any externally imposed capital requirements and the consequences for non-compliance.

iii. CICA Section 3862, Financial Instruments – Disclosure, which requires disclosure of information related to the significance of financial instruments to a company's financial position and performance. A company is also required to disclose information related to the risks of its use of financial instruments and how those risks are managed.

iv. CICA 3863, Financial Instruments – Presentation, which establishes standards for presentation of financial instruments. It deals with the presentation of financial instruments and the circumstances in which financial assets and financial liabilities are offset.

**(Expressed in Canadian Dollars)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

q) EIC-172 and Restatement of Prior Periods

On August 28, 2008, the Emerging Issues Committee ("EIC") issued EIC-172, "Income Statement Presentation of a Tax Loss Carry-Forward Recognized following an Unrealized Gain Recorded in Other Comprehensive Income", wherein it recommended the recognition in net income of the tax benefit arising from the recognition of income tax loss carry-forwards consequent to the recording of unrealized gains on available-for-sale financial assets in other comprehensive income. The abstract requires retrospective accounting for prior periods so affected. As such, the Company restated the net loss, deficit, and related components of other comprehensive income for 2007 to reflect the recognition of the benefit of the application as follows:

| | For the year ended December 31, 2007 | |
|---|---|---|
| | Restated | Previously Reported |
| Net loss for the year | $ (200,084) | $ (236,592) |
| Deficit | (13,878,009) | (13,981,011) |
| Accumulated other comprehensive income | | |
| Adjustment to opening balance | 323,268 | 389,761 |
| Closing balance | 500,759 | 603,761 |
| Unrealized gain on available-for-sale investments | 177,492 | 214,000 |
| Loss per share | (0.03) | (0.04) |

As a result of the restatement of the 2007 deficit and accumulated other comprehensive income balances, the 2008 balances are restated accordingly as follows:

| | For the year ended December 31, 2008 | |
|---|---|---|
| | Restated | Previously Reported |
| Deficit | $ (14,159,404) | (14,262,405) |
| Accumulated other comprehensive income | (125,640) | (22,639) |

**(Expressed in Canadian Dollars)**

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

r) Future Accounting Pronouncements:

i. The CICA issued Section 1601 Consolidated Financial Statements. This new Section will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of financial statements. The Company has not yet determined the impact of the adoption of this new section on the financial statements.

ii. Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed a preliminary analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. The impact on the Company's financial statements has not yet been determined.

## 3. MARKETABLE SECURITIES

| | **June 30, 2009** | Dec. 31, 2008 |
|---|---|---|
| Goldbrook Ventures Inc. (a related company) – 3,160,000 common shares (quoted at market value) (cost at $169,839) | **$ 363,400** | $ 158,000 |
| RPT Uranium Corp. – 60,000 common shares (quoted at market value) (cost at $15,000) | **10,200** | 4,200 |
| | **$ 373,600** | $ 162,200 |

As at June 30, 2009, the Company had available for sale securities including 3,160,000 common share of Goldbrook Ventures Inc.("Goldbrook"), a public company related by virtue of common directors and a common officer, and 60,000 common shares of RPT Uranium Corp. (formerly Rampart Ventures Ltd.).

Pursuant to the new financial instrument standards (CICA Section 3855 and Section 1530), the Company classifies its marketable securities as "available for sale" and records the marketable securities at their fair values. The fair values are determined by using the close market prices of the last day of the period. At the same time, the unrealized gain or loss from change of fair value of the marketable securities are recognized as "other comprehensive income".

**(Expressed in Canadian Dollars)**

## 3. MARKETABLE SECURITIES (Continued)

The Company is exposed to liquidity risk which is the risk that the Company will encounter difficulty in selling all of these common shares at an amount at least equivalent to its cost.

## 4. EQUIPMENT

| | **June 30, 2009** | | |
|---|---|---|---|
| | **COST** | **ACCUMULATED AMORTIZATION** | **NET BOOK VALUE** |
| Furniture | **$ 12,406** | **$ 8,121** | **$ 4,285** |

| | December 31, 2008 | | |
|---|---|---|---|
| | COST | ACCUMULATED AMORTIZATION | NET BOOK VALUE |
| Furniture | $ 12,406 | $ 6,881 | $ 5,525 |

## 5. MINERAL PROPERTIES

Costs incurred to date include:

| | **June 30, 2009** | December 31, 2008 |
|---|---|---|
| Claims and maintenance | **$ 28,178** | $ 28,178 |
| Drilling | **46,940** | 46,940 |
| Equipment rental | **9,421** | 9,421 |
| Geological consulting fees | **22,851** | 22,851 |
| Reports | **1,921** | 1,921 |
| Supplies and sampling | **13,855** | 13,855 |
| Travel, accommodation, food and contractor services | **15,050** | 15,050 |
| | **$ 138,216** | $ 138,216 |

Broken Hill-Leo Property

On September 26, 2006, the Company entered into an option agreement with Timer Explorations Inc. ("Timer", name changed to Potash North Resource Corp. since May 2008), a company related by common directors, to acquire a 50% interest in the Broken Hill-Leo property which comprises 56 mineral claims (133 claim units), located approximately 150 kilometers north-east of Kamloops, British Columbia.

## 5. MINERAL PROPERTIES (Continued)

Broken Hill-Leo Property (Continued)

Under the terms of the Option Agreement, the Company must complete an initial $50,000 work program prior to December 31, 2006 (incurred $49,938 as at December 31, 2006) and a further $150,000 work program by August 31, 2007 to earn the 50% interest in the claims.

The Company had not completed the required expenditures as at August 31, 2007 and Timer received a notice of Default of Agreement on September 6, 2007. On October 9, 2007, the Company received an Amended Notice of Default that extends the default period to December 31, 2007, and the Company made a $15,000 deposit to the optionor pursuant to the Amended Notice of Default.

In January and March 2008, the Company made a $5,000 payment to the optionor to extend the default period.

On April 23, 2008, Timer signed an Amended Option that requires Timer to complete a $125,000 work program on the property by November 2, 2008 in order to keep the option in good standing and to make advance royalty payments of $5,000 each subsequent year to the optionor until $100,000 has been paid.

On April 23, 2008, the Company, through a board resolution, extended the option agreement with Timer pursuant to the Amended Option. Under the extended option agreement, the Company may earn a 50% interest in Broken Hill-Leo property by sharing 50% of the $125,000 required work program expenditures (incurred as of December 31, 2008) and funding 50% of the advance royalty payments of $5,000 each subsequent year to the optionor until a total $100,000 has been paid.

## 6. SHARE CAPITAL

a) Authorized

Unlimited number of common shares without par value.

b) Private Placement

On January 23, 2009, the Company completed a non-brokered private placement involving the issuance of 4,000,000 units of the Company at a price of $0.06 per unit for gross proceeds of $240,000. Each unit is comprised of one common share of the Company and one transferable common share purchase warrant. Each warrant is exercisable into one additional common share of the Company for a period of two years from the closing date of the private placement at an exercisable price of $0.10. No finder's fees or commissions were paid in connection with this private placement.

**(Expressed in Canadian Dollars)**

**6. SHARE CAPITAL** (Continued)

c) Incentive Stock Options

The Company has a fixed stock option plan whereby a maximum of 10% of the issued shares may be reserved for issuance.

There are no stock options granted during the six months ended June 30, 2009.

A summary of the Company's outstanding stock options as of June 30, 2009 and the changes during the period are presented below:

| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Outstanding and exercisable at December 31, 2007 | 604,115 | $ 0.66 |
| Exercised | (365,500) | 0.24 |
| Cancelled | (95,000) | 0.24 |
| Outstanding and exercisable at December 31, 2008 | 143,615 | $ 1.29 |
| **Outstanding and exercisable at June 30, 2009** | **143,615** | **$ 1.29** |

Incentive stock options outstanding at June 30, 2009 to directors, officers and employees are as follows:

| NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE | EXPIRY DATE | EXERCISE PRICE |
|---|---|---|
| 91,115 | July 7, 2009 | $ 3.00 |
| 52,500 | November 30, 2011 | $ 0.24 |
| 143,615 | | |

**(Expressed in Canadian Dollars)**

**6. SHARE CAPITAL** (Continued)

d) Share Purchase Warrants

A summary of the Company's outstanding share purchase warrants as at June 30, 2009 and the changes during the period are presented below:

| | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Outstanding and exercisable at December 31, 2007 | 6,000,000 | $ 0.255 |
| Expired | (1,470,000) | 0.30 |
| Expired | (650,000) | 0.265 |
| Exercised | (530,000) | 0.30 |
| Exercised | (1,435,000) | 0.20 |
| Exercised | (1,350,000) | 0.265 |
| Outstanding and exercisable at December 31, 2008 | 565,000 | $ 0.20 |
| Issued | 4,000,000 | 0.10 |
| Exercised | (100,000) | 0.20 |
| **Outstanding and exercisable at June 30, 2009** | **4,465,000** | **$ 0.11** |

At June 30, 2009, there were 4,465,000 outstanding share purchase warrants entitling the holders thereof the right to purchase one common share for each warrant held as follows:

| NUMBER OF SHARES | EXPIRY DATE | EXERCISE PRICE PER SHARE |
|---|---|---|
| 465,000 | October 3, 2009 | $ 0.20 |
| 4,000,000 | January 22, 2011 | 0.10 |

**(Expressed in Canadian Dollars)**

## 7. RELATED PARTIES

All related party transactions and amounts owing are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company retains the services of certain directors and officers. Management fees, consulting fees, accounting fees, and corporate and administration fees are as follows:

| | Six months ended June 30 **2009** | 2008 |
|---|---|---|
| Management fees | **$ 24,000** | $ 24,000 |
| Consulting fees | **17,250** | 15,000 |
| Accounting fees | **5,625** | 5,250 |
| Total | **$ 46,875** | $ 44,250 |

In the six months ended June 30, 2009, management fees of $24,000 (2008 - $24,000) were paid to the president, who is also a director, of the Company. Consulting fees related to shareholders' communication of $15,000 (2008 - $15,000) were paid to a company controlled by the spouse of the president. Consulting fees related to corporate planning and strategy of $3,750 (2008 - $Nil) were paid to a director. Accounting fees of $5,625 (2008 - $5,250) were paid to an officer.

At June 30, 2009, accounts receivable include the offices expenses paid on behalf of a company with common directors and management in the amount of $1,301 (2008 – $1,404).

At June 30, 2009, prepaid expenses include $509 (2008 - $Nil) paid to companies controlled by a director for future expenses.

## 8. CONTINGENT LIABILITIES AND COMMITMENTS

The Company is not aware of any significant contingent liabilities or guarantees as at June 30, 2009. The Company has reserved shares for the commitment to issue shares in the event of the exercise of incentive stock options or share purchase warrants.

### 9. FINANCIAL INSTRUMENTS AND RISK FACTORS

The Company's financial instruments consist of cash, marketable securities, amounts receivable and accounts payable and accrued liabilities. For all except marketable securities, fair value approximates carrying value since the instruments are short term in nature and are receivable or payable on demand. The fair value of marketable securities is disclosed in Note 3.

*Concentration of Credit Risk*

The Company does not believe it is subject to any significant concentration of credit risk. Cash is placed with major financial institutions on a cash or short term investment basis. Accounts receivable represent amounts that are collectible.

*Interest Rate Risk*

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and current liabilities.

### 10. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. 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 team to sustain the future development of the business.

The property in which the Company currently has an interest is in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2009. The Company is not subject to externally imposed capital requirements.

### 10. SUBSEQUENT EVENTS

On July 7, 2009, 91,115 incentive stock options at price of $3.00 per share were expired.