

**NOTICE TO SHAREHOLDERS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

METALS CREEK RESOURCES CORP.

(A Development Stage Enterprise)

Responsibility for Financial Statements

The accompanying financial statements for Metals Creek Resources Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the December 31, 2007 audited financial statements. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim financial statements for the period ended September 30, 2008.

METALS CREEK RESOURCES CORP.

(A Development Stage Enterprise)

September 30, 2008

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METALS CREEK RESOURCES CORP.
(A Development Stage Enterprise)

CONSOLIDATED BALANCE SHEETS
(Prepared By Management)

As at	September 30, 2008 \$ (Unaudited)	December 31, 2007 \$ (Audited)
ASSETS		
Current Assets:		
Cash	478,953	1,811,618
Short term investments	-	300,000
Other receivables	138,902	28,893
Staking security deposits (note 12)	330,850	196,650
Prepaid	25,517	48,104
	974,222	2,385,265
Property and equipment (note 4)	60,476	8,875
Mineral properties and deferred exploration expenditures (note 5)	1,762,102	647,004
	2,796,800	3,041,144
LIABILITIES		
Current:		
Accounts payable and accrued liabilities (note 7)	345,639	375,543
Future income taxes (note 11)	543,142	680,862
SHAREHOLDERS' EQUITY		
Common shares (note 6)	2,047,785	1,675,710
Warrants (note 6)	582,090	545,887
Contributed surplus (note 6)	106,342	-
Deficit	(828,198)	(236,858)
	1,908,019	1,984,739
	2,796,800	3,041,144

Ability to continue as a going concern (note 2)

Subsequent event (note 14)

Approved by the Board:

_____"Alexander Stares"_____
 President, Chief Executive Officer

_____"Nick Tsimidis"_____
 Chief Financial Officer and Director

METALS CREEK RESOURCES CORP.

(A Development Stage Enterprise)

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Prepared by Management - Unaudited)

	Three Months Ended September 30, 2008 \$	Three Months Ended September 30, 2007 \$	Nine Months Ended September 30, 2008 \$	Nine Months Ended September 30, 2007 \$
EXPENSES				
Business development	52,900	-	117,154	-
Amortization	8,427	3,943	24,808	3,943
Professional fees	126,568	10,599	315,677	57,669
Office and general	66,351	415	160,680	4,766
Salaries and wages	80,407	-	167,965	-
Flow through Part XII.6 tax	45,072	-	45,072	-
Stock-based compensation (note 8)	19,750	-	56,952	-
Loss before the following:	399,474	14,957	888,307	66,378
Administrative fees on mineral properties	(9,782)	-	(19,962)	-
Interest income	(1,574)	-	(8,736)	-
Net loss before recovery of income taxes	388,118	14,957	859,609	66,378
Recovery of future income taxes (note 11)	128,271	-	268,270	-
Net loss and comprehensive loss for the period	259,848	14,957	591,340	66,378
Deficit, beginning of period	568,350	71,421	236,858	-
Adjustment on acquisition of mineral properties	-	-	-	20,000
Deficit, end of period	828,198	86,378	828,198	86,378
Net loss per share - basic and diluted (note 13)	0.013	0.002	0.031	0.010
Weighted average shares outstanding	19,416,494	9,859,286	18,818,771	6,572,857

See accompanying notes to financial statements

METALS CREEK RESOURCES CORP.
(A Development Stage Enterprise)

CONSOLIDATED STATEMENT OF CASH FLOWS
(Prepared by Management - Unaudited)

	Three Months Ended September 30, 2008 \$	Three Months Ended September 30, 2007 \$	Nine Months Ended September 30, 2008 \$	Nine Months Ended September 30, 2007 \$
CASH FLOWS FROM (USED IN):				
OPERATING ACTIVITIES				
Net loss and comprehensive loss for the period	(259,848)	(14,957)	(591,340)	(66,378)
Amortization	8,427	3,943	24,808	3,943
Stock-based compensation	19,750	-	56,952	-
Recovery of future income taxes	(128,271)	-	(268,270)	-
Net Change in non-cash working capital balances:				
Other receivables	(13,865)	(4,694)	(110,009)	(27,555)
Prepaid assets	26,936	-	22,587	-
Staking security deposits	(47,250)	(60,900)	(134,200)	(62,400)
Accounts payable and accrued liabilities	216,082	14,942	(29,904)	85,798
Cash flows used in operating activities	(178,039)	(61,666)	(1,029,376)	(66,592)
FINANCING ACTIVITIES				
Proceeds from private placements	565,887	-	565,887	638,800
Financing costs - cash commission and expenses	(35,119)	-	(35,119)	-
Short term investments	400,000	-	300,000	-
Cash flows from financing activities	930,768	-	830,768	638,800
INVESTING ACTIVITIES				
Expenditures on mineral properties (net of recoveries)	(676,662)	3,010	(1,057,648)	(555,701)
Adjustment on acquisition of mineral properties	-	-	-	(20,000)
Property and equipment	(3,155)	(4,541)	(76,409)	(10,515)
Cash flows used in investing activities	(679,817)	(1,531)	(1,134,057)	(586,216)
Net change in cash and cash equivalents	72,912	(63,197)	(1,332,665)	(14,008)
Cash and cash equivalents, start of period	406,041	49,189	1,811,618	-
Cash and cash equivalents, end of period	478,953	(14,008)	478,953	(14,008)
Supplemental Information				
Shares issued for option on mineral properties	25,950	-	57,450	89,432

Cash and cash equivalents consists of cash in bank

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

1. NATURE OF OPERATIONS

Metals Creek Resources Corp. (the “Company”) was incorporated on June 21, 2004 under the Business Corporations Act (Ontario). The Company changed its name to Metals Creek Resources Corp. on February 20, 2008.

These interim financial statements should be read in conjunction with the annual consolidated audited financial statements, and corresponding notes to the consolidated financial statements, for the year ended December 31, 2007. Results for the interim period ended September 30, 2008 may not be indicative of the results which may be expected for the year ended December 31, 2008.

2. ABILITY TO CONTINUE AS A GOING CONCERN

The Company is a development stage company, and is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

These financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes the realization of assets and the settlement of liabilities in the normal course of business. The appropriateness of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and/or generate continued financial support in the form of equity financings. Management feels that sufficient working capital will be obtained from public share offerings to meet the Company’s liabilities and commitments as they come due. These financial statements do not reflect any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classification that would be necessary if the going concern assumption were not appropriate and such adjustments could be material.

	September 30, 2008	December 31, 2007
	\$	\$
Working capital	628,583	2,009,722
Deficit	(828,198)	(236,858)

3. CHANGE IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION**Financial Instruments**

The company has adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants (“CICA”) relating to financial statements.

Financial Instruments – recognition and measurement (CICA Handbook Section 3855)

These standards set out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on a company’s balance sheet and measured either at fair value or, in certain circumstances when fair value may not be consideration the most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the statements of operations and deficit.

All financial assets and liabilities are recognized when the company’s outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect.

All financial instruments are classified into one of the following five categories; held for trading, held-to-maturity, loans and receivable, available-for-sale financial assets or other financial liabilities. Initial and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

**3. CHANGE IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION
(continued)...**

subsequent measurement and recognition of changes in the value of financial instruments depend on their initial classification.

Held for trading financial instruments are measured at fair value. All gains and losses are included in net loss in the period in which they arise.

Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net loss.

Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in comprehensive income until the asset is removed from the balance sheet.

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in the net loss in the period in which they arise.

In accordance with this new standard, the company has classified its financial instruments as loans and receivables.

Hedging (CICA Handbook Section 3865)

This new standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The company currently does not have any hedges.

Financial Instruments – Disclosures (CICA Handbook Section 3862)

The CICA has issued this new handbook section which will affect disclosures in the Company's financial statements beginning on January 1, 2008. The new standards describe the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The new standards increase disclosures in future financial statements. See note 10 for disclosures related to this new standard.

Financial Instruments – Presentation (CICA Handbook Section 3863)

The CICA has issued this new handbook section which will affect disclosures in the Company's financial statements beginning on January 1, 2008. This new section establishes the standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards increase disclosures in the financial statements. See note 10 for disclosures related to this new standard.

Comprehensive Income (CICA Handbook Section 1530)

Comprehensive income is the change in shareholders' equity during the period from transactions and other events from non-owner sources. This standard requires certain gains and losses that would otherwise be recorded as part of net loss to be presented in other "comprehensive income" until it is considered appropriate to recognize into net loss. This standard requires the presentation of comprehensive income, and its components in a separate financial statement that is displayed with the same prominence as the other financial statements. The company currently does not have any comprehensive income.

(A Development Stage Enterprise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

**3. CHANGE IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION
(continued)...**
Capital Disclosures (CICA Handbook Section 1535)

The Company has adopted CICA Handbook section 1535, Capital Disclosures in the current period. This section requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and procedures for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance.

4. PROPERTY AND EQUIPMENT

	September 30, 2008			December 31, 2008		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Computer Equipment	\$ 10,272	\$ 2,655	\$ 7,617	\$ 1,458	\$ 401	\$ 1,057
Furniture and Equipment	12,680	951	11,729	-	-	-
Computer Software	54,372	28,208	26,164	15,636	7,818	7,818
General Equipment	11,368	853	10,515	-	-	-
Leasehold Improvements	4,812	361	4,451	-	-	-
Total	\$ 93,504	\$ 33,028	\$ 60,476	\$ 17,094	\$ 8,219	\$ 8,875

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Mineral property acquisition, exploration and development expenditures are deferred until the properties are placed into production, sold, impaired or abandoned. These deferred costs will be amortized over the estimated useful life of the properties following commencement of production or written-down if the properties are allowed to lapse, are impaired or are abandoned. The deferred costs associated with each property is as follows:

<u>For the nine months ended September 30, 2008</u>	<u>Opening balance</u>	<u>Expenditures</u>	<u>Recoveries and write downs</u>	<u>Ending balance</u>
Dogpaw Lake Project	524,538	145,656	-	670,194
Panama Lake and Wicks Lake	-	31,113	-	31,113
Tillex Property	-	150,948	-	150,948
Sheffield Lake/Sops Arm Project	63,866	419,601	(361,495)	121,972
Gabbro Lake Project	3,178	72,208	(35,855)	39,531
Tilt Cove	-	276,833	-	276,833
Staghorn Property	-	117,630	-	117,630
Other Properties	55,422	298,459	-	353,881
Total	\$647,004	\$1,512,448	\$(397,350)	\$1,762,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

(Continued)...

<u>For the year ended December 31,</u> <u>2007</u>	<u>Opening</u> <u>balance</u>	<u>Expenditures</u>	<u>Recoveries</u> <u>and write</u> <u>downs</u>	<u>Ending</u> <u>balance</u>
Dogpaw Lake Project	-	524,538	-	524,538
Panama Lake and Wicks Lake	-	-	-	-
Tillex Property	-	-	-	-
Sheffield Lake/Sops Arm Project	-	63,866	-	63,866
Gabbro Lake Project	-	3,178	-	3,178
Tilt Cove	-	-	-	-
Staghorn Property	-	-	-	-
Other Properties	-	55,422	-	55,422
Total	-	\$647,004	-	\$647,004

(a) Dogpaw Lake Property

The Company has acquired an option on the Dog Paw gold project which is located approximately 40 km east of Kenora, Ontario and consists of 23 claims totaling 269 units. The company has entered into an option agreement with Endurance Gold Corp (an unrelated company), whereby under the First Option, as defined in the agreement, the Company has earned a 70% interest in the property by making share payments totaling 400,000 shares and completing work commitments of \$200,000 on the property. The Company is in the process of earning in for the Second Option, as defined in the agreement, to earn a further 5% in the property by issuing a further 50,000 common shares and spending an additional \$250,000 on the property. After the Company has earned a 75% interest a joint venture will be formed on a 75% the Company and 25% Endurance Gold Corp. basis.

The share payments shall be issued as follows:

First Option	400,000 common shares (issued March 30, 2007)
Second Option	50,000 common shares (issued June 9, 2008)

(b) Panama Lake Property and Wicks Lake Property

The Panama Lake Gold property is located in the southern portion of the Birch-Uchi Lake Greenstone belt in Northwestern Ontario and consists of 2 claims totaling 24 units. The Wicks Lake gold property is located in the Northwestern Ontario approximately 1.5 km south of the Dog Paw Gold property and consists of 1 claim totaling 11 units.

The properties were purchased from Stares Contracting Corp., a non-arms length related party, subject to a 2% NSR royalty. Consideration paid for the acquisition in 2007 was \$20,000 cash and 150,000 shares.

(c) Tillex Property

During the period, the Company signed a letter of intent (“LOI”) with Savant Explorations Ltd. (“Savant”) to purchase Savant’s interest in the Tillex Property located in the Currie Township approximately 65km east of Timmins, Ontario. The property consists of two patented claims spread across 80 acres.

The agreement allows for the Company to purchase Savant’s 88% interest in the property in consideration of paying \$15,000 and issuing 250,000 common shares to Savant. Savant will retain a 0.5% net smelter royalty in the property, which the Company can purchase for the issuance of an additional 50,000 common shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**(Continued)...****(d) Sheffield Lake/Sops Arm Properties**

The Company has staked three separate claim blocks totaling 1,577 claims (owned 100% by the company). The properties cover 394 square kilometers of highly prospective radio-active volcanic rocks previously unexplored for Uranium.

The Company recently signed an agreement with Uranium City Resources Inc. whereby Uranium City can earn a 50% interest in the project by funding the next \$1.4 million of exploration expenditures (\$400,000 firm in the first year).

(e) Gabbro Lake Property

The Gabbro Lake project consists of 313 claims located approximately 120 km Northeast of Labrador City, Labrador.

The company has entered into a formal joint venture agreement with Golden Dory Resources on the Gabbro Lake Project. Under the terms of the agreement the Company and Golden Dory Resources formed the joint venture on a 50:50 basis with the Company being the primary operator.

(f) Tilt Cove Property

During the period, the Company acquired by staking and option agreement a land package totaling 56 claim units, in four separate blocks, covering portions of the Betts Cove Ophiolite Suite on the Baie Verte Peninsula, Newfoundland. Three of the blocks were recently staked by the Company, while rights to the fourth were obtained through the execution of an option agreement ("Option Agreement") with an arm's length prospector. Pursuant to the Option Agreement, the Company has the option to earn a 100% interest in the claims forming the fourth block by making staged cash payments totaling \$67,500 and issuing 220,000 shares to the optionor over three years. On production, the optioned claim block is subject to a 2% net smelter return in favor of the optionor, subject in turn to a 1% buyback right in favor of the Company at the cost of \$1,250,000.

During the period, the 40,000 initial on signing common shares were issued to the optionor.

(g) Staghorn Property

During the period, the Company entered into an agreement with a group of prospectors to earn a 100% interest in a group of 76 claim units spread over 1,216 hectares in the Wood Lake area in west central Newfoundland.

Terms of the option agreement include making a series of staged option payments totaling \$95,000 and issuing 250,000 shares to the optionors over three years. The optionors will retain a 2% Net Smelter Royalty, 50% of which can be purchased for \$1,000,000

(h) Other Properties

Included in Other Properties (both Ontario and Newfoundland) are the Mundiregina Property; Cheeseman Lake Property; Newfoundland Dog Pond Property; Fraleck Property; Marconi Property; Currie Bowman Property; Bolton Bay Property; Ogden Property; Taylor North Property; Junction Property; Betts Cove; Long Pond; Black Ridge; Donnes Brook and miscellaneous Genex.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

6 CAPITAL STOCK

(a) Share Capital

The authorized capital of the Company consists of an unlimited number of common shares, and an unlimited number of preferred shares issued in series. Details of share capital transactions for the nine months ended September 30, 2008 are as follows:

	Number of Shares	Amount
Balance, December 31, 2007	18,514,536	\$ 1,675,710
Issued pursuant to private placements	3,339,583	565,887
Less: share issue costs	-	(35,119)
Less: value ascribed to warrants issued in private placements	-	(85,593)
Less: valuation adjustment arising from tax effect of flow-through common share renunciation		(130,550)
Common shares in connection with property option Agreements	<u>250,000</u>	<u>57,450</u>
Balance, June 30, 2008	<u>22,104,119</u>	<u>\$ 2,047,785</u>

(a) Share Purchase Warrants

Details of share purchase warrant transactions for the nine months ended September 30, 2008 is as follows:

	# of Warrants	Weighted Average Exercise Price
Balance, December 31, 2007	2,332,393	\$1.12
Issued during the period to investors	2,257,393	\$0.25
Issued during the period to brokers	194,800	\$0.18
Expired during the period	(357,143)	\$0.50
Balance, June 30, 2008 and September 30, 2008	<u>4,427,443</u>	<u>\$0.69</u>

The changes in the carrying value of share purchase warrants for the year nine months ended September 30, 2008 is as follows:

	Amount
	\$
Balance, December 31, 2007	<u>545,887</u>
Issued in connection with private placements to investors	72,678
Issued in connection with private placements to brokers	12,915
Reclassified to contributed surplus upon expiration of warrants	<u>(49,390)</u>
Balance, September 30, 2008	<u>582,090</u>

The fair value of the 2,257,393 warrants received by investors in the period have been estimated at \$72,678 and the fair value of the 194,800 warrants received by brokers in the period have been estimated at \$12,915. For both types of warrants, the fair values have been estimated using the Black-Scholes option pricing model and the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 2.95% and an expected life of 18 months. The value of the investor and broker warrants reduced the proceeds attributed to share capital and are recognized under capital stock as share purchase warrants.

(A Development Stage Enterprise)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

(b) Share Purchase Warrants (Continued)...

As at September 30, 2008 the following share purchase warrants were outstanding:

Expiry Dates	September 30, 2008	December 31, 2007
	# of Warrants	# of Warrants
Year ending December 31, 2008	-	357,143
Year ending December 31, 2009	1,975,250	1,975,250
Year ending December 31, 2010	2,452,193	-
	<u>4,427,443</u>	<u>2,332,393</u>

For the purpose of the information disclosed above, the warrants expiring during the year ending December 31, 2009 expire in December 2009 with exercise prices ranging from \$1.00 to \$1.25.

For the purpose of the information disclosed above, the warrants expiring during the year ending December 31, 2010 expire in March 2010 with exercise prices ranging from \$0.18 to \$0.25.

(c) Stock Options and Contributed Surplus

Details of stock option transactions for the nine months ended September 30, 2008 is as follows:

	<u># of Options</u>	<u>Weighted Average Exercise Price</u>
Balance, December 31, 2007	739,500	\$0.15
Granted during the period	1,110,000	\$0.27
Cancelled during the period	(50,000)	\$0.15
Balance, September 30, 2008	<u>1,799,500</u>	<u>\$0.22</u>

The change in contributed surplus for the nine months ended September 30, 2008 is as follows:

	<u>Amount</u>
	\$
Balance, December 31, 2007	-
Stock-based compensation for the period	56,952
Reclassified from expiration of warrants	49,390
Balance, September 30, 2008	<u>106,342</u>

As at September 30, 2008 and December 31, 2007 the following stock options were outstanding:

Expiry Dates	Exercise Price	September 30, 2008 # of Options	December 31, 2007 # of Options
September 16, 2009	\$0.15	689,500	739,500
April 29, 2011	\$0.25	910,000	-
June 4, 2011	\$0.35	200,000	-
		<u>1,799,500</u>	<u>739,500</u>

In accordance with Canadian generally accepted accounting principles, there was no carrying value for the 689,500 stock options expiring on September 16, 2009 due to the Company's status as a non-operating public enterprise prior to the reverse takeover which was completed on December 21, 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

(d) Shares held in escrow

Pursuant to the requirements of the Exchange, 10,819,836 common shares remain subject to escrow of which 8,071,559 are subject to a value escrow agreement and 2,748,277 are subject to a surplus escrow agreement.

(e) Private Placement

During the period, the Company completed a private placement with M Partners Inc. in which the Company received gross proceeds of \$565,887 through the sale of 1) 1,174,583 units at \$0.15 per unit, each unit consisting of one common share and one common share purchase warrant, each warrant entitling the purchaser to acquire an additional common share of the Company for \$0.25 for a period of 18 months following the closing date and 2) 2,165,000 flow through units at a price of \$0.18 per unit, each unit consisting of one common share and one half of one common share purchase warrant, each full warrant entitling the purchaser to acquire an additional common share of the company for \$0.25 for a period of 18 months following the closing date.

In accordance with the terms of the offering, the Company paid a finder's fee of \$27,876, being 8% of the gross proceeds raised by them. The Company also issued to M Partners Inc. 194,800 broker options, each option comprised of one unit for a subscription price of \$0.18 made up of one common share and one half of one common share purchase warrant, each full warrant entitling the holder to acquire an additional common share of the Company for \$0.25 for a period of 18 months following the date of issuance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

7. RELATED PARTY TRANSACTIONS

The Company paid or accrued the following amounts to related parties during the nine month period ended September 30, 2008 and 2007;

Payee	Description of Relationship	Nature of Transaction	2008 Amount (\$) (Unaudited)	2007 Amount (\$) (Unaudited)
Stares Contracting Corp.	Company controlled by Michael Stares, Director	Payments for property claims, exploration activities capitalized in deferred exploration expenditures and refundable security deposits	53,655	96,765
Stares Prospecting Ltd.	Company controlled by Alexander Stares, Director and Officer	Payments for exploration activities capitalized in deferred exploration expenditures and reimbursement of expenses	375,606	4,200
Alexander Stares	Director and Officer	Salary and reimbursement of expenses for advertising and promotion, travel and exploration activities capitalized in deferred exploration expenditures	97,794	6,617
Michael Stares	Director	Payment for exploration activities capitalized in deferred exploration expenditures	-	10,860
Michael MacIsaac	Officer	Salary and reimbursement of expenses for advertising and promotion, travel and exploration activities capitalized in deferred exploration expenditures	123,088	1,908
Wayne Reid	Director	Payment for exploration activities capitalized in deferred exploration expenditures and reimbursement of expenses	82,574	-
Eastrock Exploration	Company controlled by Wayne Reid, Director	Payment for exploration activities capitalized in deferred exploration expenditures and reimbursement of expenses	16,829	-
Nick Tsimidis	Director and Officer	Payment for consulting fees and reimbursement of expenses	54,662	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Prepared by Management – Unaudited)

7. RELATED PARTY TRANSACTIONS (Continued)...

Included in accounts payable and accrued liabilities at September 30, 2008 is:

- \$131 (2007: \$1,908) payable to Michael MacIsaac;
- \$5,475 (2007: \$27,071) payable to Stares Contracting Corp;
- \$36,928 (2007: \$3,385) payable to Stares Prospecting Ltd.;
- \$9,041 (2007: NIL) to Alexander Stares
- \$8,174 (2007: NIL) to Eastrock Exploration Inc.

The purchases from/fees charged by related parties are in the normal course of operation and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These amounts were paid subsequent to the end of the period.

8. STOCK-BASED COMPENSATION AND COSTS

Stock options granted to directors, officers, employees and consultants vested during the nine months ended September 30, 2008 are as follows:

<u>Grant Date</u>	<u># of Options</u>	<u>Exercise Price</u>	<u>Stock Price at Grant Date</u>	<u>Expiry Date</u>
April 29, 2008	227,500	\$0.25	\$0.16	April 29, 2011
June 4, 2008	100,000	\$0.35	\$0.35	June 4, 2011
	<u>327,500</u>			

The Company applies the fair value method of accounting for stock-based compensation awards to directors, officers, employees and consultants and accordingly \$56,952 (2007 - \$NIL) is recorded as stock-based compensation expense and under capital stock as contributed surplus for the 327,500 (2007 – NIL) options vesting to directors, officers, employees and consultants during the period.

For the purposes of the above calculations for the options granted April 29, 2008, the fair value of each option was estimated on the grant date using the Black-Scholes option pricing model, with the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 2.78% and an expected life of approximately 3 years.

For the purposes of the above calculations for the options granted June 4, 2008, the fair value of each option was estimated on the grant date using the Black-Scholes option pricing model, with the following assumptions: dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 2.88% and an expected life of approximately 3 years.

9. CAPITAL DISCLOSURES

CICA Handbook Section 1535 requires disclosure of an entity’s objectives, policies and process for managing capital, qualitative data about what an entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance.

The Company’s objectives when managing capital are as follows:

- To safeguard the Company’s ability to continue as a going concern;
- To raise sufficient capital to finance its exploration and development activities on its mineral exploration properties;
- To raise sufficient capital to meet its general and administrative expenditures;

The Company manages its capital structure and makes adjustment to it, based on the general economic conditions, its short term working capital requirements, and its planned exploration and development program expenditure requirement. The capital structure of the Company is composed of working capital

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

9. CAPITAL DISCLOSURES (continued)...

and shareholders' equity. The Company may manage its capital by issuing flow through or common shares, or by obtaining additional financing.

The Company utilizes annual capital and operating expenditure budgets to facilitate the management of its capital requirement. These budgets are approved by management and updated for changes in the budgets underlying assumptions as necessary.

There were no changes in the Company's approach to managing capital during the period.

10. RISK MANAGEMENT

The Company's financial instruments are exposed to certain risks, including credit risk, interest rate risk and liquidity risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash, other receivables and staking security deposits. The Company's cash is held through a large Canadian Financial Institution. A large part of other receivables pertains to GST refunds with the Canada Revenue Agency. Staking security deposits are held by the Government of Newfoundland. The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Any surplus funds are invested in bank issued fixed income securities consisting generally of GICs. At the balance sheet date, the Company did not have any significant interest bearing investments that would be subject to interest rate fluctuations.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. At September 30, 2008, the Company had \$628,583 in working capital. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) Currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. All of the Company's operations are in Canada; therefore, management believes the foreign exchange risk derived from any currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(e) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and is comprised of currency risk, interest rate risk, and other price risk. The Company currently does not have any financial instruments that would be impacted by changes in market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. INCOME TAXES

The Company adopts the asset and liability method of accounting for income taxes.

Future Tax Balances

The tax effects of temporary differences that give rise to future income tax assets and future income tax liabilities at the combined Canadian federal and provincial statutory tax rates of 33.5% are as follows:

Future tax assets		
Non-capital losses	\$	268,270
Future tax liabilities		
- Renunciation of flow-through proceeds		(760,844)
- Mineral properties		<u>(50,568)</u>
Balance, September 30, 2008	\$	<u>543,142</u>

Non-capital losses

At September 30, 2008, losses available for carry forward to reduce future years' taxable income are as follows:

2014	\$	20,433
2015		71,334
2026		122,929
2027		347,609
2028		<u>800,805</u>
Total	\$	<u>1,363,110</u>

12. STAKING SECURITY DEPOSITS

Staking security deposits of \$330,850 (2007 - \$196,650) represents security deposits paid to the Government of Newfoundland and Labrador in connection with mineral property claims located in the Province of Newfoundland. These staking security deposits are refundable to the company upon submission by the company of a report covering the first year work requirements which meets the requirements of the Government of Newfoundland and Labrador.

13. LOSS PER SHARE

Basic loss per share figures are calculated using the weighted average number of common shares outstanding during period.

Fully diluted loss per share figures are calculated after taking into account all stock options and warrants granted. Exercise of the outstanding warrants and options would be anti-dilutive with respect to loss per share calculations and therefore fully-diluted loss per share is not presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS(Prepared by Management – Unaudited)

14. SUBSEQUENT EVENT

Subsequent to September 30, 2008, the Company announced it had completed a private placement for gross proceeds of \$500,000 through the issuance of 3,125,000 flow through units at a price of \$0.16 per unit. Each flow through unit consisted of one flow through common share and one common share purchase warrant, each warrant entitling the purchaser to acquire one non-flow through common share of the Company at an exercise price of \$0.25 for a period of 18 months following the issuance date.

In connection with the private placement, the Company paid a finder's fee to Limited Market Dealer Inc. in the amount of \$25,000 representing 5% of the gross proceeds and issued 312,500 broker options, each option entitling the holder to acquire, at an exercise price of \$0.16 for a period of 18 months following the closing date, a unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share for \$0.25 for a period of 18 months from the closing date.

15. COMMITMENTS:

The Company leases automobiles under various operating leases as well as a lease commitment on office space, which have expiry dates ranging from February 2010 to August 2012. The future minimum annual fiscal lease payments over the term of the leases is as follows:

2008	\$ 9,620
2009	\$ 38,482
2010	\$ 18,269
2011	\$ 10,503
2012	\$ 4,520

16. COMPARATIVE FIGURES

Certain financial statement line items from prior year have been reclassified to conform with the current year's presentation. These reclassifications had no effect on the net loss and comprehensive loss, loss per share and accumulated deficit as previously presented.