

ACERO-MARTIN EXPLORATION INC.

Consolidated Financial Statements

September 30, 2008

(unaudited – prepared by management)

ACERO-MARTIN EXPLORATION INC.

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(Unaudited – prepared by management)

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**MANAGEMENT'S COMMENTS ON
UNAUDITED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Acero-Martin Exploration Inc., as at September 30, 2008 and for the three and nine months then ended have been prepared by and is the responsibility of the Company's management. In accordance with National Instrument 51 – 102, the company discloses that its auditors have not reviewed the accompanying unaudited interim financial statements as at September 30, 2008 and for the three and nine months then ended.

ACERO-MARTIN EXPLORATION INC.

Consolidated Balance Sheets

(Unaudited – prepared by management)

	<i>September 30, 2008</i>	<i>December 31, 2007</i>
ASSETS		
Current		
Cash and cash equivalents	\$ 528,320	\$ 779,147
Accounts receivable	26,389	46,660
Prepaid expenses and deposit	40,580	52,915
	<u>595,289</u>	878,722
Equipment	529,047	527,037
Resource properties	<u>5,830,551</u>	<u>5,830,551</u>
	<u>\$ 6,954,887</u>	<u>\$ 7,236,310</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	<u>\$ 889,301</u>	<u>\$ 177,346</u>
SHAREHOLDERS' EQUITY		
Capital stock	47,832,025	45,581,699
Shares allotted	-	175,000
Share subscriptions receivable	(283,500)	(285,000)
Funds advanced for share subscription	166,002	-
Contributed surplus	4,631,912	4,026,570
Deficit	<u>(46,280,853)</u>	<u>(42,439,305)</u>
	<u>6,065,586</u>	7,058,964
	<u>\$ 6,954,887</u>	<u>\$ 7,236,310</u>

APPROVED ON BEHALF OF THE BOARD

“Wan Jung” Director

“Stewart Jackson” Director

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Operations and Deficit

(Unaudited – prepared by management)

	<i>Three Months Ended September 30, 2008</i>	<i>Three Months Ended September 30, 2007</i>	<i>Nine Months Ended September 30, 2008</i>	<i>Nine Months Ended September 30, 2007</i>
Revenue				
Interest and sundry	\$ 531	\$ 32,984	\$ 5,398	\$ 71,693
Expenses				
Amortization	14,563	12,289	65,502	30,544
Bank charges and interest	5,140	13,230	16,207	14,011
Consulting fees	30,697	43	93,897	222,860
Interest	16,000	-	32,000	-
Management fees	63,000	37,500	162,000	126,900
Mineral property exploration	415,608	-	1,985,194	-
Office, rent and miscellaneous	55,651	85,157	153,877	278,896
Printing and shareholder information	16,488	-	67,106	-
Professional fees	21,585	22,234	117,116	166,558
Stock-based compensation	20,430	12,028	605,342	92,934
Stock exchange and filing fees	2,674	-	15,300	43,252
Transfer agent fees	4,741	3,626	22,396	22,110
Travel and business development	24,520	2,556	120,563	83,893
Wages	110,165	38,184	266,314	79,928
Write-off of marketable securities	-	-	-	453
	801,262	226,847	3,722,814	1,162,339
Loss before other items	(800,731)	(193,863)	(3,717,416)	(1,090,646)
Foreign exchange gain (loss)	(127,999)	(2,317)	(124,132)	36,212
Net loss for the period	(928,730)	(196,180)	(3,841,548)	(1,054,434)
Deficit, beginning of period	(45,352,123)	(28,402,146)	(42,439,305)	(27,543,892)
Deficit, end of period	\$(46,280,853)	\$(28,598,326)	\$(46,280,853)	\$(28,598,326)
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.06)	\$ (0.02)
Weighted average number of shares	69,316,884	45,546,554	69,316,884	45,546,554

ACERO-MARTIN EXPLORATION INC.

Consolidated Statements of Cash Flows

(Unaudited – prepared by management)

	<i>Three Months Ended September 30, 2008</i>	<i>Three Months Ended September 30, 2007</i>	<i>Nine Months Ended September 30, 2008</i>	<i>Nine Months Ended September 30, 2007</i>
Operating activities				
Net loss for the period	\$ (928,730)	\$ (196,180)	\$ (3,841,548)	\$ (1,054,434)
Item not involving cash				
Amortization	14,563	12,289	65,502	30,544
Stock-based compensation	20,430	12,028	605,342	92,934
	<u>(893,737)</u>	<u>(171,863)</u>	<u>(3,170,704)</u>	<u>(930,956)</u>
Net change in non-cash working capital balances*	183,843	(486,314)	744,561	(156,797)
Cash flows used in operating activities	<u>(709,894)</u>	<u>(658,177)</u>	<u>(2,426,143)</u>	<u>(1,087,753)</u>
Investing activities				
Acquisition of equipment	(1,183)	(1,754,339)	(67,512)	(5,448,894)
Acquisition of resource properties	-	(166,570)	-	(240,221)
Deferred tax recoverable	-	(90,839)	-	(202,607)
Cash flows used in investing activities	<u>(1,183)</u>	<u>(2,011,748)</u>	<u>(67,512)</u>	<u>(5,891,722)</u>
Financing activities				
Note payable	(400,000)	-	-	-
Issuance of capital stock	1,638,725	-	2,471,726	6,789,973
Share issue costs	(78,449)	-	(146,400)	-
Subscription receivable	(248,500)	-	(248,500)	-
Funds advanced for share subscription	166,002	-	166,002	-
Shares allotted	-	-	-	(175,000)
Contributed surplus	-	-	-	104,796
Cash flows from financing activities	<u>1,077,778</u>	<u>-</u>	<u>2,242,828</u>	<u>6,719,769</u>
Increase in cash during the period	366,701	(2,669,925)	(250,827)	(259,706)
Cash beginning of period	<u>161,619</u>	<u>3,413,563</u>	<u>779,147</u>	<u>1,003,344</u>
*Cash and cash equivalents, end of the period	<u>\$ 528,320</u>	<u>\$ 743,638</u>	<u>\$ 528,320</u>	<u>\$ 743,638</u>

Supplemental disclosure of cash flows information

***Cash and cash equivalents consist of cash and term deposits**

ACERO-MARTIN EXPLORATION INC.
Notes to the Consolidated Financial Statements
September 30, 2008

(Unaudited – prepared by management)

1. NATURE OF OPERATIONS

The Company owns working interests in mineral properties. The Company is in the process of exploring these mineral properties and has not yet determined whether they contain reserves that are economically recoverable. Work has commenced on various mineral properties.

The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

2. BASIS OF PRESENTATION

These interim consolidated financial statements should be read in conjunction with the consolidated financial statements of the company's most recently completed year ended December 31, 2007. These statements do not include all disclosures required in annual financial statements but rather are prepared in accordance with recommendations for interim financial statements in conformity with Canadian generally accepted accounting principles. These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2007 financial statements.

These financial statements have been prepared using Canadian generally accepted accounting principals on the basis of a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the foreseeable future. The Company's ability to meet its obligations as they fall due and to continue to operate as a going concern is dependent on the continued financial support of the creditors and the shareholders, its ability to obtain additional financing for the continuing acquisition and exploration of its resource properties and ultimately, the attainment of profitable operations. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

3. SIGNIFICANT ACCOUNTING POLICIES

Changes in Accounting Policies

On September 15, 2006, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosure, and Handbook Section 3863, Financial Instruments – Presentation. These three standards are applicable for the Company commencing January 1, 2008.

Handbook 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.

ACERO-MARTIN EXPLORATION INC.
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3. SIGNIFICANT ACCOUNTING POLICIES, *continued*

Changes in Accounting Policies, *continued*:

New Handbook Section 3862, Financial Instruments and 3863, Financial Instruments – Presentation 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.

Section 3251, Equity, replaces section 3250, “Surplus” and establishes standards for the presentation of equity and changes in equity during reporting period, including changes in Accumulated Other Comprehensive Income (“Accumulated OCI”). Any cumulative changes in OCI would be included in Accumulated OCI and be presented as a new category of Shareholder’s Equity on the balance sheet.

Section 1506, Accounting Changes, provides expanded disclosures for changes in accounting policies, accounting estimates and corrections of errors. Under this new standard, accounting changes should be applied retroactively unless otherwise permitted or where impracticable to determine. As well, voluntary changes in an accounting policy are to be made only when required by a primary source of GAAP or the change results in more relevant and reliable information. There is no impact to the Company’s financial statements as a result of implementing this new standard.

Recent Accounting Pronouncements

Goodwill and intangible assets

In February 2008, the CICA issued Section 3062, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The new Section will become effective January 1, 2009. The Company is currently assessing the impact of these new standards.

International Financial Report Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards (“IFRS”) over a transition period to be completed by 2011. The Company is currently assessing the impact of these new standards.

4. EQUIPMENT

	<i>September 30,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
Office equipment	\$ 96,707	\$ 83,583
Computers	117,781	87,082
Camp and equipment	<u>463,043</u>	<u>453,749</u>
	677,531	624,414
Accumulated amortization	<u>(148,484)</u>	<u>(97,377)</u>
	<u>\$ 529,047</u>	<u>\$ 527,037</u>

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5. ACQUISITION

On May 26, 2004, the Company acquired 100% of the shares of Canper Exploraciones, S.A.C. by issuing 3,870,000 common shares of which 1,000,000 common shares are contingent on future reserves. The common shares are to be issued as follows:

- a) 1,000,000 common shares at approval date, November 2, 2004 (issued)
- b) 500,000 common shares in six months (issued)
- c) 500,000 common shares in twelve months (issued)
- d) 500,000 common shares in twenty four months (issued)
- e) 370,000 common shares in thirty six months (issued)
- f) 500,000 common shares upon indication of not less than 750,000 oz. of gold reserves
- g) 500,000 common shares upon indication of not less than 2,500,000 oz. of gold reserves.

The acquisition has been accounted for by the purchase method with the fair value of the consideration paid being allocated to the fair value of the identifiable assets and liabilities acquired. The following is a summary of the net assets acquired at fair values:

Cash	\$ 3,055
Other current assets	10,625
Equipment	2,324
Mineral properties	1,505,490
Current liabilities	<u>(446,994)</u>
Net assets acquired	<u>1,074,500</u>
Purchase consideration:	
Capital stock	\$ 1,004,500
Finder's fees	<u>70,000</u>
	<u>\$ 1,074,500</u>

Based on the purchase method used, consideration received including certain mineral properties exploration rights in Peru while purchase consideration rendered including share capital allotted to be issued in future years in accordance to dates mentioned above.

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6. RESOURCE PROPERTIES

A) Yukon, Canada

a) *Red Mountain Property*

The Company has 75% interest in 52 mineral property claims located in the Yukon Territory Canada, known as the Red Mountain Property. The agreement requires the Company to expend \$1,500,000 on the property over a 30 month period. As of December 31, 2006 the total commitment has been expended. The vendor was reimbursed for 75% of total out of pocket exploration expenditure incurred previously and has retained 2% overriding net smelter royalty.

The Red Mountain property has been basically inactive for three years with only insignificant amount of exploration activities done. In accordance with the Canadian Generally Accepted Accounting Principles, cost capitalized at mineral properties that have been inactive for three years should be written off. The Company is still planning to perform some exploration activities on the Yukon properties but the timing is unsure due to limits in financing resources. As a result, the Company has decided to write off the Red Mountain property in 2007 to a nominal value of \$1.

b) *Hobo Creek*

The Company has also entered into an option agreement in July 2004 with Regent Ventures Ltd. to acquire 50% interest in Hobo Creek, Red Mountain area owned by Regent Ventures Ltd. The Company has issued to Regent 350,000 share purchase warrants at \$0.55 per share exercisable before July 15, 2005. The Company is required to incur the following expenditures:

- i) Expenditures of at least \$300,000 on or before November 30, 2004.
- ii) Expenditures of at least \$800,000 on or before November 30, 2005.
- iii) Expenditures of at least \$1,500,000 on or before November 30, 2006.

Regent Ventures Ltd. will retain a 1% Net Smelter Royalty with respect to its claims. The Company has decided not to continue with this project and wrote off the deferred cost in October 2005.

	Red Mountain	
	<i>September 30, 2008</i>	<i>December 31, 2007</i>
Acquisition costs	\$ 1	\$ 50,996
Write-off	-	(50,995)
Total	\$ 1	\$ 1

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6. RESOURCE PROPERTIES, *continued*

B) Peru Pinaya Property

During 2004 the Company acquired a 100% interest in Canper Exploraciones S.A.C. Canper Exploraciones, S.A.C. owns an option to acquire the mineral rights for the Pinaya Property in Southern Peru. The option agreement requires the Company to pay to the owners of the mineral rights the following amounts on the following times:

- a) U.S. \$200,000 when the public deed is executed on the transfer of the option agreement (May 26, 2004) (paid).
- b) U.S. \$100,000 payable six month from May 26, 2004 (paid)
- c) U.S. \$240,000 payable 12 month from May 26, 2004 (paid)
- d) U.S. \$860,000 payable 24 month from May 26, 2004 (paid)
- e) U.S. \$1,100,000 payable 36 month from May 26, 2004 (paid)

In addition the Company acquired some surface rights during 2007 for part of the Pinaya Property. The amount expended for surface rights total U.S. \$15,000.

Panchito Property

The Company purchased an undivided 100% interest to certain Peruvian mining rights. The Company has paid U.S. \$11,000 cash and issued 100,000 shares.

La Mamita Property

The Company purchased mining rights in the La Mamita Concession in Peru. The Company paid \$25,000 and issued 25,000 common shares.

Don Pedro 2000

The Company purchased by way of option the rights to the property called the Don Pedro 2000 concession in Peru. The Company paid U.S. \$40,000 (2005 U.S. \$70,000) with additional payments of the option of U.S. \$140,000 as follows:

\$ U.S.	Due Date
20,000	January 9, 2007 (paid)
20,000	May 9, 2007 (paid)
30,000	September 9, 2007 (paid)
30,000	January 9, 2008 (paid)
40,000	May 9, 2008 (paid)

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6. RESOURCE PROPERTIES, *continued*

Peruvian Properties

	<i>September 30, 2008</i>	<i>December 31, 2007</i>
Acquisition costs	\$ 5,830,550	\$ 5,830,550

In addition to the four main concessions above, the Peruvian properties consist of other numerous concessions in one contiguous area in Peru of which detail breakdown is not shown.

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS

Authorized: Unlimited common shares without par value.

	Number of Shares	Amount (\$)	Contributed Surplus (\$)
Balance December 31, 2006	41,944,879	36,567,878	3,301,191
Issued for cash:			
Private placements	20,861,685	8,795,408	-
Issued for properties	500,000	175,000	-
Issued for settlement of claim	260,000	148,200	-
Agent options share issuance costs	-	(104,787)	104,797
Stock based compensation	-	-	620,582
Balance, December 31, 2007	63,566,564	45,581,699	4,026,570
Issued for cash:			
Private placements	30,826,080	2,517,226	-
Issued for properties	370,000	129,500	-
Cancelled during the period	(714,285)	(250,000)	
Share issuance costs	-	(146,400)	
Stock based compensation	-	-	605,342
Balance, September 30, 2008	94,048,359	487,832,025	4,631,912

On January 8, 2008, the Company issued 370,000 shares out of the allotted shares at a price of \$0.35 per share in pursuant to the purchase agreement for the acquisition of Canper Exploraciones, S.A.C.

On April 2, 2008, the Company issued 3,554,000 Units at a price of \$0.25 per Unit by way of a private placement. Each Unit consists of one common share of the Company and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.35 per share until April 2, 2009 and \$0.50 until April 2, 2010. On April 9, 2008, 40,000 of the shares were returned to the Treasury. Finder's fees of \$70,400 were paid in relation to the private placement.

ACERO-MARTIN EXPLORATION INC.
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(Unaudited – prepared by management)

7. CAPITAL STOCK AND CONTRIBUTED SURPLUS, *continued*

On September 15, 2008, the Company issued 27,312,080 Units at a price of \$0.06 per Unit by way of a private placement. Each Unit consists of one common share of the Company and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.10 per share until September 15, 2009. Finder's fees of \$54,809 were paid in relation to the private placement.

8. STOCK OPTIONS AND SHARE PURCHASE WARRANTS

a) Option Plan and Stock Options Outstanding at September 30, 2008

The Company has a stock option plan (the "Plan") for directors, senior officers, employees, consultants, and management. The Plan provides for the issuance of stock options to acquire up to a maximum of 10% of the issued and outstanding common shares of the Company. The Plan provides that the vesting terms of the options and the option price may be fixed by the directors subject to the price restrictions and other requirements of the TSX Venture Exchange. Options are granted for a term not exceeding five years and the exercise price must be paid in full upon exercise price of the option.

Options to purchase 225,000 common shares at \$0.95 per share expires October 2, 2009
Options to purchase 425,000 common shares at \$0.90 per share expires May 27, 2010
Options to purchase 45,000 common shares at \$0.65 per share expires November 7, 2010
Options to purchase 1,070,000 common shares at \$0.62 per share expires August 18, 2011
Options to purchase 330,000 common shares at \$0.50 per share expires May 1, 2012
Options to purchase 880,000 common shares at \$0.50 per share expires June 18, 2012
Options to purchase 500,000 common shares at \$0.30 per share expires October 19, 2012
Options to purchase 2,000,000 common shares at \$0.30 per share expires February 6, 2013

A summary of the status of the Company's stock options as at September 30, 2008 and changes during the period is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance, December 31, 2007	4,622,850	\$0.57	
Options issued	2,000,000	\$0.30	
Cancelled/Expired	(1,147,850)	\$0.50	
Balance, September 30, 2008	5,475,000	\$0.48	3.53 years

ACERO-MARTIN EXPLORATION INC.
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8. STOCK OPTIONS AND SHARE PURCHASE WARRANTS, *continued*

a) Option Plan and Stock Options Outstanding at September 30, 2008, continued

During the period ended September 30, 2008, the Company has recognized \$605,342 (December 31, 2007: \$620,582) in compensation upon issuance of 2,000,000 (2007: 1,740,000) stock options and 680,000 options vested from 2007 options. There are \$79,007 stock compensation benefits from 2007 options granted remained to be vested until 2010. The fair values of these options were determined on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions.

	<u>September 30, 2008</u>	<u>December 31, 2007</u>
Risk-free interest rate	3.83%	4.27%
Experienced life of options	4.06 years	3.41 years
Annualized volatility	133.84%	116.96%
Dividend rate	0%	0%

Options 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 single measure of the fair value of the Company's stock options.

b) Share Purchase Warrants Outstanding at September 30, 2008

As at September 30, 2008, the Company had share purchase warrants outstanding enabling holders to acquire the following:

2,991,948 share purchase warrants at an exercise price of \$0.35 per share until November 30, 2008.

3,514,000 share purchase warrants at an exercise price of \$0.35 per share until April 2, 2009 and \$0.50 until April 2, 2010.

13,656,039 share purchase warrants at an exercise price of \$0.10 per share until September 15, 2009.

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8. STOCK OPTIONS AND SHARE PURCHASE WARRANTS, *continued*

A summary of the Company's issued and outstanding share purchase warrants as at September 30, 2008 and changes during the period is presented below:

	<i>September 30</i> <i>2008</i>	<i>December 31</i> <i>2007</i>
Balance, December 31, 2007	17,512,591	332,333
Issued	17,170,039	17,512,591
Expired	(14,163,500)	(332,333)
Cancelled	(357,143)	
Exercised	-	-
Balance, September 30, 2008	20,161,987	17,512,591

9. RELATED PARTY TRANSACTIONS

During the period ended September 30, 2008, the Company incurred management fees of \$162,000 (2007: \$126,900) with directors and companies controlled by directors.

During the period ended September 30, 2008, the Company incurred exploration expenditures and geological consulting fees of \$152,235 (2007 \$269,689) with companies controlled by directors.

During the period ended September 30, 2008, the Company incurred consulting fees of \$225 (2007 \$nil) with a director of the Company.

During the period ended September 30, 2008, the Company incurred legal fees of \$70,915 (2007 \$111,216) with an officer who is principal of a law firm.

As at September 30, 2008, accounts payable and accrued liabilities includes \$39,312 owing to officers, directors and companies controlled by common directors and officers of the Company.

10. SEGMENTED FINANCIAL INFORMATION

The Company's business is considered as operating in one segment, mineral exploration and development. The geographical division of the Company's total assets are as follows:

	<i>September 30,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
Assets		
Canada	\$ 491,488	\$ 700,880
Peru	6,463,399	6,585,430
	\$ 6,954,887	\$ 7,236,310

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12. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS IN INFORMATION

	<i>Nine Months Ended September 30, 2008</i>	<i>Nine Months Ended September 30, 2007</i>
370,000 shares issued for resource properties	\$ 175,000	\$ -
760,000 shares issued for resource properties	\$ -	\$ 323,200
714,285 shares cancelled	\$ 250,000	\$ -
Stock based compensation expense	\$ 605,342	\$ 92,934
Interest paid	\$ 32,000	\$ -
Income taxes paid	\$ -	\$ -

13. SUBSEQUENT EVENT

Subsequent to September 30, 2008, the Company completed the second tranche of its non-brokered private placement, issuing a total of 3,690,151 Units at \$0.06 per Unit for gross proceeds of \$221,409. Each Unit consists of one common share of the Company and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder thereof to purchase one common share of the Company for a period of 12 months after the closing date at a price of \$0.10 per share.