

**TERRA NOVA MINERALS INC.**  
**INTERIM FINANCIAL STATEMENTS**

**OCTOBER 31, 2009**  
(Unaudited – prepared by management)

These unaudited interim financial statements of Terra Nova Minerals Inc. for the three months ended October 31, 2009 have been prepared by management and approved by the Board of Directors. These financial statements have not been reviewed by the Company's external auditors.

**TERRA NOVA MINERALS INC.**

INTERIM BALANCE SHEETS

	October 31, 2009 (Unaudited)	July 31, 2009 (Audited)
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 4,024	\$ 142,691
Amounts receivable	6,146	4,272
	<u>10,170</u>	<u>146,963</u>
<b>Deferred transaction costs</b> (Note 11)	<u>301,807</u>	<u>137,792</u>
	<u>\$ 311,977</u>	<u>\$ 284,755</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 4)	<u>\$ 202,522</u>	<u>\$ 67,745</u>
<b>Shareholders' equity</b>		
Share capital (Note 5)	16,211,526	16,211,526
Contributed surplus (Notes 5 and 6)	890,446	890,446
Deficit	<u>(16,992,517)</u>	<u>(16,884,962)</u>
	<u>109,455</u>	<u>217,010</u>
	<u>\$ 311,977</u>	<u>\$ 284,755</u>

**Nature and continuance of operations** (Note 1)

**Significant event** (Note 11)

**Approved on behalf of the Board of Directors:**

\_\_\_\_\_  
"William P. McLucas"

Director

\_\_\_\_\_  
"Thomas Allen"

Director

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

**TERRA NOVA MINERALS INC.**  
**INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**FOR THE THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited – prepared by management)

	2009	2008
<b>EXPENSES</b>		
Administration fees	\$ 11,389	\$ 9,539
Filing and transfer agent fees	3,261	5,370
Management fees (Note 4)	60,000	30,000
Office and miscellaneous	5,753	272
Professional fees	3,796	14,335
Shareholder communications	11,910	16,871
Travel and related costs	<u>11,446</u>	<u>4,204</u>
<b>Loss before other item</b>	<u>(107,555)</u>	<u>(80,591)</u>
<b>OTHER ITEM</b>		
Interest income	<u>-</u>	<u>1,226</u>
<b>Net loss and comprehensive loss for the period</b>	(107,555)	(79,365)
<b>Deficit, beginning of the period</b>	<u>(16,884,962)</u>	<u>(16,215,857)</u>
<b>Deficit, end of period</b>	<u>\$ (16,992,517)</u>	<u>\$ (16,295,222)</u>
<b>Basic and diluted loss per common share</b>		
	\$ (0.00)	\$ (0.00)
<b>Weighted average number of common shares outstanding – basic and diluted</b>		
	38,689,868	38,689,868

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

**TERRA NOVA MINERALS INC.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED OCTOBER 31,**  
(Unaudited – prepared by management)

	2009	2008
<b>Cash flows provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the period	\$ (107,555)	\$ (79,365)
Changes in non-cash working capital items:		
Decrease (increase) in amounts receivable	(1,874)	11,726
Decrease in accounts payable and accrued liabilities	<u>(16,378)</u>	<u>(3,005)</u>
	<u>(126,167)</u>	<u>(70,644)</u>
<b>Investing activity</b>		
Deferred transaction costs	<u>(12,500)</u>	-
	<u>(12,500)</u>	-
<b>Decrease in cash and cash equivalents</b>	(138,667)	(70,644)
<b>Cash and cash equivalents, beginning of period</b>	<u>142,691</u>	<u>605,973</u>
<b>Cash and cash equivalents, end of period</b>	<u>\$ 4,024</u>	<u>\$ 535,329</u>

**Supplemental disclosures with respect to cash flows (Note 7)**

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

## **1. NATURE AND CONTINUANCE OF OPERATIONS**

Terra Nova Minerals Inc. (the “Company”) is a public company incorporated under the British Columbia Business Corporations Act. The Company’s shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company’s principal business is the acquisition and exploration of mineral properties.

These interim financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for at least twelve months from the balance sheet date. The continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and explore mineral properties, and to commence profitable operations in the future. To date, the Company has not generated any significant revenues.

During fiscal 2009, due to the economic downturn affecting junior mining exploration companies, the Company decided to abandon its mineral property and has written off acquisition and exploration costs totalling \$254,550. As of October 31, 2009 the Company had no mineral properties under contract and its working capital and shareholders’ equity has deteriorated to a working capital deficiency of \$192,352 and shareholders’ equity of \$109,455 from a working capital position of \$79,218 and shareholders’ equity of \$217,010, as at July 31, 2009. On July 22, 2009, management announced a proposed business acquisition (Note 11), which is subject to a number of conditions including exchange approval, shareholder approval and the raising of \$12,000,000 by way of private placement. There is no assurance that the transaction will be completed as proposed or at all.

These factors raise substantial doubt as to the Company’s ability to continue as a going concern without a business plan and a considerable new investment of share capital equity financing. These interim financial statements do not reflect adjustments to the remaining assets and liabilities should the Company cease to be a going concern. Such adjustments would likely be material. If the proposed business acquisition is unsuccessful, there will be significant doubt on the validity of the going concern assumption.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial information reflects all adjustments, consisting primarily of normal and recurring adjustments considered necessary for fair presentation of the results for the interim period. Operating results for the three months ended October 31, 2009 are not necessarily indicative of the results that may be expected for the year ending July 31, 2010. These interim consolidated financial statements follow the same accounting policies as the annual financial statements, except as noted below. Accordingly, these financial statements should be read in conjunction with the 2009 annual financial statements and the notes thereto.

### **Adoption of new accounting standards**

Effective August 1, 2009, the Company adopted the following new standard issued by the Canadian Institute of Chartered Accountants (“CICA”):

*CICA Handbook Section 3064 – “Goodwill and other intangibles assets”*

This new section replaced Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs”. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Management has determined that

the adoption of this new standard did not have a material impact on the financial statements of the Company.

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

**Recent accounting pronouncements**

*Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

*International Financial Reporting Standards*

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 Company intends to adopt IFRS for Canadian reporting purposes with an adoption date of August 1, 2009 and a transition date of July 1, 2008. The Company is still awaiting acceptance to early adopt IFRS, which is contingent on the Company completing the significant transaction (Note 11).

**3. MINERAL PROPERTY**

During the year ended July 31, 2008, and as amended during the year ended July 31, 2009, the Company entered into an option agreement to acquire up to a 100% interest in certain claims on the Pegma Lake Project in Quebec, Canada. Pursuant to the terms of the agreement, the Company paid \$75,000 and issued 681,818 common shares valued at \$75,000 and was required to incur exploration costs of \$300,000 on or before June 29, 2009 to acquire a 25% interest in the property.

As at July 31, 2009, the Company had incurred additional acquisition costs totalling \$55,899 and deferred exploration costs of \$46,991 relating to geologist consulting fees. The Company abandoned the property during fiscal 2009 and wrote-off accumulated costs totalling \$254,550.

**4. RELATED PARTY TRANSACTIONS**

During the three months ended October 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$60,000 (2008 – \$30,000) to a company with a director in common.
- b) Paid or accrued legal fees of \$3,796 (2008 – \$13,206) to a law firm of which a director is a partner.

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

At October 31, 2009, \$20,000 (July 31, 2009 - \$1,400) was owing to related parties and included in accounts payable and accrued liabilities. Amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

**TERRA NOVA MINERALS INC.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**OCTOBER 31, 2009**  
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**5. SHARE CAPITAL**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at July 31, 2008	38,689,868	16,211,526	809,776
Stock-based compensation	-	-	80,670
Balance as at July 31, 2009 and October 31, 2009	38,689,868	\$ 16,211,526	\$ 890,446

**6. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan (the “Stock Option Plan”). Under the Stock Option Plan, the Company may grant options to directors, officers, employees, dependent contractors or consultants. The number of options outstanding at any time may not be more than 10% of the issued and outstanding shares of the Company. The exercise price associated with each grant of options is determined by the Company and is subject to the policies of the TSX Venture Exchange. The maximum term of each option’s life is 5 years. As long as the Company is not classified as a Tier 1 issuer on the TSX Venture Exchange, the options will vest: one third on the award date, one third 12 months following the award date and one third 24 months following the award date.

The following stock options were outstanding at October 31, 2009:

Number	Exercise Price	Expiry Date
1,900,000	\$0.14	June 13, 2012
850,000	0.13	June 13, 2012
<u>2,750,000</u>		

Stock option transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2008	3,050,000	\$ 0.14
Forfeited	<u>(300,000)</u>	0.13
Balance, July 31, 2009 and October 31, 2009	<u>2,750,000</u>	0.14
Number of options exercisable at October 31, 2009	<u>2,750,000</u>	<u>\$ 0.14</u>

**TERRA NOVA MINERALS INC.**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**OCTOBER 31, 2009**  
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**6. STOCK OPTIONS AND WARRANTS (Continued)**

**Warrants**

The Company had no warrants outstanding at October 31, 2009:

Warrant transactions and the number of warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2008	14,500,000	\$ 0.15
Expired	<u>(14,500,000)</u>	0.15
Balance, July 31, 2009 and October 31, 2009	-	\$ -

**7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2009	2008
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

The significant non-cash transaction during the three months ended October 31, 2009 was the accrual of deferred transaction costs of \$151,515 included in accounts payable and accrued liabilities.

There were no significant non-cash transactions during the three months ended October 31, 2008.

**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair Values**

The fair values of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

**(a) Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

**(b) Financial Instrument Risk Exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

**8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

*Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Such fluctuations may be significant.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is not exposed to foreign currency risk on fluctuations in exchange rates.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**9. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from fiscal 2009.

The Company is not subject to externally imposed capital restrictions.

**10. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of mineral properties in Canada.

**11. SIGNIFICANT EVENT**

The Company entered into a support agreement (the “Support Agreement”), dated July 22, 2009, with Australian Energy Company Limited (“AEC”), an unlisted Australian public company, pursuant to which the Company has agreed to acquire (the “Bid Acquisition”) all of the issued and outstanding ordinary shares of AEC through a takeover conducted under Australian law.

AEC owns 90.91% of Australian-American Energy Company, LLC (“AAEC”) through its wholly-owned subsidiary, Australian-American Energy Group, LLC. The Company has entered into a unit purchase agreement (the “UPA”) with the owner of the remaining 9.09% interest in AAEC, pursuant to which the Company will acquire (the “UPA Acquisition”) the interest in AAEC on the same terms as the Bid Acquisition. AAEC is a party to a master lease agreement (the “Lease Agreement”) with the Crow Nation in respect of lands and mineral rights owned by the Crow Nation in Montana, USA. Pursuant to the Lease Agreement and related agreements, AAEC and the Crow Nation have agreed to collaborate to jointly develop the Many Stars Coal to Liquids project.

The Bid Acquisition and the UPA Acquisition (collectively the “Acquisition”) are expected to constitute a Reverse Take-over (“RTO”) of the Company as defined in the policies of the TSX Venture Exchange.

Prior to the completion of the Acquisition, the Company will consolidate its existing common shares on a 10 old common shares for one new common shares basis (10:1). This will result in an adjustment to the common shares issuable on the exercise of outstanding stock options on the same basis as the share consolidation.

The Company will issue 44,594,983 post consolidation common shares in the Acquisition.

Concurrent with the Acquisition, the Company will complete a private placement of 12 million post consolidation common shares at price of \$1 per share for aggregate gross proceeds of \$12 million. The private placement is subject to a 6% finder’s fee.

The Company will change its name to Great Western Energy Inc.

The Company has incurred \$301,807 (July 31, 2009 - \$137,792) in deferred transaction costs towards the completion of the RTO as at October 31, 2009.

The Company has received extensions from the regulatory authorities and now has until February 26, 2010 to complete the above transaction.

## **TERRA NOVA MINERALS INC.**

### **Management Discussion and Analysis**

#### **Three Months Ended October 31, 2009**

This management discussion and analysis (“MD&A”) of financial position and results of operations is prepared as at December 16, 2009 and should be read in conjunction with the unaudited interim financial statements for the three months ended October 31, 2009 of Terra Nova Minerals Inc. (“Terra Nova” or the “Company”) with the related notes thereto. Those unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and, as a result, do not contain all disclosure required under generally accepted accounting principles for annual financial statements. Accordingly, readers may want to refer to the July 31, 2009 audited financial statements and the accompanying notes. All dollar amounts included therein and in the following MD&A are expressed in Canadian dollars except where noted. This discussion contains forward-looking statements that involve risks and uncertainties. Such information, although considered to be reasonable by the Company’s management at the time of preparation, may prove to be inaccurate and actual results may differ materially from those anticipated in the statements made. Additional information on the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Description of Business**

The Company is a natural resource company engaged in the acquisition, exploration, and development of mineral properties. The Company held an interest in one property in Quebec and is currently involved in a significant transaction, as described below. The Company trades on the TSX Venture Exchange (“TSX-V”) under the symbol TGC.

#### **Significant Transaction**

The Company entered into a support agreement (the “Support Agreement”), dated July 22, 2009, with Australian Energy Company Limited (“AEC”), an unlisted Australian public company, pursuant to which the Company has agreed to acquire (the “Bid Acquisition”) all of the issued and outstanding ordinary shares of AEC through a takeover conducted under Australian law.

AEC owns 90.91% of Australian-American Energy Company, LLC (“AAEC”) through its wholly-owned subsidiary, Australian-American Energy Group, LLC. The Company has entered into a unit purchase agreement (the “UPA”) with Brian Zarker, the owner of the remaining 9.09% interest in AAEC, pursuant to which the Company will acquire (the “UPA Acquisition”) Mr. Zarker’s interest in AAEC on the same terms as the Bid Acquisition. AAEC is a party to a master lease agreement (the “Lease Agreement”) with the Crow Nation in respect of lands and mineral rights owned by the Crow Nation in Montana, USA. Pursuant to the Lease Agreement and related agreements, AAEC and the Crow Nation have agreed to collaborate to jointly develop the Many Stars Coal to Liquids project.

The Bid Acquisition and the UPA Acquisition (collectively the “Acquisition”) are expected to constitute a Reverse Take-over (“RTO”) of the Company as defined in the policies of the TSX Venture Exchange.

Prior to the completion of the Acquisition, the Company will consolidate its existing common shares on a 10 old common shares for one new common shares basis (10:1). This will result in an adjustment to the

common shares issuable on the exercise of outstanding stock options on the same basis as the share consolidation.

Pursuant to the Support Agreement, the Company must raise a minimum of \$12 million prior to the completion of the Bid Acquisition.

Following completion of the RTO, the Company will change its name to Great Western Energy Inc. The above transactions are subject to regulatory approvals.

The Company incurred \$301,807 in deferred transaction costs towards the completion of the RTO as at October 31, 2009.

The Company has received extensions from the regulatory authorities and now has until February 26, 2010 to complete the above transaction.

### Results of Operations

During the three months ended October 31, 2009 (“current period”), the Company incurred a loss of \$107,555 compared to a loss of \$79,365 for the three months ended October 31, 2008 (“comparative period”). The significant changes between the current period and the comparative period are as follows:

Management fees during the current period of \$60,000 (comparative period - \$30,000) were recorded as a result of Willie McLucas increased rate for management services of \$20,000 which commenced in June 2009.

Office and miscellaneous of \$5,753 (comparative period - \$272) has increased due to the Company pursuit of completing the significant transaction as discussed above.

Professional fees of \$3,796 (comparative period - \$14,335) have decreased as the Company is capitalizing certain legal costs associated with the significant transaction as discussed above.

Travel and related costs of \$11,446 (comparative period - \$4,204) have increased due to the Company pursuit of completing the significant transaction as discussed above.

### Quarterly Information

The following table sets forth selected unaudited financial information prepared by management of the Company:

	Three Months Ended Oct. 31, 2009	Three Months Ended July 31, 2009	Three Months Ended April 30, 2009	Three Months Ended Jan. 31, 2009
Total assets	\$ 311,977	\$ 284,755	\$ 561,276	\$ 650,740
Mineral properties and deferred costs	-	-	252,890	198,068
Working capital (deficiency)	(192,352)	79,218	307,874	449,926
Loss for the period	(107,555)	(415,205)	(87,230)	(78,086)
Loss per share	(0.00)	(0.01)	(0.00)	(0.00)

	Three Months Ended Oct. 31, 2008	Three Months Ended July 31, 2008	Three Months Ended April 30, 2008	Three Months Ended Jan. 31, 2008
Total assets	\$ 745,331	\$ 827,701	\$ 1,073,644	\$ 1,154,960
Mineral properties and deferred costs	198,068	198,068	190,149	242,930
Working capital	528,012	607,377	721,891	885,736
Loss for the period	(79,365)	(363,365)	(70,861)	(77,673)
Loss per share	(0.01)	(0.01)	(0.01)	(0.01)

### **Liquidity and Capital Resources**

The Company is in the development stage and therefore has no regular cash flow. As at October 31, 2009, the Company had a working capital deficiency of \$192,352 and cash on hand of \$4,024 compared to a working capital of \$79,218 and cash on hand of \$142,691 at July 31, 2009.

The significant changes in cash during the three months ended October 31, 2009 were primarily due to the use of cash in operations of approximately \$126,200, and deferred transaction costs of approximately \$12,500.

Cash flow to date has not satisfied the Company's operational requirements. The development of the Company may in the future depend on the Company's ability to obtain additional financings. In the past, the Company has relied on the issue of equity securities to meet its cash requirements. Future developments will depend on the Company's ability to obtain financing through joint venturing of projects, debt financing, equity financing or other means. There can be no assurances that the Company will be successful in obtaining any such financing or in joint venturing its properties.

### **Financial Instruments and Risk Management**

#### **Fair Values**

The fair values of cash, receivables and accounts payable, accrued liabilities and due to related parties approximate their book values because of the short-term nature of these instruments.

#### **(a) Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

#### **(b) Financial Instrument Risk Exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

### *Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

### *Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Such fluctuations may be significant.

#### (a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

#### (b) Foreign currency risk

The Company is not exposed to foreign currency risk on fluctuations in exchange rates.

#### (c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## **Capital Management**

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus, retained earnings and accumulated other comprehensive income. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure,

the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from fiscal 2009.

The Company is not subject to externally imposed capital restrictions.

### **Risk, Uncertainties**

The business of mineral deposit exploration and extraction involves a high degree of risk. Few properties that are explored ultimately become producing mines. At present, the Company's property under option has no known commercial ore deposit. Other risks facing the Company include competition for mineral properties, environmental and insurance risks, fluctuations in metal prices, share price volatility and uncertainty of additional financing.

### **Related party transactions**

During the three months ended October 31, 2009, the Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$60,000 (2008 – \$30,000) to a company which William McLucas is a director.
- b) Paid or accrued legal fees of \$3,796 (2008 – \$13,006) to a law firm of which director Grant Sawiak is a partner.

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

At October 31, 2009, \$20,000 (July 31, 2009 - \$1,400) was owing to related parties and included in accounts payable and accrued liabilities. Amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

### **Off Balance Sheet Arrangements**

The Company has no off Balance Sheet arrangements.

### **Adoption of new accounting standards**

Effective August 1, 2009, the Company adopted the following new standards issued by the Canadian Institute of Chartered Accountants ("CICA"):

*CICA Handbook Section 3064 – "Goodwill and other intangibles assets"*

This new section replaced Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". It establishes standards for the recognition, measurement, presentation

and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. Management has determined that the adoption of this new standard did not have a material impact on the financial statements of the Company, except for expanded disclosures in the notes to the financial statements.

## **Adoption of International Financial Reporting Standards (“IFRS”)**

### *Transition to International Financial Reporting Standards from Canadian GAAP*

The Canadian Accounting Standards Board (“AcSB”) confirmed in February 2008 that IFRS will replace Canadian GAAP for publicly accountable enterprises for financial period beginning on and after January 1, 2011, with the option available to early adopt IFRS from periods beginning on or after January 1, 2009 upon receipt of approval from the Canadian Securities regulatory authorities.

In September 2009, the Company applied for an exemption order (the “exemption order”) from the applicable Canadian Securities Administrators under National Instrument 52-107, *Acceptable Accounting Principles, Auditing Standards and Reporting Currency* (“NI 52-107”) to early adopt IFRS for financial periods starting on or after July 1, 2009.

The Company is still awaiting acceptance to early adopt IFRS, which is contingent on the Company completing the significant transaction has described above.

The Company’s transition date for converting to IFRS is August 1, 2009 and comparative periods for fiscal 2009 may be restated under IFRS. The following discussion provides further information about the Company’s IFRS conversion activities.

### *Management of IFRS Convergence Project*

The Company has substantially completed the process of transitioning from current GAAP to IFRS. It has established a formal project plan, allocated internal resources and engaged expert consultants, monitored by a Steering Committee to manage the transition from GAAP to IFRS reporting. The Steering Committee regularly updates the Audit Committee and the Board of Directors with the progress of the convergence project through communications and meetings.

The Company has evaluated its overall readiness to transition from GAAP to IFRS, including the readiness of its staff, Board of Directors, Audit Committee and auditors.

The IFRS convergence project consists of three primary phases, which in certain cases will occur concurrently as IFRS is applied to specific areas:

1. Initial Scoping and Impact Assessment Analysis: to isolate key areas that will be impacted by the transition to IFRS.
2. Evaluation and Design: to identify specific changes required to existing accounting policies, information systems and business processes, together with an analysis of policy alternatives allowed under IFRS and development of draft IFRS financial statements.
3. Implementation and Review: to execute the changes to information systems and business processes, completing formal authorization processes to approve recommended accounting policy

changes and training programs across the Company's finance and other consultants, as necessary. This will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, including embedding IFRS principles in business processes, and Audit Committee review and approval of IFRS financial statements.

A detailed timetable has been prepared to manage the transition and the Company is currently on schedule. At the date of preparing this MD&A, the Company has met the key objectives of the project plan. The Company's analysis of IFRS and comparison with currently applied GAAP has identified a number of differences which are discussed under the heading "Impact of Adoption of IFRS on Financial Reporting" below.

#### *First-time Adoption of International Financial Reporting Standards*

IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") sets forth guidance for the initial adoption of IFRS. Commencing for the period ending December 31, 2009 the Company expects to restate its comparative 2008 financial statements for annual and interim periods to be in accordance with IFRS. In addition, the Company will reconcile equity and net earnings from previously reported fiscal 2009 GAAP amounts to the restated 2009 IFRS amounts.

IFRS 1 generally requires that first-time adopters retrospectively apply all IFRS standards and interpretations in effect at August 1, 2009. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle.

The Company elected to take the following IFRS 1 option exemption:

1. Apply the requirements of IFRS 2, *Share-based payments* ("IFRS 2") only to equity instruments granted after November 7, 2002 which had not vested at the transition date of August 1, 2008.

Changes to estimates previously made are not permitted. The estimates previously made by the Company under GAAP will not be revised for application of IFRS except where necessary to reflect any changes resulting from differences in accounting policies.

#### *Impact of Adoption of IFRS on Financial Reporting*

While GAAP is in many respects similar to IFRS, conversion will result in differences in recognition, measurement, and disclosure in the financial statements. For the Company, the accounting policies and financial statements accounts identifies as being significantly affected by the adoption of IFRS are discussed below:

##### Share-based Payments (IFRS 2)

The Company currently measures stock-based compensation at the fair value of the options granted using the Black-Scholes option pricing formula and recognizes this expense over the vesting period of the options. For the purpose of accounting for share based payment transactions, an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured on the date of grant. The fair value of options granted to contractors and consultants is measured on the date the services are completed. Forfeitures are recognized as they occur.

As under GAAP, IFRS 2 requires the Company to measure stock-based compensation related to stock-options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options. However, for options granted to non-employees, IFRS

requires that stock-based compensation be measured at the fair value of the services received unless the fair value of the services cannot be reliably measured. For the purpose of accounting for share based payment transactions, an individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The definition of an employee is broader than that currently applied by the Company and will result in certain contractors and consultants being classified as employees under IFRS.

However, the Company has determined that no adjustments will be required at the transition date of August 1, 2008 or for the annual period ended July 31, 2009.

#### Impairment of Non-Financial Assets

Under GAAP, for assets other than financial assets, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets are less than their carrying value.

IAS 36, *Impairment of Assets* requires a write-down to be recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or value in use (uses discounted cash-flows) is less than carrying value.

The Company performed impairment assessments as of the transition date to determine whether an impairment charge would be recognized under IFRS, on the transition date and has concluded that there is no impairment charge under IFRS as of the transition date and July 31, 2009.

No material impacts are expected in relation to the balance sheet, statement of operations or statement of cash flows as at July 31, 2009 or for the year then ended. The Company's opening balance sheet as at August 1, 2008 Canadian GAAP balance sheet has been reconciled to IFRS. This reconciliation has not been audited.

	<b>August 1, 2008</b>		
	Canadian GAAP	Effect of transition to IFRS	IFRS
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	605,973	-	605,973
Prepays	9,146	-	9,146
Amounts receivable	14,514	-	14,514
	629,633	-	629,633
Mineral property	198,068	-	198,068
	827,701	-	827,701
Liabilities			
Accounts payable and accrued liabilities	22,256	-	22,256
Shareholders' equity			
Share capital	16,211,526	-	16,211,526
Contributed surplus	809,776	-	809,776
Deficit	(16,215,857)	-	(16,215,857)

	805,445	-	805,445
	827,701	-	827,701

### *IFRS Impact on Our Organization*

The conversion to IFRS will impact the way the Company present its financial results. The first financial statements prepared using IFRS (are expected to be the interim financial statement for the three months ended December 31, 2009 which will be required to include numerous notes disclosing extensive transitional information and full disclosure of all new IFRS accounting policies.

The Company has obtained an understanding of IFRS from intensive training and preparation of reconciliations of historical GAAP financial statements to IFRS. Further, our finance personnel include consultants who have prepared financial statements under IFRS previously.

The Company believes that the impact of the conversion on its accounting systems is minimal since it is still in the exploration stage. Based on the analysis and differences identified to date, the Company believes its systems can accommodate the required changes. In addition, the Company's internal and disclosure control processes, as currently designed, will not need significant modifications as a result of the conversion to IFRS.

### **Recent accounting pronouncements**

#### *Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

### **Outstanding Share Data**

As at December 16, 2009, the Company has:

- a) 38,689,868 common shares outstanding;
- b) 2,750,000 stock options outstanding with exercise prices ranging from \$0.13 to \$0.14 and expiring on June 13, 2012; and
- c) no share purchase warrants outstanding.

### **Disclaimer**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. It should be read in conjunction with all other disclosure documents provided by the Company, which can be accessed at [www.sedar.com](http://www.sedar.com). No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

### **Cautionary Statement on Forward Looking Information**

Certain statements contained in this document constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressly stated or implied by such forward-looking statements. Such factors include, among others, the following: mineral exploration and development costs and results, fluctuation in the prices of commodities for which the Company is exploring, foreign operations and foreign government regulations, competition, uninsured risks, recoverability of resources discovered, capitalization requirements, commercial viability, environmental risks and obligations, and the requirement for obtaining permits and licenses for the Company’s operations in the jurisdictions in which it operates.