



**EXCALIBUR**  
RESOURCES LTD.

**Consolidated Financial Statements  
For The Three Months Ended August 31, 2009  
(Unaudited)**

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

**Excalibur Resources Ltd.**  
**Balance Sheets as at August 31, 2009 and May 31, 2009**

	Note	August 31, 2009	May 31, 2009
<b>Assets</b>			
<b>Current</b>			
Cash		\$ 37,041	\$ 7,996
Prepays and sundry receivables		20,348	24,393
		<b>57,389</b>	32,389
Mineral properties and deferred exploration costs	5	397,909	431,365
Reclamation Bonds	6	10,000	10,000
		<b>\$ 465,298</b>	<b>\$ 473,754</b>

**Liabilities**

<b>Current</b>			
Accounts payable and accrued liabilities		\$ 229,441	\$ 223,413
Notes payable	13	45,859	45,859
Restoration liability	6	10,000	10,000
		<b>285,300</b>	279,272

**Shareholders' Equity**

Capital stock	7	8,629,118	8,629,118
Warrants	8(ii)	4,000	4,000
Contributed surplus	10	1,042,411	1,042,411
Deficit		(9,495,531)	(9,481,047)
		<b>179,998</b>	194,482
		<b>\$ 465,298</b>	<b>\$ 473,754</b>

**Nature of Operations (Note 1)**

*Litigation (Note 11)*

*Subsequent Events (Note 14)*

Approved by the Board "Dianne Szigety" Director "Tim Gallagher" Director  
(signed) (signed)

**Excalibur Resources Ltd.**  
**Consolidated Statements of Operations and Deficit**  
**for the three-month periods ended August 31, 2009 and 2008**

	<b>Three Months Ended</b>	
	<b>August 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Administrative expenses</b>		
Amortization	-	204
Consulting fees	-	15,000
Management fees & admin fees	-	27,000
Office expenses	<b>1,586</b>	11,115
Professional fees	<b>1,500</b>	9,500
Regulatory, transfer agent fees and investor relations	<b>5,920</b>	12,128
Travel	-	2,948
	<b>9,006</b>	77,895
<b>Impairment Loss on mining properties</b>	<b>5,478</b>	-
<b>Loss for the period</b>	<b>14,484</b>	77,895
<b>Deficit, beginning of period</b>	<b>(9,481,047)</b>	(8,619,518)
<b>Deficit, end of period</b>	<b>\$(9,495,531)</b>	\$(8,697,413)
<b>Loss per share</b>	<b>\$ (0.0002)</b>	\$ (0.001)
<b>Weighted average number of shares outstanding</b>	<b>67,313,180</b>	64,937,465

**Excalibur Resources Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the three-month periods ended August 31, 2009 and 2008**

	<b>Three Months Ended August 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used for)</b>		
<b>Operating activities</b>		
Loss for the period	<b>\$(14,484)</b>	\$(77,895)
Net change in non-cash working capital		
Amortization	-	204
Prepays and sundry receivables	-	18,302
Accounts payable & accrued liabilities	<b>6,029</b>	82,305
<b>Net cash used in operating activities</b>	<b>(8,455)</b>	22,916
<b>Financing activities</b>		
Due to related parties	-	20,000
Issuance of capital stock for cash	-	55,000
<b>Net cash provided by financing activities</b>	-	75,000
<b>Investing activity</b>		
Mineral property interests	<b>37,500</b>	(193,018)
<b>Net cash used in investing activities</b>	<b>37,500</b>	(193,018)
<b>Net increase (decrease) in cash</b>	<b>29,045</b>	(95,102)
<b>Cash, beginning of period</b>	<b>7,996</b>	100,279
<b>Cash, end of period</b>	<b>\$ 37,041</b>	\$ 5,177

**Supplemental Disclosure for Non-Cash Financing Activities:**

**2008: NIL**

2009: NIL

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

Excalibur Resources Ltd. (the "Company") was incorporated under the laws of the Canada. The Company's principal assets are mining claims and deferred exploration expenditures made on properties which are not in commercial production. The Company is in the process of exploring its mining claims and has not yet determined whether or not the properties will contain economically recoverable reserves. The Company is listed on the Canadian National Stock Exchange. ("CNSX").

As at August 31, 2009 the Company has a working capital deficiency of \$217,911. In order to meet this deficiency, fund future exploration expenditures and cover administrative costs, the Company will need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favorable to the Company. These financial statements have been prepared on a going concern basis that assumes the Company will be able to continue to realize its assets and discharge its liabilities in the normal course of business. In the event the Company is not able to obtain adequate funding, there is uncertainty as to whether the Company will be able to maintain or complete the exploration of its property interests. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to continue as a going concern.

## **2 CHANGES IN ACCOUNTING POLICIES**

- (i) Effective June 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. Disclosure requirements pertaining to Section 1535 are contained in Note 14.
- (ii) Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") which replaced Section 3861. Section 3862 provides standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments. Disclosure requirements pertaining to Section 3862 are contained in Note 15.
- (iii) Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863") which replaced Section 3861. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instruments related presentation.
- (iv) Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (Note 1).

**CHANGE IN ACCOUNTING POLICY (Cont'd)**

- (v) Effective June 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective (See Note 3).
- (vi) Effective June 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and measurement. Section 3855 provides that all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

**Financial assets**

Held for trading assets are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity assets are subsequently measured at amortized cost using the effective interest rate method.

Loans and receivables are subsequently measured at amortized cost using the effective interest rate method.

Available-for-sale assets are subsequently measured at fair value with the changes in fair value recorded in other comprehensive income.

**Financial liabilities**

Held for trading liabilities are subsequently measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities are subsequently measured at amortized cost using the effective interest rate method. The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash	Held for trading
Accounts payable and accrued liabilities	Other liabilities
Notes payable	Other liabilities

The initial adoption of these new standards had no impact on the Company's financial position as at August 31, 2009 or its results of operations for the three-month period then ended.

**2. CHANGE IN ACCOUNTING POLICY (Cont'd)**

- (vii) Effective June 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, Comprehensive Income. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income. To date there has not been any other comprehensive income and accordingly, a statement of comprehensive income has not been presented.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

**Basis of Presentation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Excalibur Resources (US) Inc. All significant inter-company transactions and balances have been eliminated.

**Capital Assets**

Capital assets, consisting of furniture and equipment, are recorded at cost and amortized on a declining basis at 20% per annum.

**Income Taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

**Foreign Currency**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at rates of exchange at each transaction date. Revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in income.

**Share Issuance Costs**

Costs incurred in connection with the issuance of capital stock are netted against the proceeds received.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Mineral Properties and Deferred Exploration Costs**

All direct costs related to the acquisition and exploration of specific properties are capitalized as incurred. Discretionary option payments arising on the acquisition of mining properties are only recognized when paid. Amounts received from other parties to earn an interest in the Company's mining properties are applied as a reduction of the mining property and deferred exploration costs, except for administrative reimbursements which are included in operations.

Management reviews the carrying values of mining property acquisition and deferred exploration expenditures to assess whether there has been any impairment in value. In the event that management determines the carrying values of any mining property to be permanently impaired, the carrying value will be written down or written off, as appropriate. If a property is brought into production, the carrying value will be amortized against the income generated from the property.

The amounts shown for mining claims and related deferred costs represent costs incurred to date, less write-offs and reimbursements, and do not necessarily reflect present or future values of the particular properties. The recoverability of amounts shown for mining properties is dependent upon discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mining properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

**Asset Retirement Obligations**

Costs of asset retirement obligations will be estimated each year by management based upon current regulations and industry practice. As a result of the Company's drilling activity management has estimated the fair value of the asset retirement obligations based on the expected cost to return the area to its original condition. A corresponding increase is made to the mineral claims and deferred exploration costs.

**Loss Per Share**

Basic loss per share is calculated based on the weighted average number of shares outstanding. The treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments.

**Accounting for Stock-Based Compensation and Other Stock-Based Payments**

The Company applies a fair value based method of accounting to all stock-based payments. Accordingly, stock-based payments are measured at the fair value of the consideration received or the fair value of the equity instruments issued or liabilities incurred, whichever is more reliably measurable. Stock-based compensation is charged to operations over the vesting period and the offset is credited to contributed surplus. Consideration received upon the exercise of stock options is credited to share capital and the related contributed surplus is transferred to share capital.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates. Areas requiring significant estimates from management are the fair values of stock-based compensation, the fair value ascribed to warrants issued in connection with the private placement and the assessment of impairment on mineral properties and deferred exploration costs.

**Future Accounting Pronouncements Issued and Not Yet Adopted**

(a) The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The Company is currently assessing the impact that the transition to IFRS will have on the Company's financial statements.

**4. CAPITAL ASSETS**

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net 2009</b>	<b>Net 2008</b>
Furniture and equipment	\$ 17,118	\$ 17,118	\$ -	\$ 4,118

**5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

	<b>Needles<sup>(i)</sup></b>	<b>Delamar<sup>(iii)</sup></b>	<b>Silver King<sup>(iii)</sup></b>	<b>Cariboo Claims<sup>(iv)</sup></b>	<b>Sturgeon Lake<sup>(v)</sup></b>	<b>Total</b>
<b>Acquisition costs</b>						
May 31, 2007	\$150,000	\$ 51,954	\$ -	\$ -	\$ -	\$201,954
Shares issued	-	-	6,000	1,250	-	7,250
Cash	-	60,374	71,500	10,000	-	141,874
Staking costs	-	-	-	-	53,000	53,000
May 31, 2008	150,000	112,328	77,500	11,250	53,000	404,078
<b>Deferred exploration costs</b>						
May 31, 2007	-	263	-	-	-	263
Additions	393,699	11,347	55,572	-	2,763	463,381
May 31, 2008	393,699	11,610	55,572	-	2,763	463,644
<b>Total as of May 31, 2008</b>	<b>\$543,699</b>	<b>123,938</b>	<b>\$133,072</b>	<b>\$11,250</b>	<b>\$55,763</b>	<b>\$867,722</b>

**Acquisition costs**

May 31, 2008	\$150,000	\$112,328	\$ 77,500	\$11,250	\$ 53,000	\$404,078
Shares issued	-	-	-	3,600	15,000	18,600
Cash pmts (received)	(5,000)	-	-	-	-	(5,000)
Staking costs	-	-	-	-	25,331	25,331
Impairment	(107,500)	(112,328)	-	-	-	(219,828)
May 31, 2009	37,500	-	77,500	14,850	93,331	223,181
Cash pmts (received)	(37,500)	-	-	-	-	(37,500)
<b>August 31, 2009</b>	<b>-</b>	<b>-</b>	<b>77,500</b>	<b>14,850</b>	<b>93,331</b>	<b>185,681</b>

**5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Cont'd)**

	<b>Needles<sup>(i)</sup></b>	<b>Delamar<sup>(ii)</sup></b>	<b>Silver King<sup>(iii)</sup></b>	<b>Cariboo Claims<sup>(iv)</sup></b>	<b>Sturgeon Lake<sup>(v)</sup></b>	<b>Total</b>
<b><u>Deferred exploration costs</u></b>						
May 31, 2008	393,699	11,610	55,572	-	2,763	463,644
Additions	19,955	7,709	144,910	-	8,983	181,557
Impairment	(413,654)	(19,319)	-	-	-	(432,973)
Aug. 31 & May 31, 2009	-	-	198,918	-	11,746	212,228
<b>August 31, 2009</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$277,982</b>	<b>\$14,850</b>	<b>\$105,077</b>	<b>\$397,909</b>

**(i) Needles Property**

Subsequent to the year end the Company sold this property for \$37,500 and has written down the property's value to the recovery amount.

**(ii) Delamar Property**

The Company was not able to make all land payments to Nye County and Bureau of Land Management to keep the Property in good standing, and is no longer pursuing the property. Accordingly, the property has been fully written-off.

**(iii) Silver King Property**

The Company entered into an option to earn a 100% interest in the Silver King Property located in the Kootenay District of British Columbia, by issuing common shares and making cash payments over four years as follows:

- a. \$30,000, plus a \$1,500 reimbursement of 2007 paid taxes (paid), upon the execution of the letter of agreement and the issuance of 70,000 shares (issued);
- b. \$40,000 on or before June 1, 2008 (paid) and the issuance of 90,000 shares (issued);

On August 11, 2009 the Company was able to renegotiate the terms of the option agreement. The amended terms require the company to issue common shares and make the following cash payments:

- c. \$40,000 on or before June 1, 2010 and the issuance of 140,000 shares;
- d. \$75,000 on or before June 1, 2011 and the issuance of 190,000 shares; and
- e. on or before June 1, 2012 the issuance of 250,000 common shares and \$100,000 plus the greater of:
  - i. 125% of the 2012 assessed value of the surface rights issued by the British Columbia Assessment Authority; or
  - ii. \$350,000

The Company is required to issue an additional 200,000 shares to the Optionor on receipt by the Company of a positive feasibility study, either in the form of a preliminary feasibility study or a bankable study, or upon commencement of commercial production.

## **5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Cont'd)**

In addition, the Optionor is entitled to receive 3% Net Smelter Return on the Silver King Property (the "NSR"), which shall be in an amount not be less than \$50,000, adjusted by the Statistics Canada Consumer Price Index for British Columbia using 2006 as a base year. The Optionor is also entitled to receive an advanced royalty in the base amount of \$50,000, adjusted by the Statistics Canada Consumer Price Index for British Columbia using 2006 as a base year, due on December 31 in each year that the Silver King Property is not in commercial production for a full 12 months, starting in the year in which the option is exercised by the Company. The NSR will be reduced by the total of any advance royalty paid. Upon commencement of commercial production, the Company will have the right to purchase 50% of the NSR for \$1,500,000.

### **(iv) Cariboo Claims**

On December 12, 2007 the Company entered into an option to acquire a 100% interest in the Cariboo Group claims and the Princess and Cleopatra claims (collectively the "Cariboo Claims"), representing a total of five claim units near the City of Nelson, in the Kootenay District of British Columbia, by making the following option payments in cash and shares:

- \$10,000 (paid) and 25,000 shares at a price of \$0.05 per share (issued) upon signing of the Letter of Intent;

On August 17, 2009 the Company was able to renegotiate the terms of the option agreement for 80,000 shares (issued). The amended terms require the company to issue common shares and make the following cash payments:

- \$15,000 on or before June 1, 2010;
- \$20,000 and 50,000 shares on or before June 1, 2011;
- \$25,000 and 100,000 shares on or before June 1, 2012;

In addition, the Company is required to issue 200,000 shares to the Optionor on receipt by the Company of a positive feasibility study, either in the form of a preliminary feasibility study or a bankable study, or upon commencement of commercial production. The Optionor is entitled to receive a 2% Net Smelter Return royalty on each of the mineral tenures. Upon commencement of commercial production the Company will have the right to purchase 50% of the NSR for \$500,000.

### **(v) Sturgeon Lake**

The Company has undergone a staking program in the Sturgeon Lake area of Ontario and has 71 claims registered. In order to maintain these claims, the company must spend between \$1,500 - \$ 6,500 per claim. This must be spent within two years from the date the claim was staked which is between March 2010 and July 2010.

## **6. RESTORATION LIABILITY**

As at August 31, 2009, management estimated site restoration costs relating to their exploration program on their mining claims relating to the Silver King Property to be \$10,000. These costs are estimated by management and approved by the Ministry of Energy, Mines and Petroleum Resources in the province of British Columbia ("MEMP"). The Company was required to issue reclamation bonds to cover these estimated restoration costs. The reclamation bonds will be returned to the Company upon the MEMP being satisfied with the site restoration.

**Excalibur Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
**August 31, 2009 and 2008**

**7. CAPITAL STOCK**

Authorized  
100,000,000 common shares without par value  
Issued - common shares

	Number of Shares	Value
<b>Balance, May 31, 2007</b>	<b>47,441,271</b>	<b>\$ 8,011,550</b>
Shares issued for property acquisitions	185,000	7,250
Shares issued in settlement of debt <sup>(i)</sup>	346,666	20,780
Shares issued in connection with a private placement <sup>(ii)</sup>	16,433,759	986,026
Share issuance costs	-	(65,673)
Less value allocated to warrants (Note 8(ii))	-	(472,531)
<b>Balance, May 31, 2008</b>	<b>64,406,696</b>	<b>\$ 8,487,402</b>
Shares issued for property acquisitions <sup>(iii)</sup>	380,000	18,600
Shares issued in settlement of debt <sup>(iv)</sup>	4,355,792	87,116
Share issued in connection with private placements <sup>(v)</sup>	800,000	40,000
Less value allocated to warrants (Note 8(ii))	-	(4,000)
<b>Balance, August 31, and May 31, 2009</b>	<b>69,942,488</b>	<b>\$ 8,629,118</b>

- (i) In the prior year 346,666 common shares were issued to settle \$20,780 of accounts payable.
- (ii) In the prior year the Company issued 16,433,759 units for gross proceeds of \$986,026. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the purchaser to acquire one common share at an exercise price of \$0.14 per common share for one year from issuance.
- (iii) On July 29, 2008 the Company issued 300,000 shares at a price of \$0.05 per share in payment of finder's fees for the Sturgeon Lake property (Note 5(v)). On December 5, 2008 the Company issued 40,000 shares for property acquisition, and additional 40,000 shares were issued as an incentive to defer the cash payment. (Note 5(iv))
- (iv) On December 23, 2008 the Company issued 4,355,792 shares at a price of \$0.02 to settle \$87,116 of accounts payable.
- (v) On July 14, 2008 the Company issued 800,000 units at \$0.05 per unit for gross proceeds of \$40,000. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the purchaser to acquire one common share at an exercise price of \$0.05 per common share for 18 months from issuance (see Note 8(ii)).

**8. STOCK OPTIONS AND WARRANTS**

(i) **Stock Options**

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance with respect to the Plan cannot exceed 10% of the issued and outstanding common shares of the Company at the date of grant. Stock options granted generally vest immediately.

**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

The following summarizes the stock option activities:

	<b>2009</b>		<b>2008</b>	
	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Beginning balance	4,713,000	\$ 0.07	4,463,000	\$ 0.07
Granted	300,000	\$ 0.05	250,000	\$ 0.07
Cancelled/expired	(375,000)	\$ 0.07	-	\$ -
Outstanding at period-end	4,638,000	\$ 0.07	4,713,000	\$ 0.07
Exercisable at period-end	4,638,000	\$ 0.07	4,713,000	\$ 0.07

The Company had the following options outstanding at August 31, 2009:

<b>Number of Options</b>	<b>Price</b>	<b>Expiry Date</b>
1,468,000	\$ 0.100	December 23, 2009
2,120,000	\$ 0.050	February 20, 2012
200,000	\$ 0.065	March 26, 2012
300,000	\$ 0.050	May 16, 2012
200,000	\$ 0.090	October 29, 2012
50,000	\$ 0.050	April 3, 2013
300,000	\$ 0.050	July 4, 2013
<b>4,638,000</b>		

(ii) **Warrants**

The following summarizes the warrant activities:

	<b>2009</b>		<b>2008</b>	
	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>
Beginning balance	26,603,759	\$ 0.12	11,170,000	\$ 0.10
Issued	800,000	\$ 0.05	16,433,759	\$ 0.14
Expired	(26,603,759)	\$ 0.12	(1,000,000)	\$ 0.10
Ending balance	800,000	\$ 0.05	26,603,759	\$ 0.12

**Excalibur Resources Ltd.**  
**Notes to Consolidated Financial Statements**  
**August 31, 2009 and 2008**

**8. STOCK OPTIONS AND WARRANTS (Cont'd)**

As at August 31, 2009, the warrants outstanding have an exercise price of \$0.05 per warrant and expire on January 14, 2010. Below is a summary of the warrant capital:

	<b>2009</b>	<b>2008</b>
Contributed surplus beginning of period	\$ 745,686	\$ 273,155
Value attributed to warrants issued	4,000	472,531
Value of expired warrants (Note 10)	(745,686)	-
	<b>\$ 4,000</b>	<b>\$ 745,686</b>

**9. STOCK-BASED COMPENSATION**

The total stock compensation expense relating to options recognized in the year ended May 31, 2009 was \$9,770 (2008 - \$20,397). The fair value of each option granted in the current year was estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following weighted-average assumptions: (i) dividend yield of 0% (2008 - 0%); (ii) expected volatility of 89% (2008 - 212%); (iii) risk-free interest rate of 3.37% (2008 - 3.96%) and; (iv) expected life of 4 (2008 - 5) years. The Company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the period they occur.

**10. CONTRIBUTED SURPLUS**

	<b>2009</b>	<b>2008</b>
Contributed surplus beginning of period	286,955	266,558
Stock-based compensation expense (Note 9)	9,770	20,397
Value of expired warrants (Note 8)	745,686	-
	<b>\$1,042,411</b>	<b>\$286,955</b>

**11. INCOME TAXES**

**(i) Income Tax Expense**

The following table reconciles income taxes calculated at combined Canadian federal/ provincial tax rates with the income tax expense in the financial statements:

	<b>2009</b>	<b>2008</b>
Loss before income taxes	\$ (861,529)	\$ (302,764)
Statutory rate	33.0%	35.0%
Expected income tax recovery	\$( 284,305)	\$ (137,467)
Stock-based compensation and other non-deductible expenses	4,800	8,300
Change in valuation allowance	116,850	(28,286)
Change in tax rates and other	36,725	64,103
Expired unutilized tax losses	125,930	112,400
Share issue costs	-	(19,050)
	<b>\$ -</b>	<b>\$ -</b>

**11. INCOME TAXES (Cont'd)**

(ii) **Future Income Taxes**

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	<b>2009</b>	<b>2008</b>
Amounts related to tax loss and credit carry forwards	<b>\$ 513,500</b>	580,400
Capital assets	<b>7,850</b>	6,600
Share issue costs	<b>11,000</b>	15,500
Exploration expenditures	<b>504,000</b>	317,000
Net future tax asset	<b>1,036,350</b>	919,500
Less: Valuation allowance	<b>(1,036,350)</b>	(919,500)
	<b>\$ -</b>	<b>\$ -</b>

(iii) **Loss and Tax Credit Carryforwards**

The Company has non-capital losses of \$1,770,500 available to apply against future taxable income. If not utilized, the non-capital losses will expire as follows:

2010	\$ 337,700
2014	207,700
2015	188,700
2026	207,600
2027	327,000
2028	298,300
2029	203,500
	<b>\$ 1,770,500</b>

The potential tax benefit relating to these losses has not been reflected in these financial statements.

**12. LITIGATION**

A statement of claim has been filed in the Ontario Superior Court against the Company by a former director and officer of the Company. The suit alleges that the Company owes the former director and officer an aggregate amount of approximately \$227,000 for services rendered and expenses, provision and implementation of the Company's current business model and for funds invested in the Company.

The Company has retained legal counsel and, based upon a preliminary review of the statement of claim and its charges, the Company believes that while certain aspects of the claim have merit, the quantum of damages sought is excessive and the real exposure is in the range of \$25,000 to \$75,000 should the Plaintiff succeed in overcoming the liability arguments asserted by the Company in its statement of defense. In a prior year, the action lapsed into dormancy and no steps have been taken by the plaintiff for several years. The Company has accrued \$57,575 with respect to this matter in these financial statements.

### **13. RELATED PARTY TRANSACTIONS**

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the respective parties.

- (i) During the reporting period, management and administrative fees of \$Nil (2008 - \$27,000) and \$Nil (2008 - \$15,000) of consulting fees were paid or accrued to directors and officers of the Company and a company controlled by a director and officer of the Company. Included in accounts payable and accrued liabilities is \$32,400 owed to the above related parties.
- (ii) Notes payable of \$42,529 issued during the year ended May 31, 2009 are due to a former director of the Company. The notes bear interest at the rate of 10% per annum. Unpaid interest will be added to and form part of the principal. Included in office and administrative costs is interest on these notes payable of \$3,330.

### **14. CAPITAL DISCLOSURES**

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes equity, comprised of issued capital stock, warrant capital, contributed surplus and deficit, in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company may attempt to raise additional funds through the issuance of equity and warrants, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the quarter ended August 31, 2009.

### **15. FINANCIAL RISK MANAGEMENT**

The Company is exposed to a variety of financial risks by virtue of its activities, in particular: interest rate risk and liquidity risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies approved by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

#### **(a) Interest rate risk:**

Interest rate risk is the risk that the future cash flows or fair value of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash earns interest at market rates. The Company's notes payable incur interest at a fixed rate of interest. A 1% change in the market interest rate would have changed the fair value of these notes by approximately \$3,800.

**15. FINANCIAL RISK MANAGEMENT (Cont'd)**

**(b) Liquidity risk:**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

As at August 31, 2009, the Company has accounts payable and accrued liabilities and notes payable of \$275,300 due within 12 months and has cash and cash equivalents of \$37,041 to meet its current obligations. As a result the Company has liquidity risk and is dependent on raising additional capital.



**EXCALIBUR**  
RESOURCES LTD.

**Management Discussion & Analysis  
For the period ended August 31, 2009**

The following discussion and analysis of the operations, results, and financial position of the Corporation for the period ended August 31, 2009 should be read in conjunction with the May 31, 2009 Audited Financial Statements and the related Notes. The effective date of this report is October 30, 2009. All monetary amounts, unless otherwise indicated, are expressed in Canadian dollars. Additional regulatory filings for the Corporation can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking Statements**

Certain statements contained in this document constitute “forward-looking statements”. When used in this document, the words “may”, “would”, “could”, “will”, “intend”, “plan”, “propose”, “anticipate”, “believe”, “forecast”, “estimate”, “expect” and similar expressions, as they relate to the Corporation or its management, are intended to identify forward-looking statements. Such statements reflect the Corporation’s current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Corporation’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Corporation does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or development.

Excalibur Resources Ltd. (the “Corporation”) was incorporated on May 11, 1983 pursuant to the Corporation Act (British Columbia) under the name Cactus West Explorations Ltd. The Corporation’s name was changed to Cimarron Minerals Ltd. and its share capital was consolidated on a five (old) for one (new) basis on April 29, 1996. On May 1, 2000 the Corporation’s name was changed to DiscFactories Corporation, its share capital was consolidated on a two (old) for one (new) basis and the Corporation was continued into the federal jurisdiction under the *Canada Business Corporations Act*. The Corporation was extra-provincially registered in the Province of British Columbia on May 30, 2000. On February 20, 2007 the Corporation completed a change of business transaction (the “Transaction”), pursuant to which it changed its name from DiscFactories Corporation to Excalibur Resources Ltd.

## **Business Description**

Excalibur Resources Ltd. is a junior exploration mining company focused on the discovery, development and mining of economically viable precious and base metal mineral resources. The Corporation is a reporting issuer in British Columbia, Alberta and Ontario and trades on the Canadian National Stock Exchange (“CNSW”) under the symbol XBR and on the Frankfurt Stock Exchange under the security code WKN: A0MMDH. The Corporation maintains an office at Suite 2300, 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X2. The Corporation’s registered and records office is located at the same address. The Corporation has one subsidiary, Excalibur Resources (US) Inc., incorporated under laws of the State of Nevada on April 24, 2007.

## **Results of Operations**

During the reporting period a number of changes in the composition of the Company’s board of directors occurred. In July, 2009 the Company’s Chairman and director, Edwin Bergsteinsson, passed away and on August 13, 2009, Mr. Anthony Garson resigned as President and a director of the Company. Dianne Szigety, a director and Corporate Secretary of the Company, was appointed President in place of Mr. Garson.

## **Needles Property, Nevada, USA**

In February, 2007, the Corporation issued 2,000,000 common shares and paid \$50,000 to Taranis Resources Inc. (“Taranis”) in consideration for the Needles silver/gold property located in the Arrowhead Mining District, Nye County, Nevada. The property is the subject of a technical report dated July 31, 2006 and entitled “NI 43-101 Technical Report Prepared for DiscFactories Corp. Concerning the Needles Au-Ag Property, Nye County, Nevada, USA”, which was prepared by Peter C. Hubacheck, P. Geo. APGO, P. Geol. APEGGA of W. A. Hubacheck Consultants Ltd. in accordance with National Instrument 43-101

*Standards of Disclosure for Mineral Projects.* Mr. Hubacheck is a qualified person as defined in NI 43-101 and is independent of the Corporation. The report has been filed and is available under the Corporation's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

On April 22, 2009 the Company and District Gold Inc., a private Ontario corporation, completed a letter of intent which gave District Gold the right to acquire a 51% interest in the Needles Property, in consideration of a non-refundable cash payment of \$25,000 and exploration work commitments totaling \$775,000 over a three year term. District Gold would also assume all land payments to the Nye County Recorder and the Bureau of Land Management to keep the Needles Property in good standing. District Gold had made a payment of \$12,500, representing one-half of the non-refundable deposit required at the time of signing the letter of intent. During the period ended August 31, 2009 the letter of intent was converted into a 100% purchase of the Needles Property. It was agreed that District Gold would pay an additional \$25,000 (paid) and assume all future obligations with respect to the Needles Property. The Company has written down the Needles Property value to the recovery amount.

### ***Delamar Property, Nevada, USA***

On May 16, 2007, the Corporation acquired 53 mining claims known as the Stinger Claims located in the Delamar Mining District, Lincoln County, Nevada in consideration of: (i) US\$20,000 paid to the vendors of the mining claims on closing; (ii) 600,000 common shares of the Corporation issued to the vendors on closing at a deemed price of C\$0.05 per share; and (iii) US\$55,000 payable to the vendors upon closing of the Corporation's next financing. The Stinger Claims are subject to a 2% net smelter return royalty in favour of a third party which can be purchased for US\$100,000. The common shares issued to the vendors of the mining claims are subject to a four month hold period under applicable securities laws expiring September 18, 2007.

The acquisition of the Stinger Claims constituted a related party transaction as the claims were purchased from Edwin Bergsteinsson, Chairman and a director of the Corporation and Dianne Szigety, the Corporate Secretary and a director of the Corporation.

On September 1, 2009 the Company was unable to renew the claims with the Bureau of Land Management to keep the Stinger Claims in good standing. The Company is no longer pursuing the Delamar Property and the Property has been fully written off.

### ***Silver King Property, British Columbia***

On July 5, 2007 the Corporation entered into a binding letter of intent with Arbutus Resources Ltd. ("Arbutus"), a private British Columbia company, for an option to acquire 100% of Arbutus' interest in the Silver King Mine property, comprised of 24 Crown grants and six claims in the Kootenay District of British Columbia. Under the terms of the letter agreement, the Corporation can acquire Arbutus' 100% interest in the Silver King Property by making the following option payments in cash and shares:

- \$30,000 (plus a \$1,500 reimbursement of 2007 taxes) (paid) and 70,000 shares (issued) upon signing of the letter of intent;
- \$40,000 (paid) and 90,000 shares (issued) on or before June 1, 2008;
- \$55,000 and 140,000 shares on or before June 1, 2009;
- \$70,000 and 190,000 shares on or before June 1, 2010; and
- \$90,000 plus the greater of \$250,000 or 125% of the 2011 assessed value of each of the surface rights of certain lots comprising the Silver King Property and 250,000 shares on or before June 1, 2011.

Under the terms of the letter of intent, the Corporation is required to issue an additional 200,000 shares to Arbutus on receipt by the Corporation of a positive feasibility study, either in the form of a preliminary feasibility study or a bankable study, or upon commencement of commercial production.

In addition, Arbutus is entitled to receive a 3% net smelter return royalty on the Silver King Property (the "NSR"), which shall be in an amount not be less than \$50,000, adjusted by the Statistics Canada Consumer Price Index for British Columbia using 2006 as a base year. Arbutus is also entitled to receive an advanced royalty in the base amount of \$50,000, adjusted by the Statistics Canada Consumer Price

Index for British Columbia using 2006 as a base year, due on December 31 in each year that the Silver King Property is not in commercial production for a full 12 months, starting in the year in which the option is exercised by the Corporation. The NSR will be reduced by the total of any advance royalty paid. Upon commencement of commercial production, the Corporation will have the right to purchase 50% of the NSR for \$1,500,000.

The Silver King Property is a former producer of silver and copper, located on Toad Mountain about 4½ miles south of Nelson, British Columbia at an average elevation of 6,000 feet above sea level. It is readily accessible from Nelson, with a road distance of approximately 8 miles, and is located in proximity to several existing gold discoveries in the area. The claims were originally staked in 1885. In 1895, Hall Mines Co. Ltd. of London, England began large scale development of the mine and construction of a smelter at Nelson to treat the Silver King ores and ores from other mines in the district. Between 1889 and 1958, over 15 million lbs. of copper and 4 million oz. of silver were produced from an estimated production of 222,721 tons. Most of this was produced before 1915 and was mined from the upper 100 meters of the Silver King veins. Development at this time included three portals, ten levels, an internal and an external shaft. The main Silver King vein, one of several quartz-filled shears on the property, has been responsible for nearly all the tonnage mined to-date. No National Instrument 43-101 compliant technical reports have yet been completed on the Silver King Property.

The Corporation commissioned an independent consultant to digitize a Pre-NI43-101 Report on the Silver King Property which was prepared by Robert Longe, P.Eng and dated May, 1998. The Report can be accessed from the Corporation's website, along with updated claim changes made since the Longe Report was produced.

During September, 2007 the Corporation made arrangements with independent geological consultants to delineate a maximum 12-hole diamond drill program in order to confirm the exploration and economic potential of the Silver King Property.

During the summer 2008 exploration season, the Corporation completed the first phase of a field work program at the Silver King Property. The geological team under the guidance of Dr. Hamid Mumin has completed the first phase of detailed property mapping. The work included sampling all mineralized areas encountered at surface including pits, trenches and outcrops. In addition, the team sampled the Corporation's adjacent Cariboo gold showing located immediately east of the Silver King property.

140 samples have been analyzed by Acme Analytical Laboratories of Vancouver, B.C. Canada for geochemical values by four-acid digestion, ICP-MS analysis. To date, Excalibur has received results from 104 samples. All samples greater than 10,000 ppm (>1.0%) base metal content or greater than 200 ppm (200 g/mt) silver have been re-assayed to determine final values. Samples of visually mineralized material or immediately adjacent wall rocks, as well as unmineralized country rock samples and areas not associated with the main Silver King shear can be viewed on the Corporation's web site at [www.excaliburresources.ca](http://www.excaliburresources.ca). Excalibur has released the results of all over-limit assays in an October 3, 2008 news release. The results of the remaining 35 samples are pending.

As a result of the summer work program, a number of property observations have been identified:

- Excalibur geologists have observed mineralization exposed at or near surface over a distance of more than one kilometre with multiple parallel to sub-parallel mineralized zones occurring in at least two areas on the property (main pit area and Bonanza area). At surface, the width of the mineralized zone varies from approximately 1 to 25+ meters.
- Due to prevailing market conditions, Excalibur has delayed a drill program to test the suitability of the near surface mineralization for a modest open pit operation. Mineralization at surface is strongly weathered, oxidized and leached, varying from complete removal of all sulphides and metals to minor leaching in portions of the deeper pits and trenches. Consequently, assays of the surface material are not expected to report full values, and in many cases much of the metals may be removed by the weathering. Consequently, drilling below the weathered zone is required to attain accurate metal values. Depth of weathering is variable on the property, but total leaching rarely exceeds ~1 to 2 meters.

- The best mineralized areas occur where other structures (faults) cross-cut the main Silver King Shear zone. In these areas, the mineralized zone widens, intensifies and splits into multiple mineralized lenses of varying orientations.
- The northwest end of the system is relatively richer in zinc-lead-silver, while the southeast side is relatively richer in copper-silver.
- A heavily pyritic volcanic schist was discovered on the Cariboo option ground. The zone is at least 100 meters wide (full width and length unknown). The economic implications of this zone are being examined by surface sampling, and drilling if warranted.

#### **Further Recommended Work**

- Drilling is strongly recommended because the possibility of delineating additional resources is very high, including both potential near surface lower-grade open pit resources and higher grade underground resources at depth along the Silver King Shear. Systematic drilling is required to delineate the potential resource at Silver King. Immediate drill targets include: 1) the near-surface mineralization found to occur across most of the property, 2) the down plunge rake of mineralization at the intersections of cross-cutting structures, and 3) zones of known and projected mineralization at depth. Pending encouraging assays, the newly discovered pyritic volcanic schist may also represent a good drill target. Complete a full grid on the property, and extend the geological mapping.
- Update the 3D model of the mine and mineralization as presented in earlier reports, as further information becomes available.
- Complete a walking magnetometer survey and possible IP survey pending further review of existing geophysics.

The Corporation intended to carry out a trenching program to better define the mineralized zones at surface prior to diamond drilling. Due to global market conditions and the Corporation's financial condition, further work programs have been delayed on this property. Maps and additional information, and the full set of assay information are available on the Excalibur web site, [www.excaliburresources.ca](http://www.excaliburresources.ca)

During the month of August 2009, the Corporation renegotiated the terms of its option agreement with J.D. Graham & Associates Ltd. ("Graham") dated July 5, 2007 to acquire a 100% interest in the Silver King Mine property. Pursuant to the original terms of the agreement the Corporation was to pay Graham total cash payments of \$535,000 and issue 740,000 common shares over a four year period. The agreement has been revised to reduce the cash payment which was required to be paid on June 1, 2009 from \$55,000 to \$40,000, and to extend the payment date to June 1, 2010. Subsequent cash payments and share issuances have also been deferred for a one year period from the original agreement.

#### ***Cariboo Claims, British Columbia***

On December 12, 2007 the Corporation announced that it had entered into a binding Letter of Intent with Tom E. Cherry (the "Optionor") for an option to acquire 100% of his interests in the Cariboo Group claims and the Princess and Cleopatra claims (the "Cariboo Claims"), representing a total of five claim units near the City of Nelson, in the Kootenay District of British Columbia.

Under the terms of the Letter of Intent, the Corporation can acquire the Optionor's 100% interest in the claims by making the following option payments in cash and shares:

- \$10,000 (paid) and 25,000 shares (issued) upon signing of the Letter of Intent;
- \$15,000 and 40,000 shares (issued) on or before December 1, 2008;
- \$20,000 and 50,000 shares on or before December 1, 2009;
- \$25,000 and 100,000 shares on or before December 1, 2010.

In addition, the Corporation is required to issue 200,000 shares to the Optionor on receipt of a positive feasibility study, either in the form of a preliminary feasibility study or a bankable study, or upon commencement of commercial production. The Optionor is entitled to receive a 2% Net Smelter Return

royalty on each of the mineral tenures. Upon commencement of commercial production the Corporation will have the right to purchase 50% of the NSR for \$500,000.

The Cariboo Group claims comprise approximately 58 hectares (143 acres). The Princess and Cleopatra claims represent 17.7 hectares (43.7 acres) and 11.2 hectares (27.7 acres) respectively. The Cariboo Group claims lie mainly contiguous to the south-east of the Silver King Mine property boundary with some small gaps. The Cleopatra and Princess claims are located north-east of and approximately 2.5 km from the Silver King boundary. During the Corporation's summer 2008 Silver King field program, samples were collected from the Cariboo Group claims, the results of which were reported upon in the Corporation's October 3, 2008 news release.

On December 1, 2008 the Optionor agreed to amend the terms of the Letter of Intent to provide that the Corporation issue 40,000 common shares, as an incentive to defer the \$15,000 payment due to the Optionor on December 1, 2008, until June 11, 2009. On December 5, 2008 the Corporation issued 40,000 shares at a deemed price of \$0.05 per share, for aggregate consideration of \$2,000, representing the second tranche of shares to be issued pursuant to the Letter of Intent. The Corporation also issued 40,000 common shares at a deemed price of \$0.05 per share in consideration of the Optionor deferring the cash payment of \$15,000 until June 11, 2009.

During the month of August, 2009 the Corporation renegotiated the terms of its option agreement with the Optionor dated December 10, 2007. The agreement has been revised to defer a \$15,000 cash payment originally due on December 1, 2008 until June 1, 2010 and to defer subsequent cash payments totaling \$45,000 due December 1, 2009 and December 1, 2010 to June 1, 2011 and June 1, 2012. In addition, share issuances aggregating 150,000 common shares due December 1, 2009 and December 1, 2010 have been deferred to June 1, 2011 and June 1, 2012.

### ***Sturgeon Lake Claims, Ontario***

During the summer of 2008 the Corporation announced the completion of an 8,956 hectare (38 claims) staking program located in Northwestern Ontario. The western boundary of the staked property is located approximately 25 km east of Sturgeon Lake. The Corporation began staking the property after recognizing that the majority of significant geophysical conductors identified in the Sturgeon Lake camp in a 1990's government survey are located on the property being staked and that the area was never thoroughly explored. Past drilling is minimal to non-existent over most of the property. The Corporation has determined from historical data that surveys undertaken on the west side of the property confirm that identified geophysical conductors are sulphide rich, including the presence of massive sulphide lenses. The Corporation's property contains numerous extensive zones of multiple sub-parallel and stacked sulphide-bearing conductors that cumulatively exceed 100 km of strike length.

In addition, the identified geophysical conductors are located along strike of six mined VMS (Volcanogenic Massive Sulphide) deposits in this mineral belt. The most notable former mines in the area included operations containing high-grade zinc-copper-silver with associated lead and gold. The well-known Mattabi, Lyon Lake and Sturgeon Lake mines operated in proximity and along strike of the Corporation's current property location. Due to a cyclical downturn in metal prices, the mines terminated production in the 1980's and early 1990's.

The Corporation intends to conduct a high-resolution VTEM ("Versatile Time-Domain Electromagnetic") survey at 100 meter line spacing, for a total of up to 1000 line kilometers.

VTEM will be used to isolate zones of maximum sulphide accumulation along an approximately 27 kilometer belt within the new property. The best VTEM targets will be followed up with detailed ground geological work and state-of-the-art geochemical surveys. The Corporation will review the results of exploration and drill the optimum targets.

The Corporation recognizes that this region of the historic Sturgeon Lake mining district is ideally suited to modern geophysical and geochemical techniques, and was likely overlooked in the past due to minimal outcrop exposure, and absence of modern highly effective geophysical and geochemical survey techniques.

The Sturgeon Lake region has good road access and infrastructure as a result of being a former mining district. Sturgeon Lake is reached from Trans Canada Hwy #17 and is approximately 60 km north of Ignace, Ontario.

Due to present market conditions, the Corporation has delayed further work programs on this property.

### **Overall Performance during the period ended August 31, 2009**

The Corporation's loss of \$14,484 for the three-month period ended August 31, 2009 decreased by \$63,411 from the previous fiscal period ended August 31, 2008. The increases (decreases) for the period were as follows:

<b>Net Increases (Decreases) for the Period</b>	
Amortization of Capital Assets	\$ -
Consulting fees	-
Management and Administrative fees	-
Office and administrative expenses	1,586
Professional fees	1,500
Regulatory, transfer agent and investor relations	5,920
Stock option expense	-
Trade Shows and promotional expenses	-
Travel and related costs	-
Write-down of equipment	-
Impairment loss on mining properties	5,478

No consulting fees, management fees, or administrative fees were incurred for the reporting period, a decrease of \$42,000 (2008: \$42,000) due to management's agreement to forgive accrued fees since December 1, 2008. Professional fees of \$1,500 decreased during the reporting period by \$8,000 (2008: \$9,500) and regulatory, transfer agent, and investor relations fees of \$5,920 decreased during the reporting period (2008: \$12,128), due to the Corporation's overall decreased activities during the year. Travel and promotion were Nil (2008 - \$2,948) as the Company scaled back on all promotional efforts. Office and administrative fees for the reporting period are \$1,586 (2008: \$11,115).

The impairment loss in mining properties of \$5,478 relates to the write down of acquisition and deferred exploration costs relating to the Needles Property.

Continued operations of the Corporation are dependent on the Corporation's ability to receive continued financial support from related parties, to complete public equity financing, or to generate profitable operations in the future.

### **Liquidity and Capital Resources**

At August 31, 2009 the Corporation had a working capital deficit of \$217,911 compared to working capital of \$236,883 at May 31, 2009.

As at August 31, 2009, the Corporation had 800,000 outstanding share purchase warrants which, if exercised, would increase the Corporation's available cash by \$40,000. In addition, the Corporation had 3,938,000 outstanding stock options which, if exercised, would increase the Corporation's available cash by an additional \$270,300. Neither the share purchase warrants nor the stock options were in the money during the period ended August 31, 2009.

At this time, the Corporation has no operating revenue, and does not anticipate any operating revenues until the Corporation is able to find, acquire, place in production and operate a resource property. Historically the Corporation has raised funds through equity financing to fund its operations. The

Corporation feels it can meet its future obligations and will either raise funds through equity financing, the exercise of options and warrants, or enter into other financing arrangements if deemed necessary.

## Summary of Quarterly Results

The following table sets out selected consolidated quarterly information for the last eight quarters.

Three Months Ended	Aug. 31, 2009 \$	Nov 30, 2008 \$	Feb. 28, 2009 \$	May 31, 2009 \$
Net sales or revenue	Nil	Nil	Nil	Nil
Loss before extraordinary items	14,484	60,006	70,043	784
Extraordinary items	Nil	Nil	Nil	652,801
Net Loss (Profit)	14,484	60,006	70,043	653,585
Basic & Diluted Loss per common share	0.0002	0.001	0.001	0.009

Three Months Ended	Aug. 31, 2008 \$	Nov 30, 2007 \$	Feb. 29, 2008 \$	May 31, 2008 \$
Net sales or revenue	Nil	Nil	Nil	Nil
Loss before extraordinary items	77,895	103,230	85,959	120,834
Extraordinary items	Nil	Nil	Nil	Nil
Net Loss (Profit)	77,895	103,230	85,951	120,834
Basic & Diluted Loss per common share	0.001	0.002	0.001	0.002

## Related Party Transactions

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount, which is the consideration established and agreed to by the respective parties.

- (i) During the reporting period, management and administrative fees of \$Nil (2008 - \$27,000) and \$Nil (2008 - \$15,000) of consulting fees were paid or accrued to directors and officers of the Company and a company controlled by a director and officer of the Company.

On December 23, 2008 the Company issued 4,355,792 shares at a price of \$0.02 to settle outstanding debt of \$87,116, which included 750,000 shares to settle partial debt owing to a private company controlled by a director and officer of the Corporation.

- (ii) Notes payable of \$42,529 issued during the year ended May 31, 2009 are due to a former director and officer of the Company. The notes bear interest at the rate of 10% per annum. Unpaid interest will be added to and form part of the principal. Included in office and administrative costs is interest on these notes payable of \$3,330.

## **Litigation**

In September, 2002 a statement of claim was filed in the Ontario Superior Court against the Corporation by a former director and officer of the Corporation. The suit alleges that the Corporation owes the former director and officer an aggregate amount of approximately \$227,000 for services rendered and expenses, provision and implementation of the Corporation's now former business model and for funds invested in the Corporation. The Corporation retained legal counsel and, based upon a preliminary review of the statement of claim and its charges, the Corporation believes that while certain aspects of the claim have merit, the quantum of damages sought is excessive and the real exposure is in the range of \$25,000 to \$75,000 should the Plaintiff succeed in overcoming the liability arguments asserted by DiscFactories Corporation in its statement of defence. As at November 30, 2004, the action had lapsed into dormancy and no steps have been taken by the plaintiff for several years. The Corporation has accrued \$57,575, as a contingent liability, with respect to this matter in its financial statements.

## **Off Sheet Balance Sheet Arrangements**

The Corporation has not entered into any off-balance sheet arrangements.

## **Critical Accounting Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in operations in the period in which they become known.

## **Foreign Currency**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, and revenue and expenses are translated at rates of exchange at each transaction date. Gains or losses on translation are included in income.

## **Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

## **Earnings (Loss) Per Share**

The Corporation follows the treasury stock method in determining the dilutive effect of options and warrants. Previously, the imputed earnings approach was used. For the period presented, the calculation of diluted earnings (loss) per share proved to be anti-dilutive.

## **Stock-Based Compensation**

The Corporation has adopted CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash and other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new standard permits the Corporation to continue its existing policy of recording no compensation cost on the grant of stock options to employees

but to disclose on a pro forma basis net earnings and earnings per share had the Corporation adopted the fair value method for accounting for options granted to employees. No restatement of prior periods will be required as a result of the adoption of the new standard.

## **Financial Instruments**

### **Fair value**

The Corporation's financial instruments include cash and accounts payable and accrued liabilities. The carrying value of these financial instruments approximates fair value due to their short-term to maturity and the normal market conditions they entail.

### **Risks and Uncertainties**

The Corporation is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties in the United States and Canada. Due to the nature of the Corporation's business and the present stage of exploration of its mineral properties (which are primarily early stage exploration properties with no known resources or reserves that have not been explored by modern methods), the following risk factors, among others, will apply:

**The mining industry is intensely competitive.** The Corporation is in the business of acquiring, exploring and developing mineral properties. The mining industry is intensely competitive and the Corporation will compete with other companies that have far greater resources.

**Resource exploration and development is generally a speculative business.** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Corporation will be affected by numerous factors beyond the control of the Corporation. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Corporation not receiving an adequate return on invested capital. The great majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

**Fluctuation of Metal Prices.** Even if commercial quantities of mineral deposits are discovered by the Corporation, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Corporation may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Corporation, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any mineral deposit will be such that any of its mineral properties could be mined at a profit.

**Permits and Licenses.** The operations of the Corporation will require licenses and permits from various governmental authorities. There can be no assurance that the Corporation will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

**There is no assurance of profitability.** The Corporation has no history of earnings and, due to the nature of its proposed business, there can be no assurance that the Corporation will ever be profitable. The Corporation has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Corporation is from the sale of its common shares or, possibly, the sale or optioning of a portion of its interest in its mineral properties.

Even if the results of exploration are encouraging, the Corporation may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Corporation may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Corporation at risk.

**Uninsured or Uninsurable Risks.** The Corporation may become subject to liability for pollution or hazards against which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Corporation's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

**Government Regulation.** Any exploration, development or mining operations carried on by the Corporation will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

**Environmental Matters.** Existing and possible future environmental legislation, regulations and actions could cause significant expense, capital expenditures, restrictions and delays in the activities of the Corporation, the extent of which cannot be predicted and which may well be beyond the capacity of the Corporation to fund. The Corporation's right to exploit any mining properties will be subject to various reporting requirements and to obtaining certain government approvals and there can be no assurance that such approvals, including environment approvals, will be obtained without inordinate delay or at all.

**Insufficient Financial Resources.** The Corporation does not presently have sufficient financial resources to undertake by itself the exploration and development of all of its planned exploration and development programs. The development of the Corporation's properties will therefore depend upon the Corporation's ability to obtain financing through the joint venturing of projects, private placement financing, public financing or other means. There can be no assurance that the Corporation will be successful in obtaining the required financing. Failure to raise the required funds could result in the Corporation losing, or being required to dispose of, its interest in its properties. In particular, failure by the Corporation to raise the funding necessary to maintain its properties in good standing could result in the loss of its rights to such properties.

**Foreign Countries and Regulatory Requirements.** At present all of the mineral properties in which the Corporation has an interest, or the right to acquire an interest, are located the United States and Canada. Any changes in regulations or shifts in political conditions are beyond the control of the Corporation and may adversely affect its business. Operations may be affected, to varying degrees, by changes in federal or state legislation and regulations and the affects of any changes cannot be accurately predicted. The Corporation identifies changes and potential changes in environmental legislation, regulations, and "best practices guidelines" as one source of potential risk in this regard.

**Dependence Upon Others and Key Personnel.** The success of the Corporation's operations will depend upon numerous factors, many of which are beyond the Corporation's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Corporation. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Corporation and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Corporation's operations will depend, or that the Corporation will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities. This is especially true as the competition for qualified geological, technical and mining personnel and consultants is particularly intense in the current marketplace.

**Currency Fluctuations.** The Corporation presently maintains its accounts in Canadian dollars. The Corporation's operations in the United States and its payment commitments and exploration expenditures under the various agreements governing its rights to its mineral properties are denominated in U.S. dollars, making it subject to foreign currency fluctuations. Such fluctuations are out of its control and may materially adversely affect the Corporation's financial position and results.

**Price Fluctuations and Share Price Volatility.** In recent years, global securities markets have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration and development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual and extreme fluctuations in price will not occur.

**Surface Rights and Access.** Although the Corporation acquires the rights to some or all of the minerals in the ground subject to the tenures that it acquires, or has a right to acquire, in some cases it may not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. In areas where there are no existing surface rights holders, this does not usually cause a problem, as there are no impediments to surface access. However, in areas where there are local populations or land owners, it is necessary, as a practical matter, to negotiate surface access. There can be no guarantee that, despite having the right at law to access the surface and carry on mining activities, the Corporation will be able to negotiate a satisfactory agreement with any such existing landowners/occupiers for such access, and therefore it may be unable to carry out mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Corporation may need to rely on the assistance of local officials or the courts in such jurisdiction

**Title.** Although the Corporation has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Corporation or of any underlying vendor(s) from whom the Corporation may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples.

## **Management's Report on Internal Control over Financial Reporting**

In connection with Exemption Orders issued in November, 2007 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Corporation will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under Multilateral Instrument 52-109 ("MI 52-109") (Certificate of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in MI 52-109.

## **Change In Accounting Policies**

Effective June 1, 2008, the Company adopted the recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, Capital Disclosures ("Section 1535"). The new standard requires an entity to disclose information to enable users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862") which replaced Section 3861. Section 3862 provides

standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments.

Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 3863, Financial Instruments - Presentation ("Section 3863") which replaced Section 3861. Section 3863 provides standards for presentation of financial instruments and non-financial derivatives. Adoption of this standard had no impact on the Company's financial instruments related presentation disclosures.

Effective June 1, 2008, the Company adopted the recommendations of CICA Handbook Section 1400, General Standards of Financial Statement Presentation, to change the guidance related to management's responsibility to assess the ability of the entity to continue as a going concern. Management is required to make an assessment of an entity's ability to continue as a going concern and should take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. Disclosure is required of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern.

Effective June 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective.

Effective June 1, 2007, the Company adopted the recommendations of CICA Handbook Section 3855, Financial Instruments - Recognition and measurement. Section 3855 provides that all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

### **International Financial Reporting Standards**

In January 2006, the CICA Accounting Standards Board (AcSB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards ("IFRS") by the end of 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS on the Company's financial statements cannot be reasonably estimated at this time. During 2009 the Company will be reviewing financial statement preparation, IT infrastructure, control environment and accounting policy choices available under IFRS in regards to the current operations of the Company.

### **Outstanding Share Data**

The Corporation has one class of common shares and is authorized to issue 100,000,000 common shares without par value. As at October 30, 2009 there were 69,942,488 common shares issued and outstanding.

As at October 30, 2009 the Corporation had granted the following incentive stock options pursuant to its Stock Option Plan:

Number of Options	Exercise Price	Expiry Date
1,468,000	\$0.10	December 23, 2009
2,120,000	\$0.05	February 20, 2012
50,000	\$0.05	April 3, 2013
300,000	\$0.05	July 4, 2013
<b>3,938,000</b>		

As at October 30, 2009 the following share purchase warrants were outstanding:

Warrants	Exercise Price	Expiry Date
800,000	\$0.05	Jan 14, 2010 <sup>(1)</sup>

(1) Each Warrant entitles the holder to acquire one common share at a price of \$0.05 per share for a period of 18 months from issuance.

### Subsequent Events

The Company reported in September, 2009 that a letter of intent entered into with District Gold Inc. on April 22, 2009 for the purchase of a 51% interest in the Company Needles Property was converted into a 100% purchase of the Needles Property. District Gold had made a payment of \$12,500, representing one-half of a non-refundable deposit required at the time of signing the letter of intent. It was agreed that District Gold would pay an additional \$25,000 and assume all obligations with respect to keeping the claims in good standing with the Bureau of Land Management. The Company was unable to renew its Stinger Claims, known as the Delamar Property located in Lincoln County, Nevada with the Bureau of Land Management and has forfeited those claims.

On September 24, 2009 Mr. Timothy David Gallagher was appointed a director and Chairman of the Company.

In October, 2009 the Company commenced a non-brokered private placement of up to 70,000,000 Shares at \$0.01 per Share for gross proceeds of up to \$700,000. A portion of the Shares to be issued pursuant to this private placement will qualify as Flow Through Shares under the rules of the Canada Revenue Agency.

A finder's fee of 10% may be payable on a portion of the proceeds raised. Net proceeds will be used to conduct a Phase One drilling program on the Company's Silver King Property near Nelson, British Columbia and for general working capital purposes. The Phase I drilling program has commenced and is targeting 15 holes over 2,000 meters. The objectives of the current phase of drilling are to:

- 1) Test for the possibility of near surface, lower grade, open pit resources,
- 2) Begin testing the depth, and along strike potential of the Silver King structure for additional deposits of higher grade resources amenable to underground mining, and
- 3) Begin testing for additional mineralized structures that may occur within the one kilometer wide Silver King Shear zone, both parallel to, and crosscutting the known mineralized Silver King structure.

The Company has also received approval from the Canadian National Stock Exchange for debt settlement of up to 13,000,000 shares at \$0.01 per share.