

## **TAGISH LAKE GOLD CORP.**

**Financial Statements  
October 31, 2008 and 2007**

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## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of Tagish Lake Gold Corp. have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, all transactions are authorized and duly recorded, and financial records are properly maintained to facilitate preparation of financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

*"Robert Rodger"*

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Robert Rodger  
Interim CEO

February 16, 2009

*"Denis Lampron"*

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Denis Lampron  
Chief Financial Officer

## AUDITORS' REPORT

### TO THE SHAREHOLDERS OF TAGISH LAKE GOLD CORP.

We have audited the balance sheets of Tagish Lake Gold Corp. as at October 31, 2008 and 2007 and the statements of operations, cash flows and shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
February 16, 2009

**TAGISH LAKE GOLD CORP.****Balance Sheets****As at October 31**

	<b>2008</b>	<b>2007</b>
<b>Assets</b> (note 11)		
<b>Current</b>		
Cash (note 6)	\$ 63,352	\$ 443,444
GST receivable	32,985	180,835
Prepaid expenses and deposits	37,284	44,893
Due from shareholder/director (note 7 and 15)	0	120,000
	133,621	789,172
<b>Reclamation Bond</b>	15,000	15,000
<b>Property and Equipment</b> (note 8)	238,585	232,146
<b>Resource Properties</b> (note 9 and 15)	29,973,350	27,321,181
	\$ 30,360,556	\$ 28,357,499
<b>Liabilities</b>		
<b>Current</b>		
Bank loan (note 11)	1,500,000	1,500,000
Accounts payable and accrued liabilities (note 15)	3,927,928	1,778,235
Advances from related party (note 15)	60,000	60,000
Loan from Yukon-Shaanxi Mining Company Inc. (note 12)	200,000	0
	5,687,928	3,338,235
<b>Future Income Tax</b> (note 13)	1,416,303	1,998,866
	7,104,231	5,337,101
<b>Shareholders' Equity</b>		
<b>Capital Stock</b> (note 14)	47,711,705	46,891,894
<b>Shares held in treasury, at cost</b>		
Repurchased, not cancelled (note 7)	(120,000)	0
<b>Contributed Surplus</b>	1,203,935	1,156,556
<b>Deficit</b>	(25,539,315)	(25,028,052)
	23,256,325	23,020,398
	\$ 30,360,556	\$ 28,357,499

Going-concern (note 2)  
Commitments (note 16)  
Contingencies (note 17)  
Subsequent events (note 18)

Approved on behalf of the Board:

*"Robert Rodger"*

.....Director

Robert Rodger

*"Robert Bryce"*

..... Director

Robert Bryce

**TAGISH LAKE GOLD CORP.**  
**Statements of Operations**  
**Years Ended October 31**

	<b>2008</b>	<b>2007</b>
		(note 4)
<b>Expenses</b>		
Wages and benefits	\$ 243,985	\$ 186,178
Management fees (note 15)	178,855	164,643
Office and miscellaneous	166,643	193,345
Shareholder and investor relations	114,825	185,081
Professional fees	109,532	260,576
Interest on bank loan	96,866	27,355
Interest and financing costs	58,644	452,074
Advertising and promotion	40,055	128,986
Directors' fees	36,000	396,880
Regulatory and filing fees	31,038	43,373
Consulting fees	28,109	30,784
Rent (note 15)	23,737	17,475
Travel	22,535	191,257
Transfer agent fees	16,364	36,053
Telecommunications	11,482	13,326
Amortization	44,342	38,383
	1,223,012	2,365,769
<b>Loss Before Other Item and Future Income Tax</b>	(1,223,012)	(2,365,769)
<b>Write-Down of Resource Properties</b>	(134,217)	0
<b>Loss Before Future Income Tax</b>	(1,357,229)	(2,365,769)
<b>Future Income Tax Recovery</b> (note 13)	(845,966)	(546,755)
<b>Net Loss and Comprehensive Loss for Year</b>	\$ (511,263)	\$ (1,819,014)
<b>Loss Per Share</b> , basic and diluted	\$ (0.01)	\$ (0.02)
<b>Weighted Average Number of Common Shares</b>		
<b>Outstanding</b>	125,913,001	96,871,118

**TAGISH LAKE GOLD CORP.****Statements of Cash Flows****Years Ended October 31**

	<b>2008</b>	<b>2007</b>
		(note 4)
<b>Cash Flows Used in Operating Activities</b>		
Cash paid to suppliers and employees	\$ (500,814)	\$ (921,689)
Interest paid	(101,581)	0
<b>Net Cash Used in Operating Activities</b>	(602,395)	(921,689)
<b>Cash Flows Used in Investing Activities</b>		
Cash paid for acquisition of property and equipment	(40,007)	(150,913)
Cash paid for exploration expenditures on resource properties	(1,189,074)	(7,847,333)
<b>Net Cash Used in Investing Activities</b>	(1,229,081)	(7,998,246)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of capital stock, net of issue costs	1,127,229	7,385,046
Proceeds from government grant	124,155	0
Advance from a related party	0	60,000
Proceeds from bank loan	0	1,500,000
Proceeds from Yukon-Shaanxi Mining Company Inc. loan	200,000	0
<b>Net Cash Provided by Financing Activities</b>	1,451,384	8,945,046
<b>Net Increase (Decrease) in Cash</b>	(380,092)	25,111
<b>Cash, at Beginning of Year</b>	443,444	418,333
<b>Cash, at End of Year</b>	\$ 63,352	\$ 443,444
<b>Supplemental Cash Flow Information:</b>		
Cash transactions		
Taxes paid	\$ 0	\$ 0
Non-cash transactions		
Stock-based compensation	\$ 43,030	\$ 506,523
Financing fees	\$ 0	\$ 228,160
Write down of resource properties	\$ 134,217	\$ 0
Shares returned to the Company in settlement of amounts due from shareholder/director	\$ 120,000	\$ 0
Accounts payable and accrued liabilities related to share issue costs	\$ 39,667	\$ 0
Accounts payable and accrued liabilities related to resource properties	\$ 3,313,231	\$ 1,591,764
Accounts payable and accrued liabilities related to property and equipment	\$ 10,774	\$ 0

**TAGISH LAKE GOLD CORP.**  
**Statements of Shareholders' Equity**

	Number of Shares	Capital stock	Shares held in treasury	Contributed surplus	Deficit	Total Shareholders' Equity
		\$	\$	\$	\$	\$
Balance, October 31, 2006	78,172,042	40,696,119	0	391,223	(23,209,038)	17,878,304
Net loss for the year	0	0	0	0	(1,819,014)	(1,819,014)
Shares issued for cash						
Private placement, net of issue costs (note 14(c))	25,834,480	5,160,789	0	0	0	5,160,789
Exercise of warrants (note 14(d))	13,991,791	2,112,042	0	0	0	2,112,042
Exercise of options (note 14(e))	300,000	45,000	0	0	0	45,000
Fair value of options exercised	0	36,565	0	(36,565)	0	0
Fair value of agent warrants issued private placement (note 14(d))	0	0	0	67,215	0	67,215
Fair value of agent warrants issued on debt financing (note 14(d))	0	0	0	228,160	0	228,160
Stock-based compensation (note 14(e))	0	0	0	506,523	0	506,523
Income tax effect of flow- through share renouncement (note 13)	0	(1,158,621)	0	0	0	(1,158,621)
<b>Balance, October 31, 2007</b>	<b>118,298,313</b>	<b>46,891,894</b>	<b>0</b>	<b>1,156,556</b>	<b>(25,028,052)</b>	<b>23,020,398</b>
Net loss for the year	0	0	0	0	(511,263)	(600,039)
Issued for cash						
Private placements, net of issue costs (note 14(b))	11,518,811	1,083,213	0	0	0	1,083,213
Fair value of agent warrants issued private placement (note 14(b))	0	0	0	4,349	0	4,349
Stock-based compensation (note 14(e))	0	0	0	43,030	0	43,030
Income tax effect of flow- through share renouncement (note 13)	0	(263,402)	0	0	0	(263,402)
Shares held in treasury (note 7)	0	0	(120,000)	0	0	(120,000)
<b>Balance, October 31, 2008</b>	<b>129,817,124</b>	<b>47,711,705</b>	<b>(120,000)</b>	<b>1,203,935</b>	<b>(25,539,315)</b>	<b>23,167,549</b>

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

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**1) NATURE OF OPERATIONS**

Tagish Lake Gold Corp. (the "Company") was formed under the laws of British Columbia and its principal business activity is the exploration and development of natural resource properties.

**2) GOING-CONCERN**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going-concern, which assumes the Company will be able to finance on-going exploration, development, operations and capital expenditures, and realize its assets and discharge its liabilities in the normal course of operations for the foreseeable future. Several adverse conditions as set out below cast significant doubt on the validity of this assumption.

At October 31, 2008 the Company has no source of operating cash flow, an accumulated deficit of \$25,539,315 (2007 - \$25,028,052), and a working capital deficiency of \$5,554,307 (2007 - \$2,549,063). The Company's assets are pledged as collateral for their bank loan that is in default (note 11).

The Company's ability to continue as a going-concern is contingent on its ability to raise additional financing. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by placement of common shares. There is no assurance that the Company will be successful with any financing ventures. The Company is dependent upon the continued financial support of shareholders and obtaining financing to continue exploration of its resource properties. While the Company is expending its best efforts to achieve its plans by examining various financing alternatives, there is no assurance that any activity will generate sufficient funds to finance its continued operations.

The financial statements do not include any adjustments to the recoverability and classification of recorded assets, or the amounts of and classifications of liabilities that would be necessary if the going-concern assumption were not appropriate. Such adjustments could be material.

**3) SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with accounting policies generally accepted in Canada and reflect the following:

**a) Resource properties**

The Company capitalizes all costs on a property-by-property basis including property acquisition costs and exploration and development expenditures, net of any recoveries and government grant assistance. Costs are deferred until such time as the extent of mineralization has been determined and property interests are either developed or the Company's mineral rights are allowed to lapse. Government assistance is recorded when it is more likely than not to be received. Costs accumulated relating to projects that are abandoned are written off on a quarterly basis.

All deferred resource property expenditures are reviewed quarterly on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the deferred costs, provision is made for the impairment in value.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

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**3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**a) Resource properties (continued)**

From time to time the Company may acquire or dispose of a resource property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded when paid or received.

**b) Property and equipment**

Amortization of property and equipment is recorded on a declining-balance basis at the following annual rates:

Process and plant equipment	- 20% to 25%
Automotive equipment	- 30%
Building	- 5%
Office and computer equipment	- 30%

Additions during the year are amortized at one-half the annual rates.

**c) Loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted loss per share. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

**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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of environmental obligations, asset retirement obligations, rates of amortization for property and equipment, recoverability of resource properties interests, valuation of accrued liabilities, valuation allowance for future income tax assets and the variables used in the calculation of stock-based compensation. While management believes the estimates used are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

**3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Stock-based compensation**

The Company accounts for stock-based compensation using the fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the option is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed, the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or resource properties, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when stock options are exercised, the corresponding fair value is transferred from contributed surplus to capital stock.

**f) Flow-through common shares**

The Company may, from time to time, issue flow-through common shares to finance its resource exploration activities. Canadian income tax law permits the Company to renounce to the flow-through shareholders the income tax attributes of resource exploration costs financed by such shares. The effect of such renouncement is to reduce future income tax deductions, which is considered to be a share issue cost that is recorded as a reduction to capital stock and a corresponding increase in future income tax liability.

When flow-through expenditures are renounced, a portion of the future income tax assets that were not previously recognized, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

**g) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assured. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

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**3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h) Asset retirement obligations**

The Company recognizes an estimate of the liability associated with an asset retirement obligation ("ARO") in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a straight-line basis over the estimated life of the asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in these financial statements.

**i) Financial instruments**

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available for sale, or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

**j) Comprehensive income**

Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income includes gains or losses, which generally accepted accounting principles require to be recognized in a period, but are excluded from net income for that period.

The Company has no items of other comprehensive income for any period presented; accordingly, net loss as presented in the Company's Statement of Operations equals comprehensive loss.

**3) SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**k) Changes in accounting policies**

Capital Disclosures

On November 1, 2007, the Company adopted the new standards for “Capital Disclosures”, requiring disclosures regarding an entity’s objectives, policies, and processes for managing capital. These disclosures include a description of what the Company manages as capital, the nature of externally imposed capital requirements, how the requirements are incorporated into the Company’s management of capital, whether the requirements have been complied with, or consequences of non compliance and an explanation of how the Company is meeting its objectives for managing capital. In addition, quantitative data about capital and whether the Company has complied with all capital requirements are also required (see note 10).

Financial Instruments – Disclosures and Presentation

On November 1, 2007, the Company adopted the new standards relating to “Financial Instruments – Disclosures” and “Financial Instruments – Presentation”, which replaced the previous standard “Financial Instruments – Disclosure and Presentation”. The new disclosure standard outlines the disclosure requirements for financial instruments and non financial derivatives. The guidance prescribes an increased importance on risk disclosures associated with recognized and unrecognized financial instruments and how such risks are managed. Specifically, it requires disclosure of the significance of financial instruments for a company’s financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments.

**l) Future changes in accounting policies**

Amendments to Section 1400 – Going-Concern

CICA Section 1400, “General Standards of Financial Statement Presentation”, was amended to include requirements to assess and disclose an entity’s ability to continue as a going-concern. When financial statements are not prepared on a going-concern basis, that fact shall be disclosed together with the basis on which the financial statements are prepared and the reason why the Company is not considered a going-concern. The new requirements are effective for the Company for interim and annual financial statements beginning on November 1, 2008. The Company is currently evaluating the impact of this new standard.

International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The effective date for the Company is for interim and annual financial statements relating to fiscal years beginning on or after November 1, 2011. The transition date of November 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

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**4) COMPARATIVE FIGURES**

Certain prior year figures have been reclassified to conform to current year presentation.

**5) RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

Financial instruments held by the Company include cash, deposits, due from shareholder/director, reclamation bond, bank loan, accounts payable and accrued liabilities, advances from related party, and loan from Yukon-Shaanxi Mining Company Inc. The Company classified cash and deposits as held-for-trading; due from shareholder/director and the reclamation bond as loans and receivables; and the bank loan, accounts payable and accrued liabilities, advances from related party and the loan from Yukon-Shaanxi Mining Company Inc. as other financial liabilities.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

**a) Fair value**

The carrying values of cash, deposits, due from shareholder/director, reclamation bond, bank loan, accounts payable and accrued liabilities, advances from related party and due to Yukon-Shaanxi Mining Company Inc. approximate their fair values because of the short-term maturity of these financial instruments.

**b) Credit risk**

The Company manages credit risk, in respect of cash and the reclamation bond by placing cash with well-capitalized high quality financial institutions.

Concentration of credit risk exists with respect to the Company's cash and reclamation bond as all amounts are held at a single major Canadian financial institution. The Company's concentration of credit risk and maximum exposure thereto is as follows:

	<b>2008</b>		<b>2007</b>	
Bank accounts	\$	63,352	\$	443,444
Term deposit (reclamation bond)		15,000		15,000
	\$	78,352	\$	458,444

The credit risk associated with cash and the reclamation bond is minimized substantially by ensuring that these financial assets are placed with major financial institutions with strong investment grade ratings by a primary ratings agency.

The Company has no asset backed securities.

**5) RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

**c) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet commitments. The Company's approach to managing risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. It is in the process of negotiating a business combination in order to acquire the funds required to meet their obligations.

At October 31, 2008, the Company has cash resources of \$63,352, a working capital deficiency of \$5,554,307 and is substantially insolvent unless future financing initiatives are successful. While the Company has been successful in raising debt and equity funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future.

**d) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk, and other price risk.

**i) Interest rate risk**

The Company's reclamation bond consists of a term deposit which earns interest at 2.5% and matures March 17, 2009. Due to the short-term nature of this financial instrument, fluctuations in market interest rates do not have significant impact on the estimated fair value of this financial instrument as of October 31, 2008. Absent early redemption of the term deposit, future cash flows will not change as a result of market interest rates.

The Company's bank loan bears interest at LIBOR plus 2.5% and the loan from Yukon-Shaanxi Mining Company Inc. bears interest at prime plus 5%. As these financial instruments bear interest at variable rates, market interest rate fluctuations will impact their fair values and future cash flows.

A 1% change in interest rate would impact the Company's net loss by \$17,000.

The Company does not employ derivatives or other techniques to manage this risk.

**ii) Foreign currency risk**

The Company is not exposed to significant currency risk since the Company conducts its business in Canadian dollars.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

**5) RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)**

d) Market risk (continued)

iii) Other price risk

Other price risk is the risk that the fair or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is not exposed to significant other price risk.

**6) CASH – FLOW-THROUGH SHARE FUNDS**

During the years ended October 31, 2008 and 2007, the Company entered into flow-through share agreements whereby it committed to incur and renounce to the flow-through investors, a total of \$836,198 (2007 - \$2,555,943) of qualifying Canadian exploration expenditures. To October 31, 2008, the Company has incurred \$1,251,744 (2007 - \$2,140,397) of qualifying exploration expenditures and has a commitment to incur an additional \$nil (2007 - \$415,546) of qualifying expenditures.

**7) DUE FROM SHAREHOLDER/DIRECTOR**

The balance of \$nil (2007 - \$120,000) represents a promissory note due from a shareholder/director for which 1,056,094 shares of the Company were pledged as security. On October 31, 2005, the carrying value of the amount receivable was reduced to the market value (\$120,000) of the underlying security as the recoverability of the full \$375,000 was not assured at that date. In 2008, the shareholder/director returned 1,057,969 common shares to the Company which are being held by the Company's legal counsel in full settlement of the balance receivable and are included as shares held in treasury.

**8) PROPERTY AND EQUIPMENT**

	Cost		Accumulated Amortization		Net	
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	\$	\$
Process and plant equipment	322,618	317,800	278,576	268,350	44,042	49,450
Automotive equipment	172,863	141,768	105,063	82,669	67,800	59,099
Building	118,950	106,100	9,063	3,449	109,887	102,651
Office and computer equipment	54,837	52,819	37,981	31,873	16,856	20,946
	669,268	618,487	430,683	386,341	238,585	232,146

**9) RESOURCE PROPERTIES**

The Skukum Creek, Goddell and Charleston properties consist of a total of 982 mineral claims in the Whitehorse Mining District, Yukon.

The Arctic Property consists of two Crown grants near Carcross, Yukon, which are held for future exploration and development. At October 31, 2008, management considered the carrying value of the property to be impaired and recorded an impairment charge to reduce the carrying value to \$nil.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

**9) RESOURCE PROPERTIES (Continued)**

The investment in and expenditures on the properties are summarized as follows:

	Balance October 31, 2006	Incurred During Year	Balance October 31, 2007	Incurred During Year	Write-down During Year	Balance October 31, 2008
	\$	\$	\$	\$	\$	\$
<b>Skukum Creek</b>						
Acquisition costs	265,573	0	265,573	0	0	265,573
Geological and geophysical	2,346,308	568,813	2,915,121	370,131	0	3,285,252
Underground work	2,874,466	6,315,501	9,189,967	1,216,729	0	10,406,696
Drilling	812,453	73,430	885,883	265,299	0	1,151,182
Site supervision	359,205	240,243	599,448	148,200	0	747,648
Camp	258,841	565,517	824,358	261,709	0	1,086,067
Road work	174,855	588,996	763,851	6,250	0	770,101
Environmental	256,838	243,923	500,761	75,315	0	576,076
Assaying	73,881	222,196	296,077	48,152	0	344,230
Engineering	71,054	313,916	384,970	301,577	0	686,547
Other	153,861	44,997	198,858	93,024	0	291,882
<b>Total Skukum Creek</b>	<b>7,647,335</b>	<b>9,177,531</b>	<b>16,824,867</b>	<b>2,786,386</b>	<b>0</b>	<b>19,611,253</b>
<b>Goddell</b>						
Acquisition costs	395,443	0	395,443	0	0	395,443
Geological, geophysical and underground work	9,864,957	0	9,864,957	0	0	9,864,957
Drilling	77,379	0	77,379	0	0	77,379
Assaying	9,586	4,095	13,681	0	0	13,681
<b>Total Goddell</b>	<b>10,347,365</b>	<b>4,095</b>	<b>10,351,460</b>	<b>0</b>	<b>0</b>	<b>10,351,460</b>
<b>Charleston</b>						
Geological and geophysical	10,637	0	10,637	0	0	10,637
<b>Arctic Property</b>						
Geological and geophysical	134,217	0	134,217	0	(134,217)	0
	<b>18,139,554</b>	<b>9,181,626</b>	<b>27,321,181</b>	<b>2,786,386</b>	<b>(134,217)</b>	<b>29,973,350</b>

**Environmental**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the resource properties, the potential for production on the properties may be diminished or negated.

**9) RESOURCE PROPERTIES (Continued)**

**Realization of assets**

The resource properties comprise substantially all of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values.

**Title to resource properties**

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

**10) CAPITAL MANAGEMENT**

The capital of the Company consists of the items included in shareholders' equity and the bank loan.

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis and pursue the exploration and development of its resource properties.

During 2007, the Company obtained a bank loan of \$1.5 million in order to advance the feasibility study on the Skukum property. The Company is not subject to any externally imposed capital requirements; however, the Company must adhere to certain financial and other covenants related to the terms of its bank credit facility. As at October 31, 2008 and 2007, the Company was not in compliance with certain of the required financial and other covenants. Macquarie Bank gave a Notice of Intention on April 14, 2008 to enforce its security but granted a conditional waiver under which they postponed certain defaults up to November 24, 2008.

During 2008, the Company's funds from financing have not covered expenditures and the working capital deficiency amounted to \$5,554,307 as at October 31, 2008. Management is currently negotiating a possible business combination with Yukon-Shaanxi Mining Company Inc.

While the Company was successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. Should it be able to complete the proposed business combination discussed above, the Company believes that it will have sufficient funds to continue operations.

**TAGISH LAKE GOLD CORP.**  
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**10) CAPITAL MANAGEMENT (Continued)**

The Company's plans present uncertainties about the ultimate ability of the Company to achieve positive cash flows from operations. Consequently, management primarily would fund the Company's exploration by issuing share capital.

Development activities begin once mineral resources and reserves are estimated and the Company makes a positive production decision. At that point, management may consider senior debt or convertible debentures as a means to reduce equity dilution. For project development purposes, the ratio of debt to equity contemplates leveraged investment return to equity-linked stakeholders and the associated risks of various forms of debt, debentures or other non-dilutive capital sources.

**11) BANK LOAN**

The Company has a bank loan of \$1,500,000 (2007 - \$1,500,000) due to Macquarie Metals and Energy Capital (Canada) Ltd. ("Macquarie") with an original due date of June 9, 2009. The assets of the Company are pledged as collateral and the loan bears interest at LIBOR (London Interbank Offered Rate) plus 2.5%

At October 31, 2008 and 2007, the Company was not in compliance with respect to certain covenants of the bank loan and accordingly it has been classified as due on demand. In April 2008, Macquarie served the Company a Notice of Intention to enforce its security and a conditional waiver under which Macquarie waived certain events of default to the Credit Agreement to November 24, 2008. To the date of issue of these financial statements, Macquarie has taken no further actions.

In 2007, the Company issued 3,200,000 warrants as a financing fee (having a fair value of \$228,160), each warrant entitling the holder to acquire one common share of the Company at a price of \$0.25 per share to June 7, 2009.

**12) LOAN FROM YUKON-SHAANXI MINING COMPANY INC.**

During 2008, the Company entered into negotiations with Yukon-Shaanxi Mining Company Inc. ("YSM") for a proposed business combination. YSM advanced \$200,000 to the Company which is unsecured, bears interest at prime plus 5% per annum and has no specified terms of repayment.

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**13) INCOME TAXES**

The reconciliation of income tax provision computed at effective statutory rates to the reported income tax provision is as follows:

	<b>2008</b>	<b>2007</b>
Income tax benefit computed at Canadian statutory rates	\$ (427,527)	\$ (807,200)
Non-deductible expenses	602	(134,151)
Non-deductible stock-based compensation	13,554	172,826
Share issuance costs	(24,770)	(79,442)
Non capital loss expired	94,947	32,910
Tax rate variation	(502,772)	131,057
<b>Future income tax recovery</b>	<b>\$ (845,966)</b>	<b>\$ (546,755)</b>

Future income liability reflect the effects of temporary differences between the carrying amounts for financial reporting purposes and the amounts used for income tax purposes at expected future tax rates.

Significant components of the Company's future tax assets and liabilities as at October 31 are as follows:

	<b>2008</b>	<b>2007</b>
<b>Future income tax liability</b>		
Book value over tax value of resource properties	\$ (2,856,103)	\$ (3,239,153)
<b>Future income tax assets</b>		
Non capital losses carried forward	1,271,403	1,055,384
Tax value over book value of property and equipment	115,719	126,230
Share issue costs	52,678	58,673
	1,439,800	1,240,287
<b>Net future income tax liability</b>	<b>\$ (1,416,303)</b>	<b>\$ (1,998,866)</b>

**TAGISH LAKE GOLD CORP.**  
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**Years Ended October 31, 2008 and 2007**

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**13) INCOME TAXES (Continued)**

The non-capital losses that may be carried forward to apply against future years' income for Canadian income tax purposes will expire as follows:

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2009	\$	281,000
2010		356,000
2014		393,000
2015		329,000
2026		638,000
2027		1,611,000
2028		1,196,000
	\$	4,804,000

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The Company has net capital losses of approximately \$3,500,000 that may be carried forward indefinitely to apply against future years' taxable capital gains. The effect of these capital losses has not been reflected in these financial statements.

On February 28, 2008, the Company renounced \$836,198 (2007 - \$3,395,723) of qualifying Canadian exploration expenditures pursuant to the issuance of flow-through shares.

**14) CAPITAL STOCK**

**a) Authorized**

Unlimited common shares and 30,000,000 preferred shares without par value

**b) Private placements during the year ended October 31, 2008 consisted of the following:**

- i) In November 2007, the Company issued 2,565,870 units at a price of \$0.17 per unit, for gross proceeds of \$436,198. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$33,027 and issued 50,117 broker warrants valued at \$837 using the Black-Scholes option pricing model as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. Additional share issuance and closing costs of \$22,446 were incurred by the Company through the private placement.

**TAGISH LAKE GOLD CORP.**  
**Notes to Financial Statements**  
**Years Ended October 31, 2008 and 2007**

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**14) CAPITAL STOCK (Continued)**

- b) Private placements during the year ended October 31, 2008 consisted of the following (continued):
- ii) In December 2007, the Company issued 2,352,941 units at a price of \$0.17 per unit, for gross proceeds of \$400,000. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for period of 18 months from the closing date. The Company issued 188,179 broker warrants valued at \$1,637 using the Black-Scholes option pricing model as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. Additional share issuance and closing costs of \$7,554 were incurred by the Company through the private placement.
  - iii) In May 2008, the Company issued 6,600,000 common shares at a price of \$0.05 per share, for gross proceeds of \$330,000. The Company paid an aggregate finders' fee of \$8,000 and issued 201,600 broker warrants valued at \$1,875 using the Black-Scholes option pricing model as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.08 per share for a period of 24 months from the closing date. Additional share issuance and closing costs of \$7,609 were incurred by the Company through the private placement.
- c) Private placements during the year ended October 31, 2007 consisted of the following:
- i) In December 2006, the Company issued 7,986,703 units at a price of \$0.26 per unit, for gross proceeds of \$2,076,543. Each unit consisted of one flow-through common share and one-half of one non-transferable non-flow-through share purchase warrant, each full warrant entitling the holder to purchase one common share at a price of \$0.32 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$128,184 and issued 620,536 broker warrants valued at \$55,980 as a commission.
  - ii) In February 2007, the Company issued 1,000,000 common share units at a price of \$0.155 per share, for gross proceeds of \$155,000.
  - iii) In March 2007, the Company issued 2,777,777 units at a price of \$0.18 per unit, for gross proceeds of \$500,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 24 months from the closing date.

**TAGISH LAKE GOLD CORP.**  
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**14) CAPITAL STOCK (Continued)**

- c) Private placements during the year ended October 31, 2007 consisted of the following (continued):
- iv) In July 2007, the Company issued 10,000,000 units at a price of \$0.20 per unit, for gross proceeds of \$2,000,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.30 per share for a period of 24 months from the closing date.
  - v) Also in July 2007, the Company issued 1,250,000 units at a price of \$0.20 per unit, for gross proceeds of \$250,000. Each unit consisted of one common share and one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.30 per share for a period of 24 months from the closing date. The Company paid an aggregate finders' fee of \$20,111 and issued 100,000 broker warrants valued at \$4,960 as a commission. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share for a period of 18 months from the closing date.
  - vi) In October 2007, the Company issued 2,820,000 units at a price \$0.17 per unit, for gross proceeds of \$479,400. Each unit consisted of one common share and one-half of one non-transferable share purchase warrant, each warrant entitling the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date. The Company paid an aggregate finders' fee of \$36,924 and issued 199,200 broker warrants valued at \$6,275 as a commission. Each broker warrant entitles the holder to purchase one common share at a price of \$0.25 per share for a period of 18 months from the closing date.

The Company also incurred \$47,720 of legal fees relating to the above private placements in 2007.

During 2007, the Company issued 510,000 warrants entitling the holder to acquire one common share at \$0.15 per share. The warrants were issued for no consideration to settle a dispute pertaining to the February 2006 issuance of shares.

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**14) CAPITAL STOCK (Continued)**

**d) Share purchase warrants**

At October 31, the following common share purchase warrants were outstanding, entitling the holders the right to purchase one common share for each warrant held as follows:

	<b>2008</b>		<b>2007</b>	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants exercisable, beginning of year	30,979,054	\$ 0.27	24,074,980	\$ 0.17
Issued	2,899,301	\$ 0.24	24,060,865	\$ 0.27
Exercised	0	\$ 0.00	(13,991,791)	\$ 0.15
Expired	(12,042,077)	\$ 0.26	(3,165,000)	\$ 0.15
Warrants exercisable, end of year	21,836,278	\$ 0.27	30,979,054	\$ 0.25

At October 31, the following share purchase warrants were outstanding:

Expiry Date	Exercise Price	Number of Warrants	
		<b>2008</b>	<b>2007</b>
February 18, 2008	\$ 0.22	0	1,758,889
February 18, 2008	\$ 0.22	0	48,000
March 1, 2008	\$ 0.22	0	2,831,700
March 8, 2008	\$ 0.22	0	2,789,600
June 18, 2008	\$ 0.32	0	1,232,500
June 22, 2008	\$ 0.32	0	1,602,932
June 29, 2008	\$ 0.32	0	1,778,456
January 18, 2009*	\$ 0.30	100,000	100,000
February 27, 2009*	\$ 0.25	2,777,777	2,777,777
April 24, 2009	\$ 0.25	1,609,200	1,609,200
May 22, 2009	\$ 0.25	1,333,052	0
June 7, 2009	\$ 0.25	3,200,000	3,200,000
June 19, 2009	\$ 0.25	1,364,649	0
July 4, 2009	\$ 0.30	10,000,000	10,000,000
July 18, 2009	\$ 0.30	1,250,000	1,250,000
May 14, 2010	\$ 0.08	201,600	0
		21,836,278	30,979,054

\* Expired unexercised

**TAGISH LAKE GOLD CORP.**  
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**14) CAPITAL STOCK (Continued)**

**d) Share purchase warrants (continued)**

The fair value of warrants included in share issuance costs is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2008</b>	<b>2007</b>
Risk-free interest rate	3.44%	4.06%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	53.82%	86.57%
Expected option life in years	1.73	1.10

**e) Share purchase options**

The Company has a stock option plan whereby the Company may grant options to directors, officers, employees and consultants of up to 10% of the common shares outstanding at the time of grant. The exercise price of each option is equal to or at an allowable discount to the market price of the Company's common shares at the date of the grant. The option term and vesting period is determined by the board of directors within regulatory guidelines.

Details of the status of the Company's share purchase options are as follows:

	<b>2008</b>		<b>2007</b>	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	5,190,000	\$ 0.20	2,140,000	\$ 0.18
Granted	0	\$ 0.00	4,000,000	\$ 0.20
Exercised	0	\$ 0.00	(300,000)	\$ 0.15
Expired	(590,000)	\$ 0.20	0	\$ 0.00
Forfeited	(500,000)	\$ 0.20	(650,000)	\$ 0.20
Outstanding, end of year	4,100,000	\$ 0.20	5,190,000	\$ 0.20

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**14) CAPITAL STOCK (Continued)**

**e) Share purchase options (continued)**

The following table summarizes information about the share purchase options outstanding and exercisable at October 31, 2008 and 2007.

Expiry Date	2008			2007		
	Exercise Price	Number of Shares	Number of Options Vested	Exercise Price	Number of Shares	Number of Options Vested
August 18, 2008	\$ 0.18	0	0	\$ 0.18	115,000	115,000
August 19, 2008	\$ 0.20	0	0	\$ 0.20	475,000	475,000
March 17, 2009	\$ 0.22	350,000	350,000	\$ 0.22	350,000	350,000
March 7, 2011	\$ 0.15	450,000	450,000	\$ 0.15	450,000	450,000
March 7, 2011	\$ 0.17	100,000	100,000	\$ 0.17	100,000	100,000
February 6, 2009	\$ 0.22	100,000	100,000	\$ 0.22	100,000	100,000
June 25, 2009	\$ 0.21	100,000	100,000	\$ 0.21	100,000	100,000
December 4, 2011	\$ 0.20	800,000	800,000	\$ 0.20	800,000	800,000
May 12, 2012	\$ 0.20	400,000	400,000	\$ 0.20	400,000	400,000
June 25, 2012	\$ 0.20	1,400,000	1,200,000	\$ 0.20	1,400,000	1,000,000
August 21, 2012	\$ 0.20	200,000	200,000	\$ 0.20	200,000	200,000
September 1, 2012	\$ 0.20	0	0	\$ 0.20	500,000	200,000
October 1, 2012	\$ 0.20	200,000	200,000	\$ 0.20	200,000	50,000
		4,100,000	3,900,000		5,190,000	4,340,000

The 200,000 unvested options vest on June 25, 2009.

The Company determines the fair value of its stock options granted to directors, consultants and employees by using the Black-Scholes option pricing model. Stock-based compensation consists of the following:

	2008		2007	
Value of options granted to directors	\$	0	\$	378,880
Value of options granted to management		43,030		127,643
	\$	43,030	\$	506,523

**TAGISH LAKE GOLD CORP.**  
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**14) CAPITAL STOCK (Continued)**

**e) Share purchase options (continued)**

The fair value of stock options used to calculate stock-based compensation is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	<b>2008</b>	<b>2007</b>
Risk-free interest rate	0.00%	3.94%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	0.00%	110.31%
Expected option life in years	0	4.63

**f) Shares reserved for issuance at October 31, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
Outstanding at October 31	129,817,124	118,298,313
Stock options (note 7(d))	4,100,000	5,190,000
Warrants (note 7(e))	21,836,278	30,979,054
Fully diluted at October 31	155,753,402	154,467,367

**15) RELATED PARTY TRANSACTIONS**

Related party transactions consist of the following:

**a) During the year ended October 31, 2008, the Company:**

- i) incurred management fees of \$135,825 (2007 - \$12,000) to an officer/director of the Company, a company with a common director, and a company owned by a director;
- ii) incurred resource property exploration expenditures of \$8,277 (2007 - \$34,746) with a company owned by a directors' family member;
- iii) incurred resource property exploration expenditures of \$7,500 (2007 - \$nil) with a company with a common director;
- iv) paid rent of \$nil (2007 - \$7,000) to a company with a common director; and
- v) incurred directors fees of \$36,000 (2007 - \$18,000).

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

**b) A director/shareholder owed the Company \$nil (2007 - \$120,000) secured by shares of the Company (note 7). The amount was non-interest bearing.**

**TAGISH LAKE GOLD CORP.**  
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**15) RELATED PARTY TRANSACTIONS (Continued)**

- c)** Advances from related party are unsecured, non-interest bearing, with no specified terms of repayment and consist of \$60,000 (2007 - \$60,000) payable to a director for advances made to the Company.
- d)** Accounts payable and accrued liabilities include:
- i) \$146,070 (2007 - \$34,746) payable to a director, a company with a common director and a company owned by a director for reimbursable corporate expenditures and management fees;
  - ii) \$17,643 (2007 - \$9,366) payable to a company owned by a director's family member for resource property exploration expenditures;
  - iii) \$54,000 (2007 - \$18,000) payable to directors for directors' fees.

**16) COMMITMENTS**

Commitments in each of the next four years are as follows:

	Premises Lease	Office Equipment Lease	Total
2009	\$ 16,821	\$ 4,020	\$ 20,841
2010	17,522	2,010	19,532
2011	17,522	0	17,522
2012	8,761	0	8,761
	\$ 60,626	\$ 6,030	\$ 66,656

**17) CONTINGENCIES**

Two vendors have filed claims against the Company to collect payment on outstanding balances owed to them by the Company. These amounts are included in accounts payable and accrued liabilities.

**18) SUBSEQUENT EVENTS**

Subsequent to October 31, 2008,

- a)** YSM advanced an additional \$200,000 to the Company (note 12).
- b)** Two directors advanced the Company a total of \$45,000 by way of debentures. The debentures are unsecured, bear interest at 12% per annum payable bi-annually in arrears on June 30 and December 31, and mature December 31, 2018.