

# THIRD QUARTER REPORT

FOR THE PERIOD ENDED AUGUST 31, 2010



The accompanying unaudited interim consolidated 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 interim consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditor.



# THIRD QUARTER REPORT

## Consolidated statements of operations, comprehensive earnings and deficit (Unaudited – Prepared by Management)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<b>August 31, 2010</b>	August 31, 2009	<b>August 31, 2010</b>	August 31, 2009
<b>Administrative Expenses:</b>				
Amortization	\$ 38,508	\$ 51,444	\$ 115,523	\$ 155,541
Consulting	43,560	60,500	194,370	213,400
General corporate	11,134	13,025	38,360	39,461
Investor relations (Note 13)	33,240	43,010	254,369	202,219
Professional fees	8,045	8,842	31,726	28,311
Rent	12,574	14,006	40,182	41,882
Salaries and benefits	80,931	43,264	173,652	133,222
Stock-based compensation	906	232,514	5,969	419,462
Telephone	2,157	1,908	6,479	5,716
Transfer agent and filing fees	1,745	2,007	9,686	14,755
Travel	1,920	2,809	8,018	8,540
	<b>234,720</b>	473,329	<b>878,334</b>	1,262,509
Other expenses (income)				
Foreign exchange (gain) loss	(33)	-	180	2,278
Interest expense	137	-	554	-
Interest income	(1,553)	(1,947)	(8,089)	(10,713)
Write off of plant and equipment	-	-	605	380
Write off of exploration properties	-	45,030	-	45,030
	<b>(1,449)</b>	43,083	<b>(6,750)</b>	36,975
Loss before income taxes	\$ (233,271)	\$ (516,412)	\$ (871,584)	\$ (1,299,484)
Income tax recovery (Note 12)	58,060	-	718,694	122,460
<b>Net (loss) earnings and comprehensive (loss) earnings</b>	<b>(175,211)</b>	(516,412)	<b>(152,890)</b>	(1,177,024)
Deficit, beginning of period	(20,540,170)	(19,483,782)	(20,562,491)	(18,823,170)
<b>Deficit, end of period</b>	<b>\$ (20,715,381)</b>	\$ (20,000,194)	<b>\$ (20,715,381)</b>	\$ (20,000,194)
(Loss) earnings per share – basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of shares outstanding				
Basic	222,029,658	184,325,745	219,215,671	175,440,022
Diluted	222,029,658	184,325,745	219,215,671	175,440,022



# THIRD QUARTER REPORT

## Consolidated Balance Sheets (Unaudited – Prepared by Management)

	<i>As at</i>	
	<b>2010</b> <b>August 31</b>	2009 November 30
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 318,464	\$ 1,675,533
Amounts receivable	63,351	61,103
Inventory (Note 6)	484,943	175,055
Prepaid expenses and advances	47,160	80,024
	<b>913,918</b>	1,991,715
Security deposits (Note 7)	474,000	474,000
Plant and equipment (Note 8)	484,144	593,924
Exploration properties (Note 9)	51,496,945	46,623,194
	<b>\$ 53,369,007</b>	\$ 49,682,833
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 594,149	\$ 454,301
Asset retirement obligation	490,000	490,000
Future income tax liability	1,517,050	1,214,602
	<b>2,601,199</b>	2,158,903
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Unlimited Common shares without par value) (Note 10)		
Issued 222,029,658 (November 30, 2009 – 196,772,158 )	66,552,993	63,168,905
Contributed surplus	4,930,196	4,917,515
Deficit	(20,715,381)	(20,562,490)
	<b>50,767,808</b>	47,523,930
	<b>\$ 53,369,007</b>	\$ 49,682,833

Going Concern (Note 1)

Approved by the Directors

*(Signed) Dave R. Webb*

David R. Webb, Director

*(Signed) Denis M. Taschuk*

Denis M. Taschuk, Director



# THIRD QUARTER REPORT

## Consolidated statements of cash flows (Unaudited – Prepared by Management)

	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<b>August 31, 2010</b>	August 31, 2009	<b>August 31, 2010</b>	August 31, 2009
<b>Operating activities</b>				
Net (loss) earnings	\$ (175,211)	\$ (516,412)	\$ (152,890)	\$ (1,177,024)
Add (deduct) items not affecting cash -				
Amortization	38,508	51,444	115,523	155,541
Income tax recovery	(58,060)	-	(718,694)	(122,460)
Stock-based compensation	906	232,514	5,969	419,462
Write off of plant and equipment	-	-	605	380
Write off of exploration properties	-	45,030	-	45,030
	<b>(193,857)</b>	(187,424)	<b>(749,487)</b>	(679,071)
Changes in non-cash operating working capital				
Amounts receivable	50,292	(12,624)	(2,248)	5,488
Inventory	19,312	19,704	(309,888)	54,430
Prepaid expenses and advances	(443)	(2,444)	32,864	(16,320)
Accounts payable and accrued liabilities	(57,265)	92,398	(127,050)	(50,863)
	<b>(181,961)</b>	(90,389)	<b>(1,155,809)</b>	(686,336)
<b>Investing activities</b>				
Deposits	-	-	-	-
Purchase of plant and equipment	-	(3,393)	(6,348)	(27,053)
Additions to exploration properties, net of amounts in accounts payable	(1,158,176)	(415,350)	(4,586,893)	(1,237,317)
Acquisition of exploration properties	-	(4,232)	(19,961)	(28,432)
	<b>(1,158,176)</b>	(422,975)	<b>(4,613,202)</b>	(1,292,802)
<b>Financing activities</b>				
Issuance of shares, net of issue costs, for				
Private placements	-	2,425,710	4,257,262	2,849,788
Stock options	-	-	4,680	-
Warrants	-	-	150,000	-
	-	2,425,710	4,411,942	2,849,788
(Decrease) increase in cash	(1,340,137)	1,912,346	(1,357,069)	870,650
Cash and cash equivalents, beginning of period	1,658,601	1,627,740	1,675,533	2,669,436
<b>Cash and cash equivalents, end of period</b>	<b>\$ 318,464</b>	\$ 3,540,086	<b>\$ 318,464</b>	\$ 3,540,086
Cash and cash equivalents is comprised of the following				
Cash	\$ 318,464	\$ 1,012,868	\$ 318,464	\$ 1,012,868
Term deposits	-	2,527,218	-	2,527,218
	<b>\$ 318,464</b>	\$ 3,540,086	<b>\$ 318,464</b>	\$ 3,540,086
Non-cash financing activities				
Issuance of common shares for mineral property	\$ -	\$ -	\$ -	\$ 10,200

## Notes to the Consolidated Financial Statements

### 1. Going concern

Tyhee Development Corp. (the "Company") is an advanced exploration enterprise with no ongoing revenues. The Company is in the process of exploring its various mineral properties, all of which are located in Canada.

These consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company's ability to proceed with the next planned phase of the project and to continue as a going concern is dependent upon continued financial support from shareholders and its ability to attract significant cash investments and ultimately upon attaining future profitable operations. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future.

If the going concern basis was not appropriate for these financial statements, then significant adjustments would be necessary to the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications.

### 2. Changes in Accounting Policies

In February 2008 the Canadian Accounting Standards Board announced January 1, 2011 as the changeover date for publicly-listed companies to move to the International Financial Reporting Standards ("IFRS"), replacing Canada's own generally accepted accounting principles. The Company will be required to report according to IFRS standards in the year ended November 30, 2012 and will require restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011.

The most common accounting standard affecting the mining sector is *IFRS 6 – Exploration for and Evaluation of Mineral Resources*, which applies to expenditures incurred on properties in the exploration and evaluation phase (beginning when an entity obtains legal rights to explore a specific area and ending when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable). IFRS 6 requires entities to select and consistently apply an accounting policy specifying which exploration and evaluation expenditures are capitalized and which are expensed. The Company will establish an accounting policy in accordance with its current accounting policy of capitalizing the expenses. Other areas of consideration will include *impairment of assets, stock based compensation, income taxes and first time adoption of IFRS*. The Company continues to assess the impact of the convergence of Canadian generally accepted accounting principles ("Canadian GAAP") with IFRS on the results of operations, financial position and disclosures.

In January 2009, the CICA issued Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non Controlling Interests, to replace Section 1581 and Section 1600. These sections shall be applied prospectively to business combinations on or after the beginning of the first annual reporting period beginning after January 1, 2011 with earlier applications permitted. Effective December 1, 2011, the Company will adopt the new handbook sections, which establish updated standards on the recognition, measurement criteria and presentation for acquisitions, the accounting for assets and liabilities assumed and non-controlling interests. The impact of implementation of these standards will not have a material impact on the Company's consolidated financial statements.

### 3. Significant accounting policies

#### (a) Basis of consolidation

The consolidated financial statements include the accounts of the Company, (a British Columbia company), and its 100% owned subsidiary, Tyhee N.W.T. Corp. (a Northwest Territories company).

Intercompany transactions and balances have been eliminated upon consolidation.

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

(b) *Measurement uncertainty*

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring management estimates relate to the carrying value of mineral properties and deferred exploration costs, provision for future site restoration costs and determination of stock-based compensation charges. Actual results could differ from those estimates.

(c) *Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit and highly liquid interest bearing securities and have maturities of three months or less from the date of issue.

(d) *Inventory*

Inventory is comprised of diesel, gasoline and propane and is valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out method of accounting. During the current fiscal year, the amount of inventory consumed during the period is reported as an increase in exploration properties.

(e) *Plant and equipment*

Plant and equipment includes office furniture, automobiles and various equipment that are stated at cost and amortized at 15% to 45% per annum on a declining balance basis.

(f) *Exploration properties*

The investigation, pre-acquisition costs, costs of acquiring mineral properties and the related exploration and development expenses are deferred and allocated to individual properties until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned or sold, at which time the costs are charged to operations.

Management reviews the carrying value of each property on a regular basis. This review generally is made by reference to the timing of exploration and/or development work, work programs proposed, the exploration results achieved by Tyhee and by others, and, in the case of producing properties, the estimated future operating results and net cash flows. When the carrying value of a property is estimated to exceed its net recoverable amount, provision is made for the decline in value.

(g) *Impairment of long-lived assets*

The Company reviews the carrying amount of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable or has been impaired. The determination of any impairment would be based on a comparison of estimated future cash flows anticipated to be generated during the remaining life of the asset to the net carrying value of the asset. If impairment is determined, assets held for use are written down to their fair values.

## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

(h) *Asset retirement obligation*

CICA Handbooks, Section 3110, *Asset Retirement Obligations*, focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is capitalized to the related asset and amortized into the statement of operations over time. Environmental expenditures relating to clean up are charged to the statement of operations as incurred during the exploration phase. Significant environmental expenditures to be incurred subsequent to the cessation of exploration are accrued when their extent can be reasonably estimated. The Company has estimated (before discounting) and recorded the fair value of this liability as it is uncertain when the Company will be required to commence the remediation process.

(i) *Income taxes*

The fundamental principle of “future income taxes” is that an enterprise recognizes a future income tax liability whenever recovery or settlement of the carrying amount of an asset or liability would result in future income tax outflows. Similarly, an enterprise recognizes a future income tax asset whenever recovery or settlement of the carrying amount of an asset or liability would generate future income tax reductions. An extension of this fundamental principle is that in the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax benefits is determined by reference to the likely realization of a future income tax reduction.

(j) *Stock options*

The Company accounts for all grants of options to employees, non-employees and directors in accordance with the fair value method for accounting for stock-based compensation as defined by Canadian GAAP. Stock-based compensation expense is calculated using the Black-Scholes option pricing model. The resulting value is charged to the statement of operations and the contributed surplus account is increased.

(k) *Foreign currency translation*

Transactions denominated in a foreign currency are translated using the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated at the rate in effect on the balance sheet date. Other balance sheet items and revenues and expenses are translated at the rates prevailing on the respective transaction dates. Exchange gains and losses related to monetary items are charged to the statement of operations.

(l) *Earnings (loss) per share*

The basic earnings (loss) per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed to give effect to the incremental common shares issuable upon the exercise of stock options and warrants. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. Under the treasury stock method only “in-the-money” dilutive instruments impact the dilution calculations.



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## Notes to the Consolidated Financial Statements

### 3. Significant accounting policies (continued)

#### (m) Financial instruments

The Company classifies its financial instruments into one of the following categories: held-for-trading (assets and liabilities), available-for-sale (assets), loans and receivables, held-to-maturity (assets) and other financial liabilities. All financial instruments are measured at fair value on initial recognition.

The Company has designated its cash and cash equivalents as held-for-trading, which are measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Security deposits are classified as held-to-maturity, and are measured at amortized cost. Accounts payable are classified as other financial liabilities, which are measured at amortized cost.

#### (n) Comprehensive Income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. The Company had no "other comprehensive income or loss" transactions during the nine months ended August 31, 2010 and August 31, 2009, and no opening or closing balances for "accumulated other comprehensive income or loss". During the nine months ended August 31, 2010 and August 31, 2009, comprehensive loss was equal to net loss.

### 4. Capital management

The Company's objectives when managing capital are to:

- (a) safeguard the Company's ability to continue as a going concern;
- (b) maintain sufficient capital to develop and explore the Company's mineral properties; and
- (c) provide sufficient funds for the Company's corporate activities.

The capital of the Company consists of the items included in shareholder's equity. The Company will use its current working capital to carry out the Company's planned exploration and development programs and to pay for administrative costs, and will continue to raise additional funds. The Company has historically relied on equity financings to finance its exploration properties. To effectively manage the Company's capital requirements, the Company's management has in place a planning and budgeting process. The Company is not subject to any externally imposed capital requirements.

The Company is subject to flow through obligations to investors, which require it to use the funds raised through the issue of "flow through shares" on exploration expenditures.



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## Notes to the Consolidated Financial Statements

### 5. Financial Instruments

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include currency, credit, interest rate and liquidity risks. Where material, these risks are reviewed and monitored by the Board of Directors.

*(a) Credit risk*

The Company manages credit risk by investing its cash with Canadian chartered banks. The Company's other assets consist primarily of tax receivables due from the federal government. The maximum exposure to credit risk at the reporting date is the carrying value of the Company's receivables and cash.

*(b) Interest rate risk*

The Company's interest income earned on cash and cash equivalents is exposed to interest rate risk.

*(c) Currency risk*

The Company is exposed to currency risk on a U.S. dollar bank account it holds. At August 31, 2010, the Company held \$2,240 in U.S. dollars. The Company does not have a formal policy to manage currency risk, however, management actively monitors movements in foreign currency and forecasts foreign currency payments.

*(d) Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations when they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise the funds required through future equity or debt financings, asset sales or exploration option agreements, or a combination thereof. The Company has no regular cash inflow from its operating activities. The Company manages its liquidity risk by forecasting cash flow requirements for its planned development, exploration and corporate activities and anticipating investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of annual budgets and significant expenditures and commitments. Failure to realize additional funding, as required, could result in the delay or indefinite postponement of further exploration and development of the Company's exploration properties and the inability to meet obligations as they come due.

Accounts payable and accrued liabilities are generally settled within 30 days.



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## Notes to the Consolidated Financial Statements

### 6. Inventory

At August 31, 2010, the inventory consists of diesel, gasoline and propane and amounted to \$484,943 (November 30, 2009 - \$175,055). During the nine months ended August 31, 2010, inventory purchases amounted to \$490,907 and, based on consumption, an amount of \$181,019 was charged to exploration properties in the nine months ended August 31, 2010. Cost of inventory includes amounts paid to the supplier including transportation costs, and is measured using the first-in, first-out ("FIFO") method.

### 7. Security Deposits

	<u>August 31, 2010</u>	November 30, 2009
Mackenzie Valley Land and Water Board	<b>\$ 474,000</b>	\$ 474,000

Security deposits of \$474,000 in cash have been posted with the Mackenzie Valley Land and Water Board for land use permits and a water licence on the Company's exploration properties.

### 8. Plant and Equipment

	<u>August 31, 2010</u>			November 30, 2009 (Audited)
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Automobiles	\$ 245,747	\$ 194,026	\$ 51,721	\$ 51,721
Boats and canoes	12,170	8,542	3,628	4,088
Camp Facilities	331,821	243,354	88,467	108,882
Computer/electronic equipment	98,551	88,339	10,212	14,808
Data network infrastructure	36,744	30,819	5,925	7,645
Mining equipment	938,027	628,474	309,553	375,135
Office furniture	56,743	42,105	14,638	16,630
	<b>\$ 1,719,803</b>	<b>\$ 1,235,659</b>	<b>\$ 484,144</b>	<b>\$ 593,924</b>



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## Notes to the Consolidated Financial Statements

### 9. Exploration Properties

	Yellowknife Gold Project						
	Ormsby, Nicholas Lake, Bruce Lake	Goodwin Lake Property	Clan Lake Property	Total	BigSky Property	Other properties	Total
	\$	\$	\$	\$	\$	\$	\$
<b>November 30, 2009</b>							
Acquisition	714,851	41,115	28,760	784,726	97,398	1	<b>882,125</b>
Exploration	37,047,920	1,504,986	3,995,881	42,548,787	3,192,282	-	<b>45,741,069</b>
	<b>37,762,771</b>	<b>1,546,101</b>	<b>4,024,641</b>	<b>43,333,513</b>	<b>3,289,680</b>	<b>1</b>	<b>46,623,194</b>
Additions							
Acquisition	19,961	-	-	-	-	-	<b>19,961</b>
Exploration							
Assaying/preparation	27,259	-	224,092	251,351	-	-	<b>251,351</b>
Camp costs	137,542	-	341,008	478,550	-	-	<b>478,550</b>
Drilling	347,195	-	951,810	1,299,005	-	-	<b>1,299,005</b>
Equipment rentals/repairs	23,823	-	14,800	38,623	-	-	<b>38,623</b>
Environmental	242,405	-	-	242,405	-	-	<b>242,405</b>
Flights/travel	36,013	-	189,978	225,991	-	-	<b>225,991</b>
Geology	163,747	36,264	268,454	468,465	-	-	<b>468,465</b>
Project management	120,304	-	180,576	300,880	-	-	<b>300,880</b>
Property holding costs	7,743	1,277	372	9,392	675	-	<b>10,067</b>
Supplies (operating)	69,001	-	143,345	212,346	-	-	<b>212,346</b>
Prefeasibility report	1,090,338	-	3,124	1,093,462	-	-	<b>1,093,462</b>
Winter road	91,626	-	141,019	232,645	-	-	<b>232,645</b>
	<b>2,356,996</b>	<b>37,541</b>	<b>2,458,578</b>	<b>4,853,115</b>	<b>675</b>	<b>-</b>	<b>4,853,790</b>
<b>August 31, 2010</b>							
Acquisition	734,812	41,115	28,760	804,687	97,398	1	<b>902,086</b>
Exploration	39,404,916	1,542,527	6,454,459	47,401,902	3,192,957	-	<b>50,594,859</b>
	<b>40,139,728</b>	<b>1,583,642</b>	<b>6,483,219</b>	<b>48,206,589</b>	<b>3,290,355</b>	<b>1</b>	<b>51,496,945</b>

## Notes to the Consolidated Financial Statements

### 9. Exploration Properties (continued)

#### *Yellowknife Gold Project*

##### (a) *Ormsby, Nicholas Lake and Bruce Lake*

The Company has a 100% interest in the 14 mineral leases which host the Ormsby, Nicholas Lake and Bruce Lake Zones that cover approximately 6,348 hectares (15,650 acres). The leases are located 90 km north of Yellowknife, Northwest Territories, Canada.

As part of the purchase price of the leases, the Company agreed, that commencing in April 2004 and on every anniversary thereafter, to advance to Giaouque Holdings Ltd., a private company in which David Webb (Director, President and Chief Executive Officer of Tyhee) is a director and officer, a non-refundable minimum payment of US\$20,000 which is deductible from the NSR described in the Company's annual audited consolidated financial statements for the year ended November 30, 2009. The advance payments have been paid to date.

To August 31, 2010, the Company has spent \$40,139,728 on acquisition and exploration of the leases.

##### (b) *Goodwin Lake Property*

The Goodwin Lake property is located 60 km north of Yellowknife, Northwest Territories, Canada is comprised of four mineral claims that cover approximately 722 hectares (1,780 acres) and hosts the Vad Zone. Tyhee has completed surveys and has applied to convert all of these claims to mineral leases.

The Company optioned three of the mineral claims in November 2006 from an arm's length, Yellowknife-based prospector for a 2% NSR, half of which may be purchased by the Company for \$1 million. In addition, a total of 85,000 shares at \$0.41 per share for a gross value of \$34,850 were issued in accordance with the terms of the property option agreement.

To August 31, 2010, the Company has spent \$1,583,642 on the acquisition and exploration of the Goodwin Lake Property.

##### (c) *Clan Lake Property*

The Clan Lake property is located 50 km north of Yellowknife, Northwest Territories, Canada. It is comprised of nine mineral claims, staked by the Company since 2007, totalling approximately 3,186 hectares (7,872 acres) and hosts several gold zones including the Main Zone.

At August 31, 2010, the Company has spent \$6,483,219 on the acquisition and exploration of the Clan Lake property.

## Notes to the Consolidated Financial Statements

### 9. Exploration Properties (continued)

#### *BigSky Property*

The BigSky property is located 17 km north of Yellowknife, Northwest Territories, Canada. The property is comprised of five mining leases (Oro Lake) covering 137 hectares (338 acres) and 20 claims totalling 2,976 hectares (7,353 acres).

The Ken claims constitute 188 hectares (465 acres) of the BigSky Property and were acquired in 2007 from an arms-length Yellowknife businessman. Consideration includes a 2% NSR, one-half of which can be purchased by the Company for \$500,000 at any time.

The Blue Claims constitute 588 hectares (1,453 acres) of the BigSky Property and were acquired in 2007 from arm's length Yellowknife businessman for 60,000 common shares which were issued over three years and a 2% NSR, one-half of which may be purchased by the Company for \$500,000. Subsequent to August 31, 2010, three of the four Blue claims have been taken to lease.

The Oro Lake Property constitutes 137 hectares (338 acres) of leases which are part of the BigSky Property and were acquired in 2008 from an arms-length company for a one-time payment of \$20,000. The Company will return the mining leases to the vendor if the Company no longer wishes to retain the mining leases or fails to expend a minimum of \$100,000 on the leases within five years of the agreement dated April 30, 2008. To August 31, 2010, the Company has expended approximately \$70,800 in exploration expenditures on the Oro Lake Property.

The Duck claims and the YK claims were acquired by staking and constitute 2,063 hectares (5,097 acres) of the BigSky Property.

To August 31, 2010, the Company has spent \$3,290,355 on acquisition and exploration of the BigSky Property.

#### *Other Properties*

The Longtom Property, which was previously written down to \$1 is being held at that value because it is still subject to an option agreement dated February 12, 1998.

## Notes to the Consolidated Financial Statements

### 10. Share capital

	Number	Amount	Contributed Surplus
		\$	\$
Balance, November 30, 2009	196,772,158	63,168,905	4,917,515
Issued during the year for cash – private Placements	24,220,000	4,257,262	* 43,612
Exercise of warrants for cash	1,000,000	150,000	(32,299)
Exercise of options for cash	37,500	4,680	(4,602)
Net amount allocated to warrants	-	(11,312)	-
Fair value allocated to option exercise	-	4,602	-
Renunciation of flow through shares	-	(1,021,142)	-
Stock-based compensation	-	-	5,970
<b>Balance, August 31, 2010</b>	<b>222,029,658</b>	<b>66,552,993</b>	<b>4,930,196</b>

\*Value attributed to warrants issued (Note 10 (b)) of \$188,512 less value attributed to warrants surrendered (Note 10(a)(iv)) of \$144,900.

#### (a) Private Placements

- (i) On December 11, 2009, the Company completed the initial closing of 7,500,000 flow through shares purchased at \$0.20 per flow through share for proceeds of \$1,500,000. The agent was paid a cash commission equal to 7% of the proceeds of this sale. The flow through shares were subject to a four month hold period expiring April 12, 2010.
- (ii) On December 18, 2009, the Company completed a further closing of 5,982,000 flow through shares at a price of \$0.20 per flow through share for proceeds of \$1,196,400. A 7% cash finder's fee was paid on \$1,009,400 and a 2% financial advisory fee was paid on \$187,000 on this financing. The flow through shares were subject to a four month hold period expiring April 19, 2010.
- (iii) On December 23, 2009, the Company completed the final closing of its flow through financings. A total of 5,908,000 flow through shares at a price of \$0.20 per flow through share were issued for proceeds of \$1,181,600. A 7% cash finder's fee was paid on this financing. The flow through shares were subject to a four month hold period expiring April 23, 2010. Final acceptance from the TSX Venture Exchange was received for all three private placements on December 23, 2009.
- (iv) On February 25, 2010, the Company issued 4,830,000 units at \$0.15 per unit for proceeds of \$724,500. A total of 4,830,000 shares and 2,415,000 warrants exercisable at \$0.25 for a period ending July 15, 2011 were issued. Subscribers to this private placement agreed to surrender a share purchase warrant issued during a previous private placement, exercisable at \$0.15 (and valued at \$0.03) and expiring July 15, 2011 for cancellation and pay \$0.15 cash for each unit subscribed to. All securities issued are subject to a four month hold period expiring June 25, 2010.



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 10. Share capital (continued)

	Number of Units	Proceeds
		\$
December 11, 2009 (i)	7,500,000	1,500,000
December 18, 2009 (ii)	5,982,000	1,196,400
December 23, 2009 (iii)	5,908,000	1,181,600
February 25, 2010 (iv)	4,830,000	724,500
	24,220,000	4,602,500
Less: Share issue costs		(345,238)
	24,220,000	4,257,262

#### (b) Share purchase warrants

Warrants outstanding at November 30, 2009	21,789,571
Warrants issued during the nine months ended August 31, 2010	2,415,000
Warrants exercised during the nine months ended August 31, 2010	(1,000,000)
Warrants expired/surrendered during the nine months ended August 31, 2010	(4,958,571)
Warrants outstanding at August 31, 2010	18,246,000

The fair value of the warrants issued was estimated using the Black-Scholes model and a total of \$188,512 was added to contributed surplus in the shareholder's equity.

Share purchase warrants outstanding at August 31, 2010 are as follows:

Number of Warrants	Class of shares	Expiry Date	Exercise Price
			\$
631,000	Common	October 15, 2010	0.15
2,415,000	Common	July 15, 2011	0.25
15,200,000	Common	July 15, 2011	0.15
18,246,000			

#### (c) Stock options

The Company has adopted a stock option plan (the "Plan") available to eligible persons, whereby a maximum of 10% of the issued shares of the Company, from time to time, may be reserved for issuance pursuant to the exercise of options. Options issued under the Plan vest immediately, except certain options which vest over a 12 month period. The minimum exercise price of a stock option cannot be less than the applicable closing market price of the Company's shares on the date prior to the stock option grant. Options issued under the Plan have a maximum life of five years from the date of grant.



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 10. Share capital (continued)

	Shares	Weighted average exercise price
		\$
Options outstanding at November 30, 2009	18,158,000	0.34
Options exercised during the nine months ended August 31, 2010	(37,500)	0.13
Options expired during the nine months ended August 31, 2010	(1,583,000)	0.44
Options outstanding at August 31, 2010	16,537,500	0.33

At August 31, 2010, the following stock options were outstanding and exercisable:

Date of grant	Number of shares outstanding and exercisable	Expiry date*	Exercise price
			\$
March 21, 2006	3,782,000	March 21, 2011	0.21
October 25, 2006	2,000,000	October 25, 2011	0.42
June 27, 2007	1,676,000	June 27, 2012	0.41
December 14, 2007	3,276,000	December 14, 2012	0.58
July 21, 2008	1,688,000	July 21, 2013	0.38
September 15, 2008	150,000	September 15, 2013	0.38
December 15, 2008	1,378,000	December 15, 2013	0.18
August 5, 2009	2,587,500	August 5, 2014	0.13
	16,537,500		0.33

\*See Related Party Transactions (Note 11)

At August 31, 2010, the average remaining contractual life was 2.12 years (November 30, 2009 – 2.65 years).

Stock-based compensation expense of \$5,969 (previously granted; now vested) was recorded for the nine months ended August 31, 2010 (November 30, 2009- \$406,592) and added to contributed surplus in shareholders' equity.

The fair value of stock options is estimated using the Black-Scholes option pricing model with the following assumptions:

	August 31, 2010	November 30, 2009
Risk free interest rate	-	2.4 – 3.5%
Annual dividends	-	Nil
Expected stock volatility	-	95 - 98%
Expected life	-	4 years



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 11. Related party transactions

These transactions were in the normal course of operations and were measured at the exchange amount.

(a) Related party transactions with a director and companies controlled by directors for the nine months ended:

	August 31, 2010	August 31, 2009
	\$	\$
Consulting fees		
Roger's Drilling Services Inc. ("RDS")	*72,600	108,900
DRW Geological Consultants Ltd. ("DRW")	118,800	118,800
	<b>191,400</b>	<b>227,700</b>

An amount of \$103,290 (at August 31, 2009 - \$122,320) has been recorded as consulting fees; the balance of fees relating to RDS and DRW have been charged to exploration properties for time spent managing operations, administration and review of properties.

\* Effective May 31, 2010, Mr. Sylvestre retired from the management and Board of the Company. The Company agreed to pay Roger's Drilling Services Inc., commencing on June 1, 2010 and continuing thereafter for a total period of eighteen months, a monthly payment of \$12,100 for a total payment of \$217,800 plus applicable taxes. In addition, all stock options granted by the Company will vest and become exercisable for a period of twelve months, expiring on May 31, 2011. At August 31, 2010, an amount of \$36,300 plus applicable taxes has been paid to Roger's Drilling Services Inc. and included in salaries and benefits.

(b) The following transactions were also included in the financial statements for the nine months ended August 31, 2010:

- An amount of \$91,080 (at August 31, 2009 - \$91,080) was paid in consulting fees to the Chief Financial Officer of the Company.
- An amount of \$70,493 (at August 31, 2009 - \$68,095) was paid in legal fees by a legal firm of which a partner is an officer of the Company.

(c) Certain insiders of the Company participated in the December 18, 2009 flow through private placement as follows: Dave Nickerson, Director of the Company, purchased 10,000 flow through shares; David Webb, President and Chief Executive Officer of the Company purchased 75,000 flow through shares and Lorne Anderson, Chief Financial Officer of the Company purchased 100,000 flow through shares.

Of the 4,830,000 units issued on February 25, 2010, Dave Nickerson and William Burton, Directors of the Company, purchased 50,000 and 200,000 units respectively; DRW Geological Consultants Ltd., (a private company where David Webb, President and Chief Executive Officer of the Company, is a director and officer) purchased 50,000 units and Lorne Anderson, Chief Financial Officer of the Company, purchased 30,000 units.



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 11. Related party transactions (continued)

(d) Directors' fees (included in salaries and benefits) are as follows:

	<i>Nine Months Ended</i>	
	<b>August 31, 2010</b>	August 31, 2009
	\$	\$
Denis M. Taschuk	<b>14,625</b>	13,375
William D. Burton	<b>12,375</b>	11,875
Dave Nickerson	<b>10,500</b>	10,500
	<b>37,500</b>	35,750

(e) Included in accounts payable and accrued liabilities at August 31, 2010 are the following balances with directors and officers and companies controlled by directors:

	<b>August 31, 2010</b>	August 31, 2009
	\$	\$
DRW Geological Consultants Ltd.	-	38,912
Roger's Drilling Services Inc.	-	12,705
Lorne B. Anderson	-	12,630
Roger G. Sylvestre	-	3,527
Dave Nickerson	-	821
William D. Burton	-	1,125
Denis M. Taschuk	-	1,875
	-	71,595

### 12. Income taxes

The exploration expenditures funded by the 2009 flow through share issuances were renounced for tax purposes in fiscal 2010. The renouncement has resulted in a \$1,107,500 (2009 - \$122,460) income tax recovery and an equal reduction in share capital.



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 13. Investor relations

	<i>Nine Months Ended</i>	
	August 31, 2010	August 31, 2009
	\$	\$
Shows and conventions	70,776	24,752
Travel	49,033	34,068
Annual general meeting	39,665	80,470
Consultants' fees and expenses	43,448	33,935
Advertising	16,642	6,608
News releases	16,671	4,054
Materials	4,553	4,377
Subscriptions and dues	6,160	2,060
Meals and entertainment	4,028	8,057
Telephone	2,888	3,521
Courier and postage	505	317
	<b>254,369</b>	<b>202,219</b>

### 14. Commitments

- (a) Annual lease payments of \$17,000 are required to keep the Company's mining properties in good standing.
- (b) A non-refundable advance net smelter royalty of US\$20,000 is payable yearly, as described in Note 9(a).
- (c) A total amount of \$181,500 plus applicable taxes is payable to Roger's Drilling Services Inc. which is payable on the first day of each subsequent month in the amount of \$12,100 plus applicable taxes for a remaining fifteen months in accordance with the agreement signed with Mr. Sylvestre on May 31, 2010, as described in Note 11.

### 15. Guarantees

Guarantees the Company has provided to third parties are as follows:

- (a) The Company entered into indemnity agreements with its directors/officers. Under the agreements, the Company will indemnify and save harmless the indemnitee from and against any and all claims, proceedings, whether civil, criminal, quasi-criminal or administrative, of every nature and kind whatsoever made or brought at any time against the indemnitee by reason that the indemnitee is or was a director of the Company or a subsidiary provided that, at all relevant times, the indemnitee acted honestly and in good faith with a view to the best interests of the Company and, in the case of a criminal or administrative action or proceeding, had reasonable grounds for believing that the indemnitee's conduct was lawful.
- (b) The Company also entered into flow through subscription agreements with subscribers in which the Company agreed to indemnify and save the subscriber harmless for the full amount of any additional tax payable by the subscriber under the Income Tax Act or the laws of any province of Canada as a consequence of any failure of the Company to renounce an amount to the subscriber as required under the agreement.



# THIRD QUARTER REPORT

## Notes to the Consolidated Financial Statements

### 16. Subsequent Events

On October 15, 2010, 631,000 warrants expired, having an exercise price of \$0.15.

On October 26, 2010, the Company announced that it has increased the size of its private placement to \$6.5 million. It has revised the terms of the financing announced September 21, 2010 and instead will now issue 40 million units at \$0.10 per unit to raise \$4.0 million and 21 million flow through units at \$0.12 per unit to raise \$2.5 million. Each unit will consist of one share and one half of a warrant. Each full warrant and \$0.125 will be exercisable into one share for a period of 24 months. The Company will pay Loewen, Ondaatje, McCutcheon Limited ("LOM") a cash commission equal to 7% of the proceeds of the sale of the flow through units by LOM. The Company will pay LOM a cash commission equal to 6% of the proceeds of the sale of the non-flow through units and will issue to LOM warrants to purchase such number of units as is equal to 6% of the number of non-flow through units sold in the private placement at a price of \$0.10 per share, exercisable for a period of 15 months from closing. All warrants will expire prior to 24 months if the share price closes at or above \$0.20 for a period of 20 days, 30 days after notice is given. The funds will be used for exploration purposes, further permitting, engineering studies, and general corporate purposes. Initial closing should occur by October 29, 2010. LOM has been granted the option to over allot the private placement by 25% to cover oversubscriptions.