SUPERIOR MINING INTERNATIONAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2008 and 2007

CHARTERED
ACCOUNTANTS

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Auditors' Report

To the Shareholders of
Superior Mining International Corporation

We have audited the consolidated balance sheets of Superior Mining International Corporation as at July 31, 2008 and 2007 and the consolidated statements of operations and deficit, and cash flows 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at July 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.

Vancouver, Canada.
November 13, 2008

"MacKay LLP"
Chartered Accountants

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
AS AT JULY 31

	2008	2007
ASSETS		
Current		
Cash and cash equivalents	$ 1,839,228	$ 273,224
Receivables	8,911	2,399
Prepaid expenses	7,266	5,402
	1,855,405	281,025
Mineral properties (Note 4)	358,089	236,054
Equipment (Note 5)	12,654	-
Loan receivable (Note 6)	90,000	90,000
Investments (Note 7)	4,863,192	22,667,314
	$ 7,179,340	$ 23,274,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 116,739	$ 49,170
Loan payable (Note 8)	708,000	-
	824,739	49,170
Future income tax payable (Note 14)	9,076	2,590,674
	833,815	2,639,844
Shareholders' equity		
Capital stock (Note 9)	15,000,493	13,150,271
Contributed surplus (Note 9)	1,877,673	1,262,173
Retained earnings (deficit)	(10,532,641)	6,222,105
	6,345,525	20,634,549
	$ 7,179,340	$ 23,274,393

Nature and continuance of operations (Note 1)
Commitment (Note 13)
Subsequent event (Note 17)

On behalf of the Board:

"John Proust" Director *"Cyrus Driver"* Director

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED JULY 31

	2008	2007
EXPENSES		
Administration	$ 17,238	$ 788
Amortization	743	-
Bank charges and interest	22,709	1,466
Consulting	131,580	209,402
Cost recovery	-	(102,301)
Filing and transfer agent fees	22,906	12,689
Foreign exchange	(183,434)	(197,299)
Management fees	96,000	133,919
Office, telephone and printing	51,371	67,838
Professional fees	246,546	293,808
Property investigation	138,542	41,575
Salaries	-	5,321
Stock-based compensation (Note 9)	575,184	-
Travel	3,490	87,145
Loss before other items	(1,122,875)	(554,331)
OTHER ITEMS		
Interest income	39,463	64,609
Mineral properties written off	(249,697)	(100)
Gain on sale discontinued operations (Note 3)	-	19,351,774
Unrealized loss on investment (Note 7)	(17,086,258)	-
Fair value adjustment to asset backed commercial paper (Note 7)	-	(151,800)
	(17,296,492)	19,264,483
Income (loss) and comprehensive income (loss) for the year before income tax and discontinued operations	(18,419,367)	18,710,152
Current income tax (Note 14)	(5,206)	-
Future income tax (provision) recovery (Note 14)	2,387,691	(2,823,662)
Income (loss) and comprehensive income (loss) for the year before discontinued operations	(16,036,882)	15,886,490
Income from discontinued operations (Note 3)	-	3,469
Income (loss) and comprehensive income (loss) for the year	(16,036,882)	15,889,959
Retained earnings (deficit), beginning of year	6,222,105	(9,667,854)
Impact from accounting changes relating to financial instruments (Note 2)	(717,864)	-
Retained earning (deficit), end of year	$ (10,532,641)	$ 6,222,105
Basic income (loss) per share	$ (0.48)	$ 0.52
Diluted income (loss) per common share	(0.48)	0.40
Weighted average common shares outstanding basic earning (loss) per share	33,566,296	30,587,994
Effect of dilutive earnings (loss) per share		
Stock options	-	2,021,679
Warrants	-	7,229,271
Dilutive potential common shares	-	9,250,950
Weighted average common shares outstanding, adjusted for assumed conversions	33,566,296	39,838,944

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED JULY 31

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) for the year from continuing operations	$ (16,036,882)	$ 15,886,490
Items not affecting cash		
Foreign exchange	(193,907)	(282,596)
Gain on sale of discontinued operations	-	(19,351,774)
Unrealized loss on investment	17,086,258	-
Amortization and depreciation	743	30,654
Mineral properties and other assets written off	249,697	100
Stock-based compensation	575,184	-
Future income tax provision (recovery)	(2,387,691)	2,823,662
Fair value adjustment of asset backed commercial paper	-	151,800
Net change in non-cash working capital	36,818	44,671
Net cash used in operating activities	(669,780)	(696,993)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan receivable	-	(90,000)
Mineral properties and deferred exploration costs	(277,867)	(717)
Reclamation bond refunded	-	9,323
Acquisition of investment	-	(196,874)
Acquisition of equipment	(14,887)	-
Discontinued operations	-	47,976
Purchase of asset backed commercial paper	-	(1,008,448)
Net cash provided by (used in) investing activities	(292,754)	(1,238,740)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of shares for cash	1,968,000	-
Share subscriptions received	-	550,000
Share issue costs	(147,462)	-
Loan proceeds	708,000	-
Net cash provided by financing activities	2,528,538	550,000
Change in cash and cash equivalents for the year	1,566,004	(1,385,733)
Cash and cash equivalents, beginning of year	273,224	1,658,957
Cash and cash equivalents, end of year	$ 1,839,228	$ 273,224
Cash and cash equivalents consist of:		
Cash on hand	$ 338,587	$ 273,224
Term deposits	1,500,641	-
	$ 1,839,228	$ 273,224

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a "going concern" is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

	2008	2007
Working capital	$ 1,030,666	$ 231,855
Retained earnings (deficit)	(10,532,641)	6,222,105

2. SIGNIFICANT ACCOUNTING POLICIES

Change in accounting policies

Financial instruments

Effective August 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (“CICA”) under CICA Handbook Section 1530 “Comprehensive Income” (“Section 1530”), Section 3251 “Equity”, Section 3855 “Financial Instruments – Recognition and Measurement” (“Section 3855”), Section 3861 “Financial Instruments – Disclosure and Presentation” and Section 3865 “Hedges”. These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Change in accounting policies (cont'd…)

Financial instruments (cont'd…)

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are initially measured in the balance sheet at fair value. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; (3) loans and receivables, held-to maturity investments and other financial liabilities are measured at amortized cost; and (4) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents, commercial paper and shares in a publicly traded company as held-for-trading. Receivables and loan receivable are classified as loans and receivables. Accounts payable and accrued liabilities and loan payable are classified as other financial liabilities, which are measured at amortized cost.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

As a result of the application of Section 3855, the Company's retained earnings position as at August 1, 2007 was decreased by $717,864 to reflect the fair value of shares in a publicly traded company.

Accounting changes

Effective August 1, 2007, the Company adopted CICA Handbook Section 1506. The main features of this new standard are (a) voluntary changes in accounting policy are made only if they result in the financial statements providing reliable and more relevant information; (b) changes in accounting policy are applied retrospectively unless doing so is impracticable (as defined in the section); (c) prior period errors are corrected retrospectively; and (d) new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and term investments (at 2.6% interest per annum) that are cashable.

Principles of consolidation

These financial statements include the accounts of the Company, its wholly owned subsidiaries (Superior Mining South Africa (PTY) Corporation, Owl Eye Trading 71 (Pty) Ltd., Cinquarnis Diamonds (Pty) Ltd. and its proportionate share of Middelvlei Gold & Investments (Pty) Ltd. and Turquoise Moon Trading 403 Pty. Ltd. All inter-company transactions are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Measurement uncertainty and estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount 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 relate to the determination of stock-based compensation, impairment of assets, provision for reclamation and useful lives for depreciation and amortization. Financial results as determined by actual events could differ from those estimates.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated fair value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The amounts recorded are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recorded amounts.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Joint interests

A portion of the Company's exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Asset retirement obligations (cont'd…)

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability for an asset retirement obligation and the related asset retirement cost capitalized as part of the carrying amount of the related long-lived asset.

Equipment and amortization

Amortization is calculated on a straight-line basis over the estimated useful lives of mining property, plant and equipment. The estimated useful lives are as follows:

Mining plant and machinery	6 years
Prefabricated office and equipment and vehicle	3 – 6 years

Mining assets are amortized by writing the carrying values off over the expected remaining life (in tons) of a specific pit. Amortization does not commence until steady state mining commences.

Foreign currency translation

The Company's activities and those of its subsidiaries denominated in currencies other than Canadian dollars are translated as integrated operations using the temporal method. This method translates monetary balances at the rate of exchange at the balance sheet date, non-monetary balances at historic exchange rates and revenues and expense items at exchange rates in effect when incurred.

Income (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on income (loss) per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the year ended July 31, 2008, this calculation proved to be anti-dilutive.

Basic income (loss) per share is calculated using the weighted-average number of common shares outstanding during the year.

Stock-based compensation

The fair value of stock-based compensation is determined using the Black-Scholes option pricing model. Any consideration paid on exercise of stock options is credited to capital stock. Compensation expense is recognized over the vesting period. The Company has not incorporated an estimated forfeiture rate for stock options.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Share issue costs

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Income taxes

Income taxes are recorded using the asset and liability method whereby 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 bases and for the benefit of loss carryforwards. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Comparative figures

Certain comparative figures have been restated in order to conform with the current year's presentation.

Valuation of warrants

The Company has adopted the following policy with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. The fair value attributed to the warrants, if any, is recorded in Contributed Surplus.

Recent accounting pronouncements

Assessing going concern

The AcSB amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company plans to adopt this Section on August 1, 2008. This Section relates to disclosures and will not have an impact on the Company's financial results.

Financial instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments – Disclosures,* which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments – Recognition and Measurement,* Section 3863, *Financial Instruments – Presentation,* and Section 3865, *Hedges.* This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company plans to adopt this Section on August 1, 2008 and it is not expected to have an impact on the Company's financial results.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

Financial instruments (cont'd…)

The AcSB issued CICA Handbook Section 3863, *Financial Instruments – Presentation,* which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company plans to adopt this Section on August 1, 2008. This Section is not expected to have an impact on the Company's financial results.

Capital disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Company plans to adopt this Section on August 1, 2008. This Section relates to disclosures and will not have an impact on the Company's financial results.

Goodwill and intangible assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company plans to adopt this Section on August 1, 2008. The Company does not expect the adoption to have an impact on the Company's financial results.

International financial reporting standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of August 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. 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.

3. ACQUISITION OF MIDDLEVLEI GOLD & INVESTMENTS (PTY) LTD. (FORMERLY PAMODZI GOLD (PROPRIETARY) LIMITED) AND DISPOSAL OF IMPAFA

During the year ended July 31, 2007, Pamodzi Gold (Pty) Ltd. ("Pamodzi Gold") changed its name to Middelvlei Gold & Investments (Pty) Ltd. ("MGI"), a joint venture, which owned 100% of Pamodzi Gold West Rand (Proprietary) Limited (formerly Impafa Resources (Pty) Ltd.) ("Impafa"), which holds the Middelvlei Mining assets (Note 4).

During the year ended July 31, 2006, pursuant to agreements with Pamodzi Resources (Pty) Limited ("Pamodzi Resources") and MGI (formerly Pamodzi Gold), the Company acquired 50% of the issued and outstanding shares of MGI in consideration of advancing to MGI, by way of shareholder's loan, an aggregate of ZAR 15,816,040 (approx. Cdn. $2,730,000) (the "*Shareholder's Loan*") plus interest of ZAR 858,341 (approx. Cdn. $136,000). This transaction was accounted for as an asset purchase since MGI's only purpose is as a holding company for the Company's Middlevlei mining property (Note 4) summarized as follows. During the year ended July 31, 2007, pursuant to the second variation agreement the Company agreed to reduce its interest in MGI to 50% less one share and as a result Pamodzi Resources increased its interest in MGI to 50% plus one share.

Net assets acquired:	
Cash	$ 105,467
Restricted cash	36,163
Non-cash working capital	(69,703)
Mineral property	4,293,442
Current portion of long-term debt	(99,888)
Long-term debt	(298,064)
Due to joint venture partner	(33,618)
Future income tax payable	(1,483,086)
Provision for reclamation	(81,620)
Cash paid (ZAR 14,393,030)	2,369,093
Less: Cash of MGI	(105,467)
Cash paid net of cash acquired	$ 2,263,626

At July 31, 2006, these balances were consolidated and operations and cash flows were consolidated from August 1, 2006 to December 31, 2006.

During December 2006, the Company, through MGI, sold its interest in Impafa to Pamodzi Gold Limited (formerly Bema SA Pty – listed on the Johannesburg Stock Exchange) in exchange for 7,210,000 shares valued at $21,807,114 (Note 7). The Carrying value of the Company's interest in Impafa was $2,455,340 (Note 10), resulting in a gain on sale of discontinued operations of $19,351,744.

The net income from operations of Impafa for the year ended July 31, 2007 from discontinued operations was $3,469. The revenues from the operations of Impafa for the year ended July 31, 2007 from discontinued operations was $1,085,000.

4. MINERAL PROPERTIES

July 31, 2008	Placer Gold Project, New Zealand	Ray Thomas Project, New Zealand	Bothaville Gold Project, South Africa	Total
Acquisition costs:				
Balance, beginning of year	$ -	$ -	$ 170,000	$ 170,000
Additions	77,781	14,594	-	92,375
Written-off during the year	-	-	(170,000)	(170,000)
Balance, end of year	77,781	14,594	-	92,375
Exploration expenditures incurred during the year				
Geological and consulting	77,193	108,693	2,005	187,891
Legal and accounting	29,364	8,525	-	37,889
Office and miscellaneous	5,369	6,271	3,877	15,517
Travel and accommodations	7,117	21,692	7,761	36,570
Amortization (Note 5)	745	745	-	1,490
Written-off during the year	-	-	(79,697)	(79,697)
	119,788	145,926	(66,054)	199,660
Balance, beginning of year	-	-	66,054	66,054
Total deferred exploration	119,788	145,926	-	265,714
Balance, end of year	$ 197,569	$ 160,520	$ -	$ 358,089

July 31, 2007	Bothaville Gold Project, South Africa	Middelvlei Property, South Africa	District of Namaqualand, South Africa	Total
Acquisition costs				
Balance, beginning of year	$ 170,000	$ 4,160,822	$ 100	$ 4,330,922
Costs incurred in the year	-	8,605	-	8,605
Written-off during the year	-	-	(100)	(100)
Disposal of property	-	(4,169,427)	-	(4,169,427)
Balance, end of year	170,000	-	-	170,000
Exploration expenditures				
Balance, beginning of year	65,337	-	-	65,337
Geological and consulting	717	-	-	717
Balance, end of year	66,054	-	-	66,054

- Continued -

4. MINERAL PROPERTIES (cont'd…)

July 31, 2007	Bothaville Gold Project, South Africa	Middelvlei Property, South Africa	District of Namaqualand, South Africa	Total
Continued…				
Mining equipment				
Balance, beginning of year	$ -	$ 132,621	$ -	$ 132,621
Disposal of property	-	(132,621)	-	(132,621)
	-	-	-	-
Balance, end of year before depreciation and amortization	236,054	-	-	236,054
Depreciation and amortization	-	(30,654)	-	(30,654)
Disposal of property	-	30,654	-	30,654
Balance, end of year after depreciation and amortization	$ 236,054	$ -	$ -	$ 236,054

Ross Alluvial Goldfield, New Zealand

Placer gold project

During the year ended July 31, 2008, the Company entered into an option agreement to acquire a 100 percent ownership in certain mineral permits of a mineral property located near Ross Township, New Zealand through the purchase of all of the shares of Placer Gold Resources ("Placer").

The Company can acquire 100 percent ownership of Placer and its permits over a 36 month option period. The Company must conduct a minimum of $500,000 of exploration and development work on the property within the first two years of the option period. If the measured and indicated mineral resource, defined under a pre-feasibility report, contains a minimum of 300,000 ounces of gold on the property, the Company will pay $3,000,000 and $10 for each additional ounce of gold. If the ounces of gold on the property are less than 300,000 ounces, the Company will pay a purchase price based on a formula of $10 for each ounce of gold.

Ray Thomas project

During the year ended July 31, 2008, the Company entered into an option agreement to acquire a 100 percent ownership in certain mineral permits, licenses and applications to a mineral property located near Ross Township, New Zealand through the purchase of the shares of R & M Mining Limited ("R & M").

4. MINERAL PROPERTIES (cont'd…)

Ross Alluvial Goldfield, New Zealand (cont'd…)

Ray Thomas project (cont'd…)

The Company can acquire 100 percent ownership of R & M and its permits and any other further permits by completing a feasibility report within five years. If the measured and indicated mineral resource defined in the feasibility report contains a minimum of one million ounces of gold on the property, the Company will pay $5,500,000 AUD (approximately $5,350,000 CAD) and $5.00 AUD (approximately $4.86 CAD) for each additional ounce of gold. If the ounces of gold on the property are less than one million ounces, the Company will pay a purchase price based on a formula of $5.50 AUD (approximately $5.35 CAD) for each ounce of gold.

Bothaville gold project, South Africa

During the year ended July 31, 2003, the Company entered into a proposed acquisition agreement ("Acquisition Agreement") to purchase all of the issued capital of Celina Overseas Limited ("Celina"). Celina has an option to purchase all of the issued capital of Owl Eye Trading 71 (Pty) Ltd. ("Owl Eye") from Alepro Inc. ("Owl Eye Acquisition"). During the year ended July 31, 2005, in accordance with the terms of the Acquisition Agreement, the Company issued 340,000 common shares valued at $170,000 to Alepro Inc. Thus, Celina has satisfied its obligations under the Owl Eye Acquisition. During the year ended July 31, 2006, all of the issued shares for Owl Eye were transferred from Celina directly to the Company. Owl Eye holds a prospecting permit in the Bothaville District, Free State, South Africa, as well as option agreements with holders of mineral and prospecting rights in adjoining areas.

During the year ended July 31, 2008, the Company abandoned the Bothaville gold project and wrote off its $249,697 investment to operations.

Middlevlei joint venture property, South Africa

On July 31, 2006, the Company acquired a 50% interest in the Middlevlei property in South Africa through its acquisition of MGI. During the year ended July 31, 2007, MGI disposed of its interest in the Middlevlei mineral property to an arms length party in exchange for shares (Notes 3 and 7).

District of Namaqualand, South Africa

The Company is proposing to wind up and abandon all companies which have previously held diamond permits in Namaqualand, South Africa. During the year ended July 31, 2007, the Company wrote off the remaining $100 to operations.

5. EQUIPMENT

	July 31, 2008			July 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Vehicle	$ 14,887	$ 2,233	$ 12,654	$ -	$ -	$ -

$1,490 (2007 - $Nil) of the amortization incurred during the year was allocated to the mineral property (Note 4). The remainder, $743, was recorded on the income statement under operations.

6. LOAN RECEIVABLE

The loan receivable is due from an arms' length party. The loan is unsecured, non-interest bearing and has no fixed terms of repayment. Accordingly, the fair value cannot be readily determined.

7. INVESTMENTS

	2008	2007
Shares in publicly traded company	$ 4,002,992	$ 21,807,114
Canadian Asset-Backed Commercial Paper	860,200	860,200
	$ 4,863,192	$ 22,667,314

During the year ended July 31, 2007 the Company acquired 7,210,000 shares representing approximately a 17.575% interest in Pamodzi Gold Limited, a public company quoted on the Johannesburg Stock Exchange. At August 1, 2007 the Company recognized a $717,864 decrease to retained earnings to reflect the opening fair value (Note 2).

At July 31, 2007, the share price was approximately ZAR 19.50 per share, which represented a market value of $21,100,000. At July 31, 2007, the Company did not believe that there was a permanent impairment in the carrying value of the stock.

As at July 30, 2008, the Company held an investment of $860,200 (2007 - $860,200) consisting of Canadian Asset-Backed Commercial Paper ("ABCP") invested in Rocket Trust A, net of a $151,800 fair value adjustment recorded during the year ended July 31, 2007. The ABCP investment matured on August 17, 2007, but was not repaid and remains outstanding.

On August 16, 2007 it was announced that the Montreal Group representing banks, asset-backed commercial paper providers and major investors had reached a standstill agreement to restructure the ABCP market. This restructuring is expected to replace the existing short-term investments with longer term notes.

There is no active market for this type of investment; therefore, to determine the fair value, the Company used a probability weighted valuation technique considering the associated credit risk and the time value of money.

7. INVESTMENTS (cont'd…)

Based on the limited available information the Company used the following assumptions in its valuation: the trust is a going concern, the Senior Notes will be AAA rated, the Notes will be interest bearing at 4.59%, the weighted average discount rate is 6% and maturity of 7 years. The credit risk interest premium was estimated by management and these estimates are not based on observable market prices or rates. The fair market value of this investment may be affected by changes in the assumptions. In addition, there is no certainty regarding the eventual recovery of this investment and consequently the timing and amount of any future cash flows may vary materially from current estimates.

8. LOAN PAYABLE

The demand non-revolving bridge loan bears interest at the HSBC Bank Prime Rate per annum, repayable on demand by the bank. Interest is payable monthly, due on or before September 30, 2008. The loan is secured by the Company's investment in ABCP (Note 7). The Company has paid $22,539 in interest during the year ended July 31, 2008.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Share Amount	Contributed Surplus
Authorized			
Unlimited common voting shares, without par value			
Issued			
Balance, July 31, 2006 and 2007	30,587,995	$ 13,150,271	$ 1,262,173
Private placement	4,920,000	1,968,000	-
Shares to a consultant	200,000	70,000	-
Stock-based compensation	-	-	575,184
Share issuance costs	-	(147,462)	-
Fair value of agent warrants	-	(40,316)	40,316
Balance, July 31, 2008	35,707,995	$ 15,000,493	$ 1,877,673

During the year ended July 31, 2008, the Company:

a) completed a private placement of 4,920,000 units of the Company at a price of $0.40 per unit, with each unit being comprised of one common share and one-half of a share purchase warrant. Each full warrant entitles the holder to acquire an additional share of the Company at a purchase price of $0.60 for a period of one year to December 28, 2008. Share issue costs of $187,778 were incurred in connection with this private placement and included the issuance of 304,150 agent warrants to acquire 304,150 common shares valued at $40,316. The agent warrants are exercisable at $0.60 per share until December 28, 2008.

b) issued 200,000 common shares valued at $70,000 for mineral property finders fees.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Stock options

The Company has a fixed stock option plan whereby a maximum of 20% of the issued common shares are reserved for issuance under the plan. The options can be granted for a maximum term of five years and pricing and vesting as determined by the board of directors.

During the year ended July 31, 2008, the Company granted 2,900,000 (2007 – Nil) stock options resulting in stock-based compensation using the Black-Scholes option pricing model of $646,907 of which $575,184 (2007 - $Nil) was expensed in the current year, and the remaining $71,723 will be expensed as the options become exercisable over the next year. The weighted average fair value of options granted was $0.22. These amounts were also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	2008	2007
Risk-free interest rate	4.32%	-
Expected life of options	5 years	-
Annualized volatility	115%	-
Dividend rate	0.00%	-

As at July 31, 2008, the following stock options were outstanding:

Number of Shares	Exercise Price	Expiry Date
1,455,000	$ 0.25	May 10, 2011
1,600,000	0.34	July 26, 2011
2,900,000	0.27	August 24, 2012

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, July 31, 2006 and 2007	3,055,000	$ 0.30
Options granted	2,900,000	0.27
Balance, July 31, 2008	5,955,000	$ 0.28
Number of options currently exercisable	4,505,000	$ 0.29

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd…)

Warrants

During the year ended July 31, 2008, the Company reported share issuance costs of $40,316, using the Black-Scholes option pricing model, as a result of 304,150 agent warrants issued. The weighted average fair value of finder's warrants issued was $0.13. These amounts were also recorded as contributed surplus on the balance sheet.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	2008	2007
Risk-free interest rate	3.75%	-
Expected life of finder's warrants	1 year	-
Annualized volatility	148.57%	-
Dividend rate	0.00%	-

As at July 31, 2008, stock warrants were outstanding and exercisable enabling the holders to acquire 2,764,150 shares as follows:

Number of Shares	Exercise Price	Expiry Date
2,645,750	$ 0.60	December 28, 2008
118,400	0.60	February 7, 2009

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

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2006	6,041,515	$ 0.61
Warrants expired	(6,041,515)	0.61
Balance, July 31, 2007	-	-
Warrants granted	2,764,150	0.60
Balance, July 31, 2008	2,764,150	$ 0.60

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2008	2007
Cash paid during the year for interest	$ 22,539	$ 3,687

During the year ended July 31, 2008, the Company had the following significant non-cash investing and financing activities.

a) Of the total amortization incurred during the year $2,233 (Note 5), $1,490 (2007 - $Nil) was allocated to the mineral properties.

b) Issued 200,000 common shares valued at $70,000 recorded as mineral property costs.

c) Included in accounts payable $22,375 (2007 - $NIL) of mineral property costs.

During the year ended July 31, 2007 the Company acquired an investment in shares (Note 3) for the following consideration.

Cash	$ 196,874
Working capital items	220,146
Mineral property	4,139,875
Long-term debt	(269,721)
Current portion of long-term debt	(143,054)
Provision for reclamation	(83,981)
Future income tax payable	(1,604,799)
Net consideration	$ (2,455,340)

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) Paid or accrued accounting and administrative service fees of $99,700 (2007 - $108,100) to a partnership in which a director has an interest. As at July 31, 2008 an amount of $33,220 (2007 - $20,000) owing was included in accounts payable.

b) Paid management fees of $96,000 (2007 - $96,000) to a corporation in which a director has an interest.

c) Paid consulting fees of $12,000 (2007 - $6,672) to a director.

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

12. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, receivables, loan receivable, long-term investments, accounts payable and accrued liabilities and loan payable. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Risk management

The Company has monetary assets and liabilities denominated in foreign currencies and non-monetary assets represented by mineral exploration interests in the Republic of South Africa and New Zealand. The Company could accordingly be at risk for foreign currency fluctuations and developing legal and political environments.

The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

The Company holds ABCP. The risks are detailed in Note 7.

13. COMMITMENT

The Company has committed to rent office space for approximately $1,000 (NZD$1,325) per month until May 31, 2009.

14. INCOME TAXES

	2008	2007
Income (loss) from continuing operations	$(18,419,367)	$ 18,710,152
Expected income tax recovery (expense)	$ 5,987,000	$ (6,539,000)
Non-taxable loss	(2,478,000)	2,823,662
Effect of change in tax rate	(473,000)	25,026
Difference in tax rates in other jurisdictions	(513,800)	1,161,000
Items deductible for tax purposes	29,400	21,300
Items not deductible for income tax purposes	187,000	(35)
Tax benefits recognized (not recognized)	(345,703)	(315,615)
Total current income taxes	$ (5,206)	$ -
Future income tax recovery (provision)	$ 2,387,691	$ (2,823,662)

14. INCOME TAXES (cont'd…)

	2008	2007
Future income tax assets (liabilities):		
Non-capital loss carryforwards	$ 743,000	$ 834,900
Share issuance costs	57,700	54,425
Cumulative exploration and development expenses	1,063,000	1,179,849
Investments	(9,076)	(2,590,674)
Future income tax assets (liabilities)	1,854,624	(521,500)
Valuation allowance	(1,863,700)	(2,069,174)
Net Future income tax assets (liabilities)	$ (9,076)	$ (2,590,674)

The Company has available for deduction against future taxable income non-capital losses of approximately $3,033,830. These losses, if not utilized, will expire as follows:

2028	$ 435,200
2027	719,450
2026	685,400
2025	508,290
2011	369,900
2010	145,000
2009	170,590
	$ 3,033,830

Subject to certain restrictions, the Company also has resource expenditures available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

15. JOINT VENTURE OPERATIONS

The financial statements include the Company's 50% interest in MGI, described in Note 3, as follows:

	2008	2007
Cash	$ 36,160	$ 67,910
Non-cash working capital	961	689
Loan receivable	90,000	90,000
Long-term investment	4,002,992	21,807,114
Future income tax payable	(9,076)	(2,590,674)
Net investment in joint venture	(2,336,113)	(2,336,113)
Retained earnings (deficit), end of year	(1,784,924)	17,038,923
Less: retained earnings, beginning of year	(17,038,923)	-
Net income (loss) for year	$(18,823,847)	$ 17,038,923
Cash flows from operating activities	$ (31,750)	$ 57,801
Cash flows from financing activities	$ -	$ (245,359)
Cash flows from investing activities	$ -	$ 150,001

16. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties.

Geographic information is as follows:

	2008	2007
Income (loss) for the year		
Canada	$ (1,390,417)	$ (658,486)
South Africa – continuing operations	(14,646,465)	16,864
South Africa – gain on sale of discontinued operations, net of future income tax	-	16,528,112
South Africa – discontinued operations	-	3,469
	$(16,036,882)	$ 15,889,959

	2008	2007
Mineral properties		
South Africa	$ -	$ 236,054
New Zealand	358,089	-

17. SUBSEQUENT EVENT

Subsequent to July 31, 2008, the Company granted stock options to purchase an aggregate of 160,000 common shares at an exercise price of $0.20 per share expiring September 4, 2013.