

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Kirrin Resources Inc. (formerly Monroe Minerals Inc.) as at December 31, 2009 and 2008 and the consolidated statements of income (loss), comprehensive income (loss) 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 December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed)

"KPMG LLP"

Chartered Accountants
Calgary, Canada

March 16, 2010

Consolidated Balance Sheets

December 31	2009	2008
ASSETS		
Current assets:		
Cash and equivalents	\$ 717,161	\$ 612,050
Accounts receivable	149,070	179,105
Prepaid expenses and other	17,696	5,470
	883,927	796,625
Mineral interests (Note 3)	1,428,943	1,696,373
	\$ 2,312,870	\$ 2,492,998
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note 4)	\$ 580,763	\$ 854,433
Amount due to related party (Note 4)	110,000	110,000
	690,763	964,433
Shareholders' equity:		
Share capital (Note 5)	3,621,365	9,473,863
Warrants (Note 5)	341,000	636,000
Contributed surplus (Note 5)	598,175	1,432,227
Deficit	(2,938,433)	(10,013,525)
	1,622,107	1,528,565
	\$ 2,312,870	\$ 2,492,998

Nature of operations – going concern (Note 1)

Basis of presentation (Note 2 (a))

Commitments (Notes 3 and 9)

Subsequent events (Note 10)

See accompanying notes

On behalf of the Board

(Signed)

(Signed)

"Derek J. Moran"

Director

"Peter T. Farkas"

Director

Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Deficit

Year ended December 31	2009	2008
Expenses:		
Exploration	\$ 30,352	\$ 102,637
Project development	59,324	67,615
General and administrative	537,646	857,101
Stock based compensation	109,500	126,594
Interest income	(594)	(37,098)
Foreign exchange gain	(2,153)	(30,306)
Amortization	–	1,880
Interest on long term debt	–	15,857
Loss before the following:	(734,075)	(1,104,280)
Gain on disposal of subsidiary (Note 3 (f))	362,000	857,448
Gain on disposal of mining and processing equipment	–	47,467
Write down of mineral interests (Note 3 (b))	(552,833)	(20,135)
Loss before income taxes	(924,908)	(219,500)
Future income tax reduction (Note 8)	–	410,000
Net income (loss) and comprehensive income (loss) for the year	(924,908)	190,500
Deficit, beginning of year	(10,013,525)	(10,204,025)
Deficit reduction (Note 5 (a))	8,000,000	–
Deficit, end of year	\$ (2,938,433)	\$ (10,013,525)
Income (loss) per share – basic and diluted	\$ (0.07)	\$ 0.02

See accompanying notes

Consolidated Statements of Cash Flow

Year ended December 31	2009	2008
Cash flows from (used by) operating activities:		
Net income (loss) and comprehensive income (loss) for the year	\$ (924,908)	\$ 190,500
Add (deduct) non-cash items		
Unrealized foreign exchange gain	(2,113)	(17,004)
Stock based compensation	109,500	126,594
Gain on disposal of subsidiary	(362,000)	(857,448)
Write down of mineral interests	552,833	20,135
Gain on disposal of mining and processing equipment	-	(47,467)
Amortization	-	1,880
Future income tax reduction	-	(410,000)
Change in non-cash working capital	25,759	514,417
	(600,929)	(478,393)
Cash flows from (used by) financing activities:		
Shares issued for cash	702,574	-
Warrants issued for cash	341,000	-
Proceeds from government grant	100,000	-
Options exercised for cash	12,000	-
Share issue costs	(154,624)	-
Repayment of long term debt	-	(472,730)
Change in non-cash working capital	(72,145)	(3,937)
	928,805	(476,667)
Cash flows from (used by) investing activities:		
Mineral interests expenditures	(377,403)	(1,606,508)
Proceeds on disposal of subsidiary	362,000	980,106
Proceeds on disposal of mining and processing equipment	-	47,467
Change in non-cash working capital	(207,362)	(1,107)
	(222,765)	(580,042)
Net increase (decrease) in cash and equivalents	105,111	(1,535,102)
Cash and equivalents at beginning of year	612,050	2,147,152
Cash and equivalents at end of year	\$ 717,161	\$ 612,050
Cash and equivalents is comprised of:		
Cash	\$ 717,161	\$ 446,572
Short term investments	-	165,478
	\$ 717,161	\$ 612,050
Supplemental cash flow information:		
Interest paid	\$ -	\$ 16,451

See accompanying notes

Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

Kirrin Resources Inc. (formerly Monroe Minerals Inc.) (the 'Company') is incorporated under the laws of Alberta. The Company's principal business is the acquisition, exploration and development of uranium and rare earth elements resources properties. At the Annual General and Special Meeting held on May 1, 2009, shareholders authorized the Board to amend the Company's articles to change the name of the Company to 'Kirrin Resources Inc.' and consolidate all outstanding shares on the basis of one new share for each ten old common shares outstanding.

1. Nature of Operations – Going Concern:

The Company is a development stage company. These consolidated financial statements have been prepared using accounting principles applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

There are conditions which may raise doubt regarding this assumption. The Company has a history of losses and no operating revenue other than interest income, the receipt of proceeds on the sale of subsidiaries and government grants. The recoverability of capitalized costs is uncertain and dependent upon projects achieving commercial production or sale. The ability of the Company to carry out its business objectives is dependent on its ability to raise adequate financing to fund ongoing operating expenditures until it generates operating profitability and positive cash flow. Management is seeking equity financing for the Company during 2010 and, although management has been successful in securing adequate financing in the past, there is no assurance that its initiatives will be successful in the future.

These financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. Basis of Presentation and Significant Accounting Policies:

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

A) BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its subsidiaries.

B) NEWLY ADOPTED ACCOUNTING STANDARDS:

The Company adopted the following accounting standards effective January 1, 2009:

'Goodwill and Intangible Assets' establishes revised standards on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

Amendments to 'Financial Instruments – Disclosures' include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than

quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Disclosures required by this standard are included in Note 6.

EIC-173 'Credit Risk and Fair Value of Financial Assets and Financial Liabilities', issued in January 2009, clarifies that an entity's own risk and the credit risk of the counter party should be taken into account in determining the fair value of financial assets and liabilities, including derivative instruments.

EIC-174 'Mining Exploration Costs', issued in March 2009, provides additional guidance for an enterprise that has initially capitalized exploration costs and has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The adoption of these standards has had no impact on the Company's consolidated financial statements.

C) FINANCIAL INSTRUMENTS:

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as 'held-for-trading', 'available-for-sale', 'held-to-maturity', 'loans and other receivables', or 'other financial liabilities', as defined by the standard.

Financial assets 'held-for-trading' are measured at fair value with changes in those fair values recognized in net earnings. Financial assets designated as 'loans and other receivables' and financial liabilities designated as 'other financial liabilities' are measured at amortized cost using the effective interest method of amortization.

Cash and equivalents are designated as 'held-for-trading' and are measured at fair value. Accounts receivable are designated as 'loans and other receivables'. Accounts payable and accrued liabilities and amount due to related party are designated as 'other financial liabilities'.

The Company presents its financial instruments on a gross basis. The Company's net income equals its comprehensive income. As a result, these consolidated financial statements do not include a statement of Accumulated Other Comprehensive Income.

D) FOREIGN CURRENCY:

The Company's foreign subsidiaries are designated as integrated. Accordingly, the subsidiaries' financial statements are translated to Canadian dollars with monetary items translated at rates of exchange in effect at the balance sheet dates and non-monetary items at rates of exchange when the assets were acquired or obligations incurred. Expenses are translated at rates in effect at the time of the transactions. Translation gains or losses are included in income or expense of the period in which they occur. The Company's foreign operations were conducted primarily in Angola and South Africa up to June 30, 2008, by which time they were either sold or discontinued. The Company no longer has any foreign operations.

E) CASH AND EQUIVALENTS:

Cash and equivalents consists of bank balances and short term investments that are readily convertible to known amounts of cash, with original maturities of ninety days or less.

F) MINERAL INTERESTS:

Costs relating to the acquisition, exploration and development of mineral interests are capitalized until either commercial production is established or the property is determined to be impaired or is abandoned. At that time, the costs are either depleted on a unit of production basis recognizing indicated mineral resources or expensed. The carrying amounts of mineral interests are reviewed regularly and, where necessary, are written down to their estimated net realizable value.

Proceeds from the sale of properties and earn-in arrangements in which the Company retains an economic interest are credited against property costs and no gain is recorded until all costs have been fully recovered. Periodically, a determination will be made by management as to the status of each property. Where a property shows no promise from prior exploration results and is dormant, the claims may be allowed to lapse. Such claims would be written down to a nominal value where an interest in the claims remained.

Amounts recorded for mineral interests represent costs incurred to date and are not intended to reflect present or future values. The recoverability of amounts shown for mineral interests is dependent upon the discovery of economically recoverable reserves and future production or proceeds from the disposition thereof.

G) ASSET RETIREMENT OBLIGATIONS:

Discounted future costs to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value in the period it is incurred or acquired. The amount of the liability will be subject to re-measurement at each reporting period and is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying amount and amortized over the asset's useful life.

H) INCENTIVE STOCK OPTIONS AND STOCK BASED COMPENSATION:

All stock-based awards granted to employees and non-employees are measured and recognized using a fair value based method. The fair value of stock options and share purchase warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, volatility and the expected life of the options or warrants. The fair value of options is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. The fair value of warrants is recorded as a reduction to proceeds from the related common share issuance. If the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus or warrants are transferred to share capital. In the event that options expire, previously recognized compensation expense associated with such stock options is not reversed.

I) FLOW-THROUGH SHARES:

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company, the carrying amount of the shares issued is reduced by the tax effect of the benefits renounced to the share subscribers. The tax effect of the renouncement is recorded when the renouncement is filed with the regulatory tax authorities provided the corresponding exploration expenditures are incurred or are reasonably likely to be incurred within the permitted time frame.

J) PER SHARE AMOUNTS:

The calculation of per share amounts is based on the weighted average number of shares outstanding during the year. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of stock options, warrants, and other instruments would be used to purchase common shares at the average market price during the year. No adjustment to diluted earnings per share is made if the results of these calculations is anti-dilutive.

K) MEASUREMENT UNCERTAINTY:

The amounts recorded for capitalized exploration expenses, write down of mineral interests, stock based compensation, and future income taxes are based on estimates. By their nature, these estimates are subject to measurement uncertainty and changes in these estimates may impact the consolidated financial statements of future periods.

L) RECENT ACCOUNTING PRONOUNCEMENTS:

The Company has assessed new and revised accounting pronouncements that have been issued and that are not yet effective and has determined that the following may affect the Company's consolidated financial statements:

The Canadian Accounting Standards Board has established 2011 as the year that the financial reporting requirements for Canadian companies should comply with International Financial Reporting Standards ('IFRS'). The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has completed its initial review of the impact of the adoption of IFRS for 2011 and believes that the financial reporting impact of the transition to IFRS will not be material to the Company's financial results.

3. Mineral Interests:

	Alexis River Canada	Boxey Point Canada	Lost Pond Canada	Berry Hill Canada	Skaapkop South Africa	Total
Balance, Dec. 31, 2007	\$ 42,500	\$ -	\$ -	\$ -	\$ 65,754	\$ 108,254
Additions 2008						
Acquisition costs	25,000	24,000	12,500	6,000	-	67,500
Drilling	412,652	-	565,327	-	-	977,979
Geology and geophysics	173,568	201,343	10,824	12,803	-	398,538
Field support	47,713	48,706	36,905	1,332	-	134,656
Results analysis	13,906	14,474	32,407	-	-	60,787
Maps, drafting and reports	19,883	14,665	-	-	-	34,548
	692,722	303,188	657,963	20,135	-	1,674,008
Total	735,222	303,188	657,963	20,135	65,754	1,782,262
Dispositions	-	-	-	-	(65,754)	(65,754)
Write down	-	-	-	(20,135)	-	(20,135)
Balance, Dec. 31, 2008	735,222	303,188	657,963	-	-	1,696,373
Additions 2009						
Acquisition costs	4,000	4,000	-	-	-	8,000
Drilling	84	296,353	(16,867)	-	-	279,570
Geology and geophysics	19,927	12,290	28,614	-	-	60,831
Field support	-	25,598	-	-	-	25,598
Results analysis	-	3,538	-	-	-	3,538
Maps, drafting and reports	-	7,866	-	-	-	7,866
	24,011	349,645	11,747	-	-	385,403
Total	759,233	652,833	669,710	-	-	2,081,776
Government grants	-	(100,000)	-	-	-	(100,000)
Write down	-	(552,833)	-	-	-	(552,833)
Balance, Dec. 31, 2009	\$ 759,233	\$ -	\$ 669,710	\$ -	\$ -	\$ 1,428,943

Mineral interests under development totalling \$1,428,943 (2008 – \$1,696,373) are not subject to depletion and amortization.

Mineral interests consist of the following:

A) ALEXIS RIVER, CANADA:

The Company has an option agreement with Altius Resources Inc. ('Altius') dated July 24, 2007 to earn a minimum 60% interest over four years in the Alexis River uranium property, located in southeastern Labrador. The Company is required to spend \$1,250,000 on exploration and issue 250,000 common shares to Altius, 50,000 on signing and the balance divided equally over four years on each anniversary of the agreement. Upon the Company fulfilling its earn-in obligations, and if Altius elects to retain a working interest, the parties will form a joint venture, each partner contributing its pro-rata share of future expenditures. If either party thereafter dilutes its interest to less than 10% in the joint venture, its interest will be converted to a 10% net profit interest after recovery of capital costs.

Altius has since agreed to extend the earn-in period to five years, the expenditure obligations of the third and fourth years being deferred for one year. The Company is current on its obligations having incurred in excess of \$819,000 (2008 – \$775,000) in costs on this project as of December 31, 2009. The project is at the exploration stage.

B) BOXEY POINT, CANADA:

The Company had an option agreement with Altius dated January 15, 2008 to earn a 60% interest over four years in the Boxey Point uranium property, located in southern Newfoundland. The Company was required to spend \$1,000,000 on exploration and issue 200,000 common shares to Altius, 40,000 on signing and the balance divided equally over four years on each anniversary of the agreement. Upon the Company fulfilling its earn-in obligations, the parties would form a joint venture, with each partner contributing its pro-rata share of future expenditures. If either party diluted its interest to less than 10% in the joint venture, its interest would be converted to a royalty of 1% of gross uranium sales.

The costs of 2009 exploration at Boxey Point were partly offset by a \$100,000 grant awarded by the Newfoundland and Labrador Department of Natural Resources, which grant is recorded as a receivable at December 31, 2009 pending submission of the exploration report which submission has since been made.

While the 2009 exploration program at Boxey Point was a technical success in that low grade uranium was recovered in the majority of the holes drilled, the results did not support the prospect of eventual economic feasibility. Accordingly, the Company terminated the option and expensed its carrying cost.

C) BERRY HILL, CANADA:

The Company had an option agreement with Altius to earn a 60% interest over four years in the Berry Hill property, located in southern Newfoundland. The results of initial exploration during 2008 did not support further exploration and the option was terminated.

D) LOST POND, CANADA:

The Company has an option agreement with Ucore Uranium Inc. ('Ucore') dated September 15, 2008 to earn a minimum 50% interest over four years in the Lost Pond rare earth elements and uranium property, located in western Newfoundland. The Company is required to spend \$2,600,000 on exploration and issue 300,000 common shares to Ucore, 50,000 on signing and the balance over four years on each anniversary of the agreement. Upon the Company fulfilling its earn-in obligations, the parties will form a joint venture, each partner contributing its pro-rata share of future expenditures, or Ucore may elect to convert its interest to a 35% interest, which will be carried through to the completion of a pre-feasibility study. If either party dilutes its interest to less than 10% in the joint venture, its interest will be converted to a royalty of 1% or 1.5% of gross sales, depending on underlying royalties, of which 0.5% may be acquired for \$500,000.

The Company is current on its obligations having incurred in excess of \$724,000 (2008 – \$645,000) in costs on this project as of December 31, 2009. The project is at the exploration stage.

E) SKAAPKOP, SOUTH AFRICA:

The Company held rights to an intellectual property database focused on the discovery of the kimberlite sources that host the alluvial diamonds in the Southwest Transvaal area in Northwest Province, South Africa. The rights were sold in June 2008 upon the sale of the Company's South African subsidiary (Note 3 (f)).

F) LONDON, SOUTH AFRICA:

On June 30, 2008, the Company completed the sale of its South African subsidiary for consideration of US\$1,350,000. US\$1,050,000 (\$1,055,954) was paid in cash and US\$300,000 was placed in escrow and subsequently paid to the Company in August 2009 (\$362,000). The amount received in cash was recognised as sale proceeds in 2008 and the escrowed amount as sale proceeds in 2009.

4. Amount Due to Related Party:

The amount due to related party of \$110,000 (2008 – \$110,000) is in respect of unpaid salary to the President of the Company, is unsecured, has no repayment terms and bears no interest. The President has agreed not to demand repayment of the balance before January 2011.

The Company is also indebted to its President in the amount of \$151,464 (2008 – \$148,846), included in accounts payable and accrued liabilities, in respect of expenses incurred on its behalf in the amount of \$16,464 (2008 – \$38,846) and unpaid salary of \$135,000 (2008 – \$110,000).

The above transactions were in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed between the transacting parties.

5. Share Capital, Stock Options and Warrants:**Authorized:**

Unlimited number of common shares without nominal or par value.

Unlimited number of preferred shares in one or more series, none of which have been issued.

Common shares issued:	Number	Amount
Balance, December 31, 2007	12,197,002	\$ 9,816,363
Issued for mineral interests	150,000	67,500
Future income tax effect from tax benefits renounced on flow-through shares	–	(410,000)
Balance, December 31, 2008	12,347,002	9,473,863
Issued for mineral interests	90,000	8,000
Issued on exercise of options	120,000	79,803
Issued for cash in a private placement	2,060,000	142,000
Issued for cash on a flow-through basis in a private placement	5,982,671	560,574
Share issue costs	–	(219,624)
Deficit reduction	–	(6,423,251)
Balance, December 31, 2009	20,599,673	\$ 3,621,365
Warrants issued:	Number	Amount
Balance, December 31, 2007	4,996,878	\$ 734,200
Expired	(369,595)	(98,200)
Balance, December 31, 2008	4,627,283	636,000
Issued for cash in a private placement	1,030,000	64,000
Issued for cash on a flow-through basis in a private placement	5,982,671	277,000
Expired	(4,627,283)	(636,000)
Balance, December 31, 2009	7,012,671	\$ 341,000

Contributed surplus:	Amount
Balance, December 31, 2007	\$ 1,207,433
Stock based compensation	126,594
Finder's warrants and options expired	98,200
Balance, December 31, 2008	1,432,227
Stock based compensation	109,500
Finder's options issued	65,000
Warrants expired	636,000
Options exercised	(67,803)
Deficit reduction	(1,576,749)
Balance, December 31, 2009	\$ 598,175

A) FINANCING:

At the Annual General and Special Meeting held on May 1, 2009, shareholders approved the consolidation of the share capital of the Company on the basis of one new common share for each ten old common shares of the Company and authorized the reduction of the accumulated deficit of the Company by an amount of \$8,000,000, correspondingly reducing the contributed surplus and share capital accounts. All shares and per share amounts in the financial statements have been adjusted to reflect the 1 for 10 share consolidation.

On January 8, 2008, the Company issued 50,000 common shares at a purchase price of \$0.60 each for consideration of \$30,000 in connection with the option agreements referred to in Notes 3 (b) and 3 (c).

On July 10, 2008, the Company issued 50,000 common shares at \$0.50 each for consideration of \$25,000 in connection with the option agreement referred to in Note 3 (a).

On November 4, 2008, the Company issued 50,000 common shares at \$0.25 each for consideration of \$12,500 in connection with the option agreement referred to in Note 3 (d).

On January 8, 2009, the Company issued 40,000 common shares at \$0.10 each for consideration of \$4,000 in connection with the option agreement referred to in Note 3 (b).

On July 15, 2009, the Company issued 50,000 common shares at \$0.08 each for consideration of \$4,000 in connection with the option agreement referred to in Note 3 (a).

On August 21, 2009, the Company granted options over 75,000 common shares at an exercise price of \$0.10 each to a consultant. The options will vest 25% annually and expire on August 31, 2014.

On September 2, 2009, the Company issued 40,000 common shares on the exercise of options for proceeds of \$4,000.

On November 12, 2009, the Company completed a private placement issuing 2,060,000 units at a purchase price of \$0.10 per unit for gross proceeds of \$206,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.15 per common share for twelve months from the date of issuance and \$0.20 per common share for the following twelve months, subject to earlier expiry in certain circumstances. Finder's fees in the amount of \$11,640 and non-transferable finder's options to purchase 103,000 units at a purchase price of \$0.10 per unit were paid to arm's length finders in connection with the private placement. The issued securities were subject to a four month hold period from the date of issuance under applicable securities laws.

On December 9, 2009, the Company issued 80,000 common shares on the exercise of options for proceeds of \$8,000.

On December 23, 2009, the Company completed a private placement, issuing 5,698,426 flow-through units at a purchase price of \$0.14 per flow-through unit for gross proceeds of \$797,780. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.20 per common share for twelve months from the date of issuance and \$0.25 per common share for the following twelve months, subject to earlier expiry in certain circumstances. Finder's fees in the amount of \$45,045 and non-transferable finder's options to purchase 568,492 units at a purchase price of \$0.14 per unit were paid to arm's length finders in connection with the private placement.

Each unit comprises one common share and one common share purchase warrant exercisable into one common share at a price of \$0.20 per common share for 12 months from the date of issuance and \$0.25 per common share for the following 12 months, subject to earlier expiry in certain circumstances. In addition, 284,245 units were issued for due diligence and finder's fees. The issued securities are subject to a four month hold period from the date of issuance under applicable securities laws.

B) INCENTIVE STOCK OPTIONS AND STOCK BASED COMPENSATION:

Under its Stock Option Plan, the Company may grant options to employees and other participants up to 10% of its issued and outstanding common shares from time to time. The exercise price of each option must not be less than the market price on the date of grant, reduced by any discount allowed by the rules, by-laws or policies of the TSX Venture Exchange. Options granted may be exercised as to 25% upon grant and 25% following each year thereafter.

C) OPTION PRICING:

The cost of options and warrants issued during 2008 and 2009 was calculated using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Risk-free interest rate	1.3%	2.6%
Expected volatility	108%	95%
Expected life – options	4.0 years	4.5 years
Expected life – warrants	2.0 years	1.5 years

D) STOCK OPTIONS AND WARRANTS:

At the Annual General and Special Meeting held on May 1, 2009, shareholders approved an amendment to the stock option plan and approved the repricing to \$0.10 per option of all outstanding stock options under the plan as of that date. The Company recognized a reduction of stock based compensation expense of \$6,000 on the repricing of the options.

Incentive stock plan options	Number outstanding	Weighted average exercise price	Number exercisable	Weighted average exercise price	Grant date	Expiry date
Employees/directors	556,000	\$ 0.10	490,125	\$ 0.10	Sep 2006 – Nov 2007	Sep 2010 – Nov 2012
Consultants	210,000	0.10	153,750	0.10	Sep 2006 – Jul 2009	Sep 2010 – Jul 2014
Total	766,000	\$ 0.10	643,875	\$ 0.10		
Other options						
Finder's options	671,492	\$ 0.13	671,492	\$ 0.13	Nov 2009 – Dec 2009	Nov 2010 – Dec 2011
Warrants						
Common share warrants	1,030,000	\$ 0.15	1,030,000	\$ 0.15	Nov 2009	Nov 2011
Flow-through share warrants	5,982,671	0.20	5,982,671	0.20	Dec 2009	Dec 2011
Total	7,012,671	\$ 0.19	7,012,671	\$ 0.19		

	December 31, 2009		December 31, 2008	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Incentive stock plan options				
Outstanding at beginning of year	874,750	\$ 0.10	1,036,000	\$ 1.40
Expired	(63,750)	0.10	(161,250)	1.40
Issued	75,000	0.10	–	–
Exercised	(120,000)	0.10	–	–
Outstanding at end of year	766,000	\$ 0.10	874,750	\$ 1.40
Exercisable at end of year	648,250	\$ 0.10	586,333	\$ 1.50
Other options				
Outstanding at beginning of year	–	–	419,595	\$ 1.10
Issued	671,492	0.13	–	–
Expired	–	–	(419,595)	1.10
Outstanding and exercisable at end of year	671,492	\$ 0.13	–	–
Warrants				
Outstanding at beginning of year	4,627,283	\$ 1.10	4,627,283	\$ 1.10
Expired	(4,627,283)	1.10	–	–
Issued	7,012,671	0.19	–	–
Outstanding and exercisable at end of year	7,012,671	\$ 0.19	4,627,283	\$ 1.10

The Company will record \$16,028 (2008 – \$73,300) in respect of stock based compensation for incentive options vesting in 2010.

6. Financial Instruments:

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Company's main objectives for managing risks are to ensure liquidity, the fulfilment of obligations, the continuation of the Company's exploration program, and limit exposure to credit and market risks. There were no changes to the objectives or the process from the prior year.

The types of risk exposure and the way in which such exposures are managed are as follows:

A) FAIR VALUES:

The Company's financial instruments recognized on the balance sheet consist of cash and equivalents, accounts receivable, accounts payable and accrued liabilities and amount due to related party. The carrying values of the Company's financial instruments, excluding amount due to related party, approximate their fair value due to the short term to maturity. The fair value of the amount due to related party is not determinable as there are no set terms of repayment. The fair value of the Company's financial instruments, excluding amount due to related party, is attributable to Level 2 of the fair value hierarchy as at December 31, 2009.

B) MARKET RISK:

Foreign currency risk:

The Company has \$582 (US \$536) (2008 – \$139,337 (US \$113,949)) in US currency held in US dollar bank accounts.

Commodity price risk:

While the Company is a development stage company and has no production or sales revenues, it bears commodity price risk in that commodity price may influence investors and thus impact the outcome of the Company's equity financing in 2010 and later. The spot price for uranium fell by 15% during 2009 and lagged most other commodities in the aftermath of the 2008 economic crisis. Although the spot price for uranium may remain subdued during 2010, the Company considers that supply and demand fundamentals remain strong and that the spot price will respond positively to the current rapid growth in the number of nuclear reactors. Rare earth elements are not exchange traded commodities and China has a virtual monopoly on production and price setting. Accordingly, although prices increased strongly during 2009 and the Company considers that supply and demand fundamentals remain strong, the risks associated with monopoly conditions are present.

C) CREDIT RISK:

The Company does not engage in any sales activities and has no significant credit risk arising from operations. Credit risk primarily arises from the Company's cash and accounts receivable. The risk exposure is limited to their carrying amount at the balance sheet date.

The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of its banks.

The Company's receivables comprise refunds of sales taxes from the Canadian Government and a grant from the N&L Department of Natural Resources. There is no indication at December 31, 2009 that these are not fully recoverable.

D) LIQUIDITY RISK:

Financial liquidity represents the Company's ability to fund future activities and obligations as and when required. The Company endeavours to ensure that it has sufficient capital to meet short term business requirements. As at December 31, 2009, the Company has positive working capital of \$303,164 (2008 – working capital deficiency \$57,808). Accounts payable generally have contractual maturities of 30 days or less and are subject to normal trade terms. Amount due to related party totalling \$135,000 (Note 4), is payable within one year.

7. Capital Management:

The Company's capital structure reflects its strategy and the financial environment in which it operates. The objectives when managing capital are to maintain adequate levels of funding to support the acquisition, exploration and development of uranium and rare earth elements resource properties, to maintain the necessary corporate and administrative functions to facilitate these activities, and to safeguard the Company's ability to continue as a going concern.

The Company's current portfolio of properties is in the exploration stage and the Company is dependent primarily on external equity financing to fund its activities. There can be no assurance that the Company will be able to raise capital in this manner in the future. The Company will utilize its existing working capital, and raise additional amounts as required, through the issue of common shares, flow-through shares, share purchase warrants and stock options, to carry out planned exploration and to fund administrative costs. The Company will continue to assess new properties and to seek to acquire interests in additional properties if it believes sufficient economic potential exists and it has adequate financial resources to do so.

There was no change in the Company's approach to capital management during the year ended December 31, 2009. The Company is not subject to externally imposed capital requirements.

8. Income Taxes:

The income tax provision differs from the amount which would be obtained by applying the Canadian expected tax rates to income before income taxes as follows:

	2009	2008
Income tax rate	29.0%	29.5%
Computed expected income tax reduction	\$ (268,224)	\$ (64,753)
Adjustments:		
Stock based compensation	31,755	37,345
Accounting gain on sale of subsidiary	(104,980)	(266,950)
Accounting write down of mineral interests	-	5,940
Tax assets lost on sale of subsidiary	-	1,285,542
Tax deductible exploration costs lost on sale of subsidiary	-	1,473,048
Effect of change in tax rate and other	64,662	(394,830)
	(276,787)	2,075,342
Valuation allowance	276,787	(2,485,342)
	\$ -	\$ (410,000)

The components of the net future income tax asset at December 31, 2009, no portion of which has been recorded in these financial statements, are as follows:

	2009	2008
Non-capital/net operating losses	\$ 1,179,000	\$ 1,029,000
Share issue costs	74,000	84,000
Mineral interests	(22,000)	(159,000)
	1,231,000	954,000
Valuation allowance	(1,231,000)	(954,000)
	\$ -	\$ -

The Company has Canadian tax losses of approximately \$4,717,000 with expiry dates ranging between 2010 and 2029.

In February 2008, the Company renounced the tax deductions associated with the \$1,638,340 flow-through share financing completed in 2007. As the Company has future income tax assets that have not previously been recognized, a future income tax reduction of \$410,000 has been recorded.

9. Commitment:

The Company has flow-through commitments in relation to its issuance of flow-through common shares for expenditures of \$580,500 on exploration and development activities to be incurred prior to December 31, 2010.

10. Subsequent Events:

- A) On January 25, 2010, the Company granted options over 640,000 common shares at an exercise price of \$0.14 each to directors, employees and consultants. The options will vest 25% annually and expire on January 25, 2015.
- B) On February 2, 2010, the Company issued 50,000 common shares at a purchase price of \$0.125 each for consideration of \$6,250 in connection with the option agreement referred to in Note 3 (d).

- C) On February 8, 2010, the Company entered into an option agreement with Geo Consilium ('Geo') allowing it to earn a 100% interest over four years in the Grevet rare earth elements property located in Quebec. The Company is required to spend \$1,850,000 on exploration, including a minimum first year commitment of \$200,000, and make payments to Geo of \$20,000, including \$3,000 on signing and the balance over four years. Upon the Company fulfilling its earn-in obligations, Geo will retain a 1.0% Net Smelter Returns ('NSR') royalty on all minerals produced, half of which may be purchased by the Company for \$500,000. In addition, the Company will pay Geo \$150,000 on the receipt of a positive feasibility study. The Company paid a finder's fee of \$10,000 in relation to the project, satisfied by the issue of 76,923 shares.
- D) On February 22, 2010, the Company granted options over 30,000 common shares at an exercise price of \$0.14 each to a consultant. The options will vest 25% annually and expire on February 22, 2015. The Company now has 1,436,000 options outstanding under its Option Plan, at an average exercise price of \$0.12 per common share.
- E) On March 5, 2010, the Company entered into an option agreement with Majesta Resources Inc. ('Majesta') allowing it to earn a 70% interest in the Key Lake Southwest uranium property located in northwestern Saskatchewan, by spending \$3,000,000 on exploration by December 31, 2015, making payments to Majesta of \$268,000 by December 31, 2013, and issuing 350,000 common shares to Majesta by June 30, 2010. Upon the Company fulfilling its earn-in obligations, the parties will form a joint venture, with each partner contributing its pro-rata share of future expenditures, or Majesta may elect to convert to a 2.25% NSR royalty. The Company will have the right to acquire up to 1.25% of the 2.25% NSR royalty for consideration of \$1,000,000 per 1.0%. If either party dilutes its interest to less than 10% in the joint venture, its interest will be converted to a NSR royalty of 0.75%.
- F) On March 12, 2010, the Company completed a private placement issuing 1,666,667 units at a purchase price of \$0.12 per unit for proceeds of \$200,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.14 per common share for eighteen months from the date of issuance, subject to earlier expiry in certain circumstances. The issued securities are subject to a four month hold period from the date of issuance under applicable securities laws.