**Galway Resources Ltd.**
(A Development Stage Company)

**Interim Consolidated Financial Statements**
**Three and Nine Months Ended September 30, 2008**

**(Expressed in United States Dollars)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying unaudited interim consolidated financial statements of Galway Resources Ltd. (A Development Stage Company) were prepared by management in accordance with Canadian generally accepted accounting principles. The most significant of these accounting principles have been set out in the December 31, 2007 audited consolidated financial statements. Only changes in accounting policies have been disclosed in these unaudited interim consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the unaudited interim consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company’s circumstances.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the unaudited interim consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the unaudited interim consolidated financial statements and (ii) the unaudited interim consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited interim consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited interim consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

## NOTICE TO READER

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

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

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Balance Sheets**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 4,886,267** | $ 10,474,920 |
| Restricted cash | **156,792** | 152,454 |
| Accounts receivable | **6,702** | 4,450 |
| Prepaid expenses | **66,449** | 65,798 |
| | **5,116,210** | 10,697,622 |
| **Equipment** (Note 5) | **105,331** | 104,702 |
| **Resource property costs** (Note 6) | **1,442,891** | 1,074,150 |
| | **$ 6,664,432** | $ 11,876,474 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | **$ 357,776** | $ 349,354 |
| Due to related parties (Note 8) | **5,289** | 14,757 |
| | **363,065** | 364,111 |
| **Shareholders' Equity** | | |
| Share capital (Note 7(a)) | **19,567,590** | 18,740,037 |
| Contributed surplus (Note 7(a)) | **6,801,756** | 6,324,624 |
| Deficit | **(19,678,967)** | (13,652,864) |
| Accumulated other comprehensive (loss) income | **(389,012)** | 100,566 |
| | **6,301,367** | 11,512,363 |
| | **$ 6,664,432** | $ 11,876,474 |

**Nature of Operations** (Note 1)

**Approved by the Board** "Robert Hinchcliffe" Director "David De Witt" Director

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

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Statements of Loss**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Depreciation | **$ 10,459** | $ 16,726 | **$ 31,194** | $ 39,821 |
| Exploration costs | **812,178** | 1,778,517 | **3,862,623** | 3,847,098 |
| General and administrative expenses | **201,558** | 387,103 | **973,215** | 1,138,966 |
| Listing and filing fees | **2,673** | 5,497 | **33,103** | 52,689 |
| Professional fees | **73,401** | 81,489 | **482,224** | 285,131 |
| Stock-based compensation | **96,779** | 412,975 | **648,019** | 706,775 |
| Travel | **2,829** | 61,329 | **84,193** | 111,528 |
| | **1,199,877** | 2,743,636 | **6,114,571** | 6,182,008 |
| **Loss before the following** | **(1,199,877)** | (2,743,636) | **(6,114,571)** | (6,182,008) |
| Interest income | **36,443** | 110,520 | **178,703** | 194,643 |
| Foreign exchange gain (loss) | **22,844** | (639) | **(15,870)** | 6,929 |
| Asset impairment | **(74,365)** | - | **(74,365)** | - |
| **Net loss for the period** | **$ (1,214,955)** | $ (2,633,755) | **$ (6,026,103)** | $ (5,980,436) |
| **Loss per share - basic and diluted** | **$ (0.02)** | $ (0.06) | **$ (0.12)** | $ (0.15) |
| **Weighted average number of common shares** | **53,009,751** | 47,096,386 | **51,839,015** | 39,611,271 |

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

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Statements of Comprehensive Loss**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **Net loss** | **$ (1,214,955)** | $ (2,633,755) | **$ (6,026,103)** | $ (5,980,436) |
| **Other comprehensive loss** | | | | |
| Unrealized foreign currency translation | **(259,750)** | (531,618) | **(489,578)** | (751,571) |
| **Total comprehensive loss** | **$ (1,474,705)** | $ (3,165,373) | **$ (6,515,681)** | $ (6,732,007) |

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

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Statements of Changes in Shareholders' Equity**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **Share capital** | | | | |
| Balance at beginning of period | **$ 19,517,590** | $ 11,583,812 | **$ 18,740,037** | $ 6,789,040 |
| Shares issued for private placements | **-** | 7,038,648 | **-** | 10,176,420 |
| Shares issued for property acquisition | **50,000** | 73,087 | **108,904** | 643,444 |
| Exercise of stock options | **-** | 71,185 | **17,180** | 105,058 |
| Exercise of warrants | **-** | 505 | **530,582** | 889,896 |
| Exercise of agent's warrants | **-** | - | **-** | 92,306 |
| Exercise of broker options | **-** | 7,193 | **-** | 17,083 |
| Share issuance costs | **-** | (939,488) | **-** | (1,276,603) |
| Fair value of options and warrants exercised | **-** | 60,676 | **170,887** | 458,974 |
| Balance at end of period | **$ 19,567,590** | $ 17,895,618 | **$ 19,567,590** | $ 17,895,618 |
| **Contributed surplus** | | | | |
| Balance at beginning of period | **$ 6,704,977** | $ 3,385,142 | **$ 6,324,624** | $ 1,811,482 |
| Stock-based compensation | **96,779** | 412,975 | **648,019** | 706,775 |
| Warrants issued | **-** | 1,573,627 | **-** | 3,251,785 |
| Agent's warrants issued | **-** | - | **-** | (43,199) |
| Fair value of options and warrants exercised | **-** | (56,994) | **(170,887)** | (400,845) |
| Fair value of exercise of broker options | **-** | (3,682) | **-** | (14,930) |
| Balance at end of period | **$ 6,801,756** | $ 5,311,068 | **$ 6,801,756** | $ 5,311,068 |
| **Deficit** | | | | |
| Balance at beginning of period | **$ (18,464,012)** | $ (7,320,295) | **$ (13,652,864)** | $ (3,973,614) |
| Net loss | **(1,214,955)** | (2,633,755) | **(6,026,103)** | (5,980,436) |
| Balance at end of period | **$ (19,678,967)** | $ (9,954,050) | **$ (19,678,967)** | $ (9,954,050) |
| **Accumulated other comprehensive (loss) income** | | | | |
| Balance at beginning of period | **$ (129,262)** | $ 207,958 | **$ 100,566** | $ (11,995) |
| Unrealized foreign currency translation | **(259,750)** | 531,618 | **(489,578)** | 751,571 |
| Balance at end of period | **$ (389,012)** | $ 739,576 | **$ (389,012)** | $ 739,576 |
| **Total shareholders' equity** | **$ 6,301,367** | $ 13,992,212 | **$ 6,301,367** | $ 13,992,212 |

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

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Statements of Cash Flows**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **Cash resources provided by (used in):** | | | | |
| **Operating activities** | | | | |
| Net loss for the period | **$ (1,214,955)** | $ (2,633,755) | **$ (6,026,103)** | $ (5,980,436) |
| Items not affecting cash: | | | | |
| Depreciation | **10,459** | 16,726 | **31,194** | 39,821 |
| Stock-based compensation | **96,779** | 412,975 | **648,019** | 706,775 |
| Asset impairment | **74,365** | - | **74,365** | - |
| Changes in current assets and liabilities: | | | | |
| Accounts receivable | **81,897** | (8,718) | **(2,252)** | (13,081) |
| Prepaid expenses | **(2,476)** | (12,134) | **(651)** | (78,981) |
| Accounts payable and accrued liabilities | **(26,061)** | 244,816 | **8,422** | 228,138 |
| Due to related parties | **(6,075)** | 2,192 | **(9,468)** | (66,849) |
| | **(986,067)** | (1,977,898) | **(5,276,474)** | (5,164,613) |
| **Investing activities** | | | | |
| Deposits | **-** | (105,000) | **-** | (105,000) |
| Purchase of equipment | **(1,520)** | (29,941) | **(31,823)** | (68,486) |
| Resource property acquisition costs | **(7,255)** | (25,000) | **(334,202)** | (165,000) |
| Restricted cash | **(478)** | - | **(4,338)** | - |
| | **(9,253)** | (159,941) | **(370,363)** | (338,486) |
| **Financing activities** | | | | |
| Share issuance proceeds, net of financing costs | **-** | 7,751,670 | **547,762** | 13,255,945 |
| Effect of foreign exchange rate changes on cash balances | **(259,750)** | 531,618 | **(489,578)** | 751,571 |
| **Net (decrease) increase in cash and cash equivalents** | **(1,255,070)** | 6,145,449 | **(5,588,653)** | 8,504,417 |
| Cash and cash equivalents, beginning of period | **6,141,337** | 6,839,606 | **10,474,920** | 4,480,638 |
| **Cash and cash equivalents, end of period** | **$ 4,886,267** | $ 12,985,055 | **$ 4,886,267** | $ 12,985,055 |

Galway RESOURCES

**Galway Resources Ltd.**
(A Development Stage Company)
**Interim Consolidated Statements of Cash Flows**
**(Expressed in United States Dollars)**
**(Unaudited)**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| **Cash and cash equivalents consist of:** | | | | |
| Cash | **$ 1,128,724** | $ 1,040,762 | **$ 1,128,724** | $ 1,040,762 |
| Short-term investments | **3,757,543** | 11,944,293 | **3,757,543** | 11,944,293 |
| | **$ 4,886,267** | $ 12,985,055 | **$ 4,886,267** | $ 12,985,055 |

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

## 1. Nature of Operations

Galway Resources Ltd. ("the Company") was incorporated under the Business Corporations Act of British Columbia on August 31, 2004. The Company completed its qualifying transaction on April 25, 2006 through the incorporation of its wholly owned subsidiary, Galway Resources US Inc. and the acquisition of 100% interest in the Indian Springs Tungsten Project. The Company is a mining exploration company focused on developing its three recently acquired advanced exploration projects.

The Company operates in the exploration and development business and has exploration activities in the United States, Canada and South America. As a development stage company, the Company's income is limited to interest income. The Company continues to be dependent upon its ability to finance its development and exploration programs through financing activities that may include issuances of additional debt or equity securities. The underlying value of the resource properties is dependent upon the existence and economic recovery of economic reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to raise long-term financing to complete the development of the properties and upon future profitable production or, alternatively upon the Company's ability to dispose of its interest on an advantageous basis, all of which are uncertain.

## 2. Basis of Presentation and Accounting Policies

The unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and notes to the consolidated financial statements required by Canadian generally accepted accounting principles for annual consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2008 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2008.

The consolidated balance sheet at December 31, 2007 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by Canadian generally accepted accounting principles for annual consolidated financial statements. The unaudited interim consolidated financial statements have been prepared by management in accordance with the accounting policies described in the Company's annual audited consolidated financial statements for the year ended December 31, 2007, except as noted below. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended December 31, 2007.

### Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on January 1, 2008.

## 2. Basis of Presentation and Accounting Policies (Continued)

### Capital Disclosures and Financial Instruments – Disclosures and Presentation (Continued)

#### Capital Disclosures

Handbook Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook section in Note 3 to these unaudited interim consolidated financial statements.

#### Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosures recommended by the new Handbook sections in Note 4(b) to these unaudited interim consolidated financial statements.

### General Standard of Financial Statement Presentation

In June 2007, the CICA amended Handbook Section 1400, Going Concern, to assess an entity's ability to continue as a going concern and disclose any material uncertainties that cast doubt on its ability to continue as a going concern. Section 1400 is effective for interim and annual reporting periods beginning on or after January 1, 2008. The application of this new standard had no impact on the Company's unaudited interim consolidated financial statements as at and for the three and nine months ended September 30, 2008.

### Future Accounting Changes

#### International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. On February 13, 2008 the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

#### Goodwill and Intangible Assets

CICA Handbook Section 3064, Goodwill and Intangible Assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the Pre-operating Period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations. The new standard is effective as of January 1, 2009.

## 2. Basis of Presentation and Accounting Policies (Continued)

### Future Accounting Changes (Continued)

The Company is currently assessing the impact of these new accounting standards on its consolidated financial statements.

## 3. Capital Management

When managing capital, the Company’s objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The properties in which the Company currently has an interest are in the exploration stage. As such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the nine months period ended September 30, 2008. The Company is not subject to externally imposed capital requirements.

## 4. Property and Financial Risk Factors

### (a) Property risk

The Company’s significant mineral properties are the Indian Springs Project, the Victorio Mountain Project and the California Project (the "Projects"). Unless the Company acquires or develops additional significant properties, the Company will be solely dependent upon the Projects. If no additional mineral properties are acquired by the Company, any adverse development affecting the Projects would have a material adverse effect on the Company’s financial condition and results of operations.

### (b) Financial risk

The Company’s activities expose it to a variety of financial risks: credit risk, liquidity risk, market risk (including interest rate, foreign exchange rate, and commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

**4. Property and Financial Risk Factors (Continued)**

**(b) Financial risk (Continued)**

**Credit risk**
Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, restricted cash and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash on hand and guaranteed investment certificates. Restricted cash consists of certificates of deposit for the restoration costs of the resource properties. The cash on hand, guaranteed investment certificates and certificates of deposit have been invested and held with reputable financial institutions, from which management believes the risk of loss to be remote.

Accounts receivable consist of goods and services tax due from the Federal Government of Canada. Accounts receivable are in good standing as of September 30, 2008. Management believes that the credit risk concentration with respect to accounts receivable is remote.

**Liquidity risk**
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had cash and cash equivalents and restricted cash balance of $5,043,059 (December 31, 2007 - $10,627,374) to settle current liabilities of $363,065 (December 31, 2007 - $364,111). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

**Market risk**
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(i) Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company regularly monitors its cash management policy.

(ii) Foreign currency risk
The Company's functional currency is the Canadian dollar and its reporting currency is the U.S. dollar. Major purchases are transacted in Canadian dollars, U.S. dollars and Colombian pesos. The Company funds most operations, exploration and administrative expenses in the United States and in Colombia on a cash call basis using U.S. dollar currency converted from its Canadian dollar bank accounts held in Canada. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(iii) Price risk
The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold, coal, tungsten and molybdenum, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**4. Property and Financial Risk Factors (Continued)**

**(b) Financial risk (Continued)**

**Sensitivity analysis**

The Company has, for accounting purposes, designated its cash and cash equivalents and restricted cash as held-for-trading, which are measured at fair value. Accounts receivable are classified for accounting purposes as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost and are equal to fair market value.

As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a nine months period.

(i) Cash and cash equivalents are subject to floating interest rates. As at September 30, 2008, if interest rates had decreased/increased by 1% with all other variables held constant, the loss for the nine months ended September 30, 2008 would have been approximately $30,000 higher/lower, as a result of lower/higher interest income from cash and cash equivalents. Similarly, as at September 30, 2008, reported shareholders' equity would have been approximately $30,000 lower/higher as a result of lower/higher interest income from cash and cash equivalents due to a 1% decrease/increase in interest rates.

(ii) The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities and due to related parties that are denominated in Canadian dollars. As at September 30, 2008, had the Canadian dollar weakened/strengthened by 5% against the U.S. dollar with all other variables held constant, the Company’s loss for the nine months ended September 30, 2008 would have been approximately $225,000 higher/lower as a result of foreign exchange losses/gains on translation of Canadian dollar denominated financial instruments. Similarly, as at September 30, 2008, shareholders' equity would have been approximately $225,000 lower/higher had the Canadian dollar weakened/strengthened by 5% against the U.S. dollar as a result of foreign exchange losses/gains on translation of Canadian dollar denominated financial instruments.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company’s future profitability and viability of development depends upon the world market price of gold, coal, tungsten and molybdenum. These metal prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of these metals may be produced in the future, a profitable market will exist for them. As of September 30, 2008, the Company was not a producing entity. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

**(Expressed in United States Dollars)**

## 5. Equipment

| September 30, 2008 | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Office equipment | $ 48,822 | $ 20,544 | $ 28,278 |
| Computer software | 55,866 | 51,902 | 3,964 |
| Equipment | 120,061 | 46,972 | 73,089 |
| | $ 224,749 | $ 119,418 | $ 105,331 |

| December 31, 2007 | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Office equipment | $ 43,741 | $ 12,863 | $ 30,878 |
| Computer software | 54,345 | 45,589 | 8,756 |
| Equipment | 94,839 | 29,771 | 65,068 |
| | $ 192,925 | $ 88,223 | $ 104,702 |

## 6. Resource Property Costs

Cumulative acquisition costs per project under active exploration:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| Indian Springs | $ 834,705 | $ 715,803 |
| Victorio Mountain | 608,186 | 358,347 |
| | $ 1,442,891 | $ 1,074,150 |

On a quarterly basis, management of the Company review acquisition costs to ensure resource property costs include only costs and projects that are eligible for capitalization.

For a description of the resource properties owned by the Company refer to Note 4 of the audited consolidated financial statements as at December 31, 2007. Specific changes to resource properties that occurred from January 1, 2008 to September 30, 2008 are as follows:

**(Expressed in United States Dollars)**

**6. Resource Property Costs (Continued)**

On April 25, 2008, the Company made a payment of US$60,000 and issued 400,000 shares at deemed value of Cdn $0.15 per share in connection with the acquisition of the Indian Springs property.

On May 29, 2008, the Company made a payment of US$200,000 in connection with the acquisition of the Victorio Mountain property.

On July 11, 2008, the Company issued 50,000 shares at deemed value of Cdn$1 per share in connection with the acquisition of the Victorio Mountain property.

**7. Share Capital**

**a) Details of share capital are as follows:**

| | Shares | Amount | Contributed Surplus | Total |
|---|---|---|---|---|
| **Authorized** | | | | |
| Unlimited common shares without par value | | | | |
| **Issued and fully paid:** | | | | |
| Balance, December 31, 2007 | 50,303,566 | $ 18,740,037 | $ 6,324,624 | $ 25,064,661 |
| Exercise of stock options | 100,000 | 31,015 | (13,835) | 17,180 |
| Exercise of warrants | 2,161,801 | 687,634 | (157,052) | 530,582 |
| Share issued for property acquisition | 450,000 | 108,904 | - | 108,904 |
| Stock-based compensation | - | - | 648,019 | 648,019 |
| Balance, September 30, 2008 | 53,015,367 | $ 19,567,590 | $ 6,801,756 | $ 26,369,346 |

**(Expressed in United States Dollars)**

**7. Share Capital (Continued)**

**b) Share purchase options**

A summary of the Company's stock options activity is as follows:

| | Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2007 | 4,182,500 | Cdn $ 0.71 |
| Granted | 320,000 | 0.50 |
| Exercised | (100,000) | 0.18 |
| Expired or cancelled | (325,000) | 0.54 |
| Balance, September 30, 2008 | 4,077,500 | Cdn $ 0.72 |

As at September 30, 2008, the Company had the following stock options outstanding and exercisable:

| Number of Options Vested | Number of Options Outstanding | Weighted Average Remaining Contractual Life (years) | Exercise Price | Expiry Date |
|---|---|---|---|---|
| 300,000 | 300,000 | 2.05 | Cdn $ 0.10 | October 19, 2010 |
| 652,500 | 652,500 | 2.57 | 0.175 | April 25, 2011 |
| 150,000 | 150,000 | 2.88 | 0.81 | August 16, 2011 |
| 925,000 | 925,000 | 3.32 | 0.66 | January 25, 2012 |
| 145,000 | 145,000 | 3.39 | 0.83 | February 19, 2012 |
| 1,188,750 | 1,585,000 | 3.85 | 1.12 | August 6, 2012 |
| 160,000 | 320,000 | 4.34 | 0.50 | February 1, 2013 |
| 3,521,250 | 4,077,500 | 3.38 | Cdn $ 0.72 | |

The fair value of options granted was estimated on their grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2008 |
|---|---|
| Risk-free interest rate | 3.44% |
| Expected dividend yield | 0% |
| Expected stock price volatility | 110% |
| Expected life of options | 5 years |

**(Expressed in United States Dollars)**

**7. Share Capital (Continued)**

**b) Share purchase options (Continued)**

The fair value of the options granted during the nine months ended September 30, 2008 was $128,000. The weighted average fair value of these options was $0.40 per share.

As of September 30, 2008, the total stock-based compensation related to non-vested options was $106,736, which is to be recognized over the next fiscal year.

**c) Share purchase warrants**

A summary of the Company's warrants activity is as follows:

| | Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2007 | 13,058,289 | Cdn $ 1.21 |
| Exercised | (2,161,801) | 0.25 |
| Expired | (4,048,488) | 1.25 |
| Balance, September 30, 2008 | 6,848,000 | Cdn $ 1.50 |

As at September 30, 2008, the Company had the following warrants outstanding:

| Number of Warrants Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 3,000,000 | Cdn $ 1.30 | April 25, 2009 |
| 3,400,000 | 1.70 | February 1, 2009 |
| 448,000 | 1.25 | February 1, 2009 |
| 6,848,000 | Cdn $ 1.50 | |

**(Expressed in United States Dollars)**

## 8. Related Party Transactions

Related party transactions are as follows:

During the nine months ended September 30, 2008, $61,039 (September 30, 2007 - $80,123) was paid to a company with a director and officer in common for administrative services. Included in due to related parties is $5,289 (December 31, 2007 - $14,702) owing to this company.

During the nine months ended September 30, 2008, $nil (September 30, 2007 - $30,000) was paid to a company of which a director is a principal for professional fees.

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

## 9. Segmented Information

Details are as follows:

| September 30, 2008 | Canada | USA | South America | Total |
|---|---|---|---|---|
| Identifiable assets | $ 4,832,903 | $ 1,676,311 | $ 155,218 | $ 6,664,432 |
| **Nine Months Ended September 30, 2008** | | | | |
| Segmented operating loss | $ 966,556 | $ 3,739,380 | $ 1,320,167 | $ 6,026,103 |

| December 31, 2007 | Canada | USA | South America | Total |
|---|---|---|---|---|
| Identifiable assets | $ 10,400,413 | $ 1,357,458 | $ 118,603 | $ 11,876,474 |
| **Nine Months Ended September 30, 2007** | | | | |
| Segmented operating loss | $ 340,316 | $ 4,744,129 | $ 895,991 | $ 5,980,436 |

## 10. Subsequent Events

(a) On October 31, 2008, the Company announced that it has entered into an option agreement with Rio Tinto Mining and Exploration Corporation (Rio Tinto) to acquire 100% interest in nine coal concessions totaling 7,500 hectares, roughly 50% of the previously drilled San Louis Coal basin located in Santander, Colombia. The project will be known as Carboluis.

(b) The Company has granted 1,224,036 stock options at a price of $0.11 to certain employees, directors, and officers for a period of 5 years.