



MBMI
RESOURCES INC.



ANNUAL REPORT 2007/08

EMERGING NICKEL SUPPLIER

To become a major supplier of high-grade nickel material to primary industrial consumers in Asia.



MBMI Resources Inc. is a Canadian-based mining company focused on the exploration and development of nickel mineral properties in the Philippines. MBMI and its partners control eight nickel laterite projects in the Philippines, covering an area greater than 22,000 hectares. MBMI's objective is to become a major supplier of high-grade nickel material to primary industrial consumers in Asia.

The Company's Philippine partners have been granted three Small Scale Mining Operating permits for the Alpha nickel property in Narra, Philippines. The issuance of these permits enabled the extraction of raw nickel material for shipment to Asian consumers, and the first nickel material shipment was made in January, 2008. Permits in the form of Financial and Technical Assistance Agreement (FTAA) applications on the Alpha property and three other Palawan nickel projects are well-advanced, and once granted would allow for full-scale commercial production.

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Message from the President



Officially staking its position in the marketplace as an emerging nickel supplier, the year 2007/2008 saw MBMI Resources Inc. embark on an exciting growth strategy with a focused effort on full-scale mine permitting and commencement of shipping operations.

Certainly not without its challenges, the past year has been one of significant advancement and milestone achievement.

With our Philippine partners being granted all requisite small-scale mining and environmental permits to commence development and extraction on the Alpha nickel property in April, 2007, construction and development of an infrastructure for operations was undertaken. An initial seven kilometre long road from the excavation site down to the stockyard area on the coast was completed in July, 2007, and an area greater than forty hectares in size was prepared adjacent to the completed

port facility to allow for the sorting, drying and stockpiling of nickel material. The coastal port causeway itself was also extended to accommodate the simultaneous loading of up to three large material handling barges. Additional infrastructure facilities were also completed, including an administration office complex, sample preparation and assay laboratory, as well as screening and crushing mechanisms. Much of the infrastructure on the Alpha property has been constructed in anticipation of receipt of a full-scale mine permit which will allow for a rapid and efficient transition upon issuance.

With an objective of consolidating its nickel position in the Philippines, MBMI entered into a long-term Purchase Agreement for mineral materials on Dinagat Island in eastern Philippines. Pursuant to the agreement, MBMI will provide financial and technical services as well as marketing and transaction services with respect to the liquidation of the minerals produced. The counterparty to this agreement holds a full-scale Mineral Production Sharing Agreement (MPSA) over the property and is in the process of securing all required environmental permits to commence excavation. The term of the agreement is for the life of the exploration, development and utilization of the property.

2007/08 Highlights



Alpha Infrastructure

Development, construction and completion of an infrastructure to support excavation and shipping operations – June/July 2007.



Long Term Purchase Agreement for Mineral Materials

Entered into a long-term Purchase Agreement for mineral materials on Dinagat Island. Agreement is for the life of the exploration, development and utilization of the property – June 2007.

Message from the President

The Company raised in excess of \$16M during the fiscal year which provided the capital for the operational infrastructure on Alpha as well as drilling and exploration activities on Palawan, Samar and Dinagat Island. Palawan drilling was focused on the Alpha property, and overall results were very encouraging. Data from the exploration program provided the Company with additional information needed for mapping the permitted area for current and future excavation.

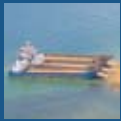
The greatest accomplishment of the year occurred in January, 2008, when the Company, through its Philippine partner Narra Nickel Development Corporation, completed the first nickel material shipment from the Alpha property. Approximately 53,000 wet metric tonnes of nickel material averaging 1.9% Nickel/tonne was loaded and shipped to a Chinese nickel consumer. This event officially marked the emergence of the Alpha, Palawan project (and MBMI) as a nickel material supplier to the Asian market.

Through the year-end and up to May 31, 2008, the Company has sold and shipped approximately 99,000 dry metric tonnes of material at an average grade of 1.85% nickel to Asian consumers. A further 140,000 wet

metric tonnes of nickel bearing material has been excavated from the Alpha property for drying and sorting at the coastal stockyard.

The Company and its Philippine partners continue to make progress with the full-scale mine (Financial and Technical Assistance Agreement) applications on the Palawan nickel projects. Management is very encouraged with the advancement made by our Philippine partners to secure these permits, as well as the strong municipal and provincial support that has been generated for the projects.

Positive Philippine government attitudes toward foreign investment and mineral resource development have encouraged MBMI and its Philippine partners to fund and develop numerous community initiatives. Environmental and community initiatives, such as the tree and seedling nursery developed adjacent to the Alpha nickel project in Narra, Palawan, have built a strong foundation for future success. Since its completion, the nursery have provided local inhabitants with cash crop seedlings and land management educational programs that assist in supplementing the Philippine government's regional vegetation

**\$16 Million + Financing**

Raised in excess of \$16 million during the fiscal year providing capital for operational infrastructure as well as drilling and exploration activities – March/December 2007.

**Commencement of Operations**

Completed first nickel material shipment from Alpha project. Approximately 53,000 wet metric tonnes of nickel material shipped and sold to a Chinese nickel consumer – January 2008.

**Exploration**

234 exploration drill holes completed (approximately 4,500 meters) on Alpha. Data used for mapping the permitted area for current and future excavation – October/November 2007.

**Continued Shipments and Sales**

Sold and shipped approximately 99,000 dry metric tonnes of material at an average grade of 1.85% nickel to Asian consumers – May 2008.

program. Programs such as these, combined with direct employment of in excess of 500 skilled and manual local Philippine labourers, have contributed to the economic and social development of the Palawan community.

The immediate and primary objective of the Company and its Philippine partners is to secure full-scale mine permits for the Palawan projects. Long-term objectives include the development of a value-added nickel processing facility in the Philippines capable of utilizing environmentally friendly technologies to deliver positive economics. The development of any such facility would be subject to defining adequate resources, securing mineral tenure, and generating positive feasibility studies.

While accomplishments over the past fiscal year have been many, we are focused on achieving additional milestone targets as an emerging nickel supplier.

On behalf of the board, I would like to thank all our shareholders, financiers, Philippine partners, employees and key stakeholders for their continued support and contribution towards building a successful nickel company.



Loading barge with nickel material for transfer to bulk ore freighter.

Respectfully,

Michael T. Mason

President and C.E.O.

THE ALPHA PROJECT

The most advanced project in the Company's portfolio, the Alpha Project is located in the **central region** of the island **Province of Palawan** approximately 660km southwest of the Philippine capital of Manila.

The Company's Philippine partners have been granted three Small Scale Mining Operating permits for the Alpha nickel property which allow for the extraction of up to 150,000 dry metric tonnes of nickel bearing material per year. All necessary permits have been granted in respect to the Small Scale Mining Operations and MBMI, through its Philippine partner Narra Nickel Development Corporation, is currently excavating, stockpiling and shipping mineralized nickel laterite material for sale to Asian consumers.

Construction and development of operational infrastructure commenced in April, 2007. An initial seven kilometre long road from the excavation site down to the stockyard area on the coast was completed in July, 2007, and an area greater than forty hectares in size was

prepared adjacent to the completed port facility to allow for the sorting, drying and stockpiling of nickel material. An extension to the coastal port causeway added a 265 metre pier complete with a thirty metre turnaround to accommodate the simultaneous loading of up to three large material handling barges. The Alpha compound also includes an operations base with administration office complex, sample preparation and assay laboratory, screening and crushing facilities as well as a nursery for Environmental Impact Assessment rehabilitation purposes.

To date, the Company has shipped and sold approximately 99,000 dry metric tonnes of material at an average grade of 1.85% nickel laterite to Asian consumers. A further 140,000 wet metric tonnes of nickel bearing material has been excavated from the Alpha property and is currently being dried and sorted at the coastal Stockyard.

The Company is currently working on a National Instrument 43-101 (NI 43-101) resource estimate for the property and has submitted an application for Financial and Technical Assistance Agreement (FTAA) full-scale permits.



Alpha property coastal stockyard.

Properties Overview



OTHER PROPERTIES



Bethlehem exploration base camp.

BETHLEHEM

Located near the Alpha property, the Bethlehem nickel project comprises an area of 3,402 hectares in the municipality of Narra, approximately 99 kilometres southwest of Puerto Princesa city on the Philippine island of Palawan.

The Bethlehem property has been the target of exploration by a number of companies since the 1970's, including BHP Billiton's Queensland Nickel Pty Ltd. in 2001. MBMI entered into a joint venture with Olympic Mines and Development Corporation in 2004, and in 2006 completed a resource inventory that confirmed mineralization trends. The Company is currently working on a NI 43-101 resource estimate for the property and has submitted an application for FTAA full-scale permits.

DINAGAT ISLAND

The Dinagat Island project provides MBMI Resources with an opportunity to assume an alternate role in the production process. The Company has entered into a long-term Purchase Agreement for mineral materials produced from the property, and in return will provide financial and technical services as well as marketing and transaction services with respect to the liquidation of the mineral products produced. In addition, MBMI will provide pre-export financing for the project which will be secured by the nickel product stockpiles from the property. The agreement term is for the life of the exploration, development, and utilization of the property.



View of Philippine Sea from Dinagat Island property.

The counterparty to this agreement holds a Mineral Production Sharing Agreement full-scale permit for the property and is currently in the process of securing all required environmental permits to commence excavation.

Philippines

South China Sea

Philippine Sea

Samar

Borongán-Maydolong
Nickel Project

Gen. McArthur-Llorente
Nickel Project

Balangiga-Giporlos
Nickel Project

Homonhon Island
Nickel Project

Dinagat Island
Nickel Project

Properties Overview (cont'd)



RIO TUBA

Located on the southerly portion of the island of Palawan, the Malatgao and Northern Rio Tuba properties (collectively the Rio Tuba project) cover an area in excess of 8,900 hectares.

Rio Tuba is a joint venture between MBMI and Olympic Mines and Development Corporation. The properties are contiguous to Sumitomo Metal Mining Co. Ltd's recently commissioned "Coral Bay" Ferro-nickel project which has mined and shipped nickel material for over twenty-five years.

Permitting and exploration is focused on the potential for Direct Shipping nickel laterite material from these properties. Mine planning and engineering evaluations are in progress and drill targets have been identified. FTAA applications for full-scale permits have been filed for both Rio Tuba properties.



SAMAR

MBMI has the right to earn up to a 92% interest in four advanced exploration nickel projects encompassing 10,150 hectares located in the southeastern region of the island of Samar, Philippines.

These four projects have historic (non NI 43-101 compliant) resource estimates and will be the subject of future exploration programs. Location and existent infrastructure in the project area would require upgrades to facilitate ground access should the projects return successful results from initial drilling exploration.



Alpha Project tree and seedling nursery.

SOCIAL RESPONSIBILITY, COMMUNITY & AGRICULTURAL DEVELOPMENT

Responsible mining practices to minimize environmental and social impacts are primary objectives for the Company.

Contributing to meaningful projects such as the tree and seedling nursery located adjacent to the Alpha nickel project in Narra, Palawan, is important to the Company. Since its initiation, the nursery has provided local inhabitants with cash crop seedlings and land management educational programs that assist in supplementing the Philippine government's regional vegetation program.

The Company is also committed to increasing employee wellness and has initiated the development of a number of local recreational facilities in the municipality of Narra.

Programs such as these, combined with direct employment of in excess of 500 skilled and manual local Philippine labourers, have enabled MBMI and its Philippine partners to provide a balanced program of responsible mining with respect to the economic and social development of the surrounding communities.



MBMI and its Philippine partners are committed to **funding and advancing** initiatives to enhance conservation and **community development**.

Management's Discussion and Analysis

EXPLORE

(*Ni*)

DEVELOP

SUPPLY

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

The following discussion and analysis is for the year ended January 31, 2008 ("2008") compared with the year ended January 31, 2007 ("2007"). Unless otherwise stated, information is current to May 30, 2008, and all amounts are stated in Canadian dollars. Additional information relating to the Company may be found on SEDAR at www.sedar.com or on the Company's website www.mbmresources.com.

INTRODUCTION

This discussion and analysis of the operating results, cash flows and financial position of MBMI Resources Inc. ("MBMI") should be read in conjunction with the consolidated financial statements for the years ended January 31, 2008 and 2007 and accompanying summary of significant accounting policies and notes (the "Financial Statements"). The "Company" refers to MBMI Resources Inc., its wholly owned subsidiaries and its Philippine joint ventures inclusively. The Philippine joint ventures are included in the consolidated financial statements on a proportionate basis. This discussion and analysis may contain forward-looking statements about the Company's future prospects. The Company provides no assurance that actual results will meet management's expectations.

DESCRIPTION OF BUSINESS

The Company is listed on the TSX Venture Exchange as a Tier 2 mining issuer under the trading symbol "MBR". The Company is engaged in the acquisition, exploration and development of mineral properties in the Philippines.

Success of the Company is dependent upon the ability of the Company to source appropriate exploration properties satisfactory to its investors and, thereafter, upon obtaining the necessary financing to search, acquire and to meet exploration commitments on its mineral properties; and upon the discovery of economically recoverable reserves, as well as upon future profitable operations or proceeds from the disposition of such properties. The Alpha property (below) is in the development stage. The Company's joint ventures and Philippine partners have been granted Small Scale Mining Operating (SSMO) permits for the Alpha nickel property in Narra, Palawan, Philippines. The Company believes that commercial production on the Alpha property can be reached successfully after receiving a full-scale production permit, subject to confirmation of sufficient mineral resources. All of the Company's mineral properties, except for the Alpha property, are in the exploration stage. Development stage revenues have been applied against mineral properties and deferred exploration costs. At the date of this MD&A, the Company continues to generate losses and negative cash flows from operations.

RESOURCE PROPERTIES: PHILIPPINES

The Company's properties of note consist of the Alpha Property (the "Alpha Group"), Bethlehem & Rio Tuba Properties (held in the "Olympic Group"), and four properties in the Samar region of the Philippines (the "Samar Group").

All of MBMI's Philippine properties are located within the known nickel geological trends that contain and/or produce raw nickel materials. Each of the properties has had historic exploration activity, which has confirmed the presence of nickel mineralization. Exploration and development of the properties has been conducted through a series of steps or phases pursuant to which management had the option of dropping any property if it failed to achieve the Company's objectives. Property payments were linked to each step within the exploration, and development process.

MBMI actively explored and developed the Alpha property during the period and intends to expand the exploration programs to include several additional properties during the coming year.

The Company is focused on identifying and developing high-grade nickel zones which can support Direct Shipping Material (DSO) operations.

Under DSO operations nickel laterite material is excavated and the resultant product is segregated according to grade. The material is then air dried to reduce the moisture content. The segregated material is blended to meet customer specifications. This blended material is loaded on barges for transshipment to ocean going ships for sale to nickel processing plants. The material is sold for a percentage of the nickel price as stated by the London Metal Exchange (LME). Generally, the higher the grade of nickel the higher the percentage of the LME price received.

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

The Company's joint ventures and Philippine partners have been granted three Small Scale Mining Operating (SSMO) permits for the Alpha nickel property. Scale Mining Operating permits (SSMO) are issued by provincial governments to encourage exploration and development of mineral properties and allow for the extraction of up to 50,000 metric tonne each of material per year for up to two years. The SSMO permits expire during 2008, and can be renewed at the option of the government for a further 2 years upon application by the Company, which has been done. The area covered by these permits is also the subject of a Financial and Technical Assistance Agreement ("FTAA") application. Three SSMO permits have been granted in respect of the Alpha property, which allow for the extraction of up to 150,000 metric tonnes per annum. Additional permits, including Environmental Compliance Certificates (ECC's) are required for DSO operations and ancillary facilities. All necessary permits have been granted to the Company in respect of the Small Scale Mining Operations for its Alpha project. Operations under these SSMO permits commenced and an initial DSO shipment of material occurred during the period.

Results from nickel material shipments have assisted the Company in moving toward the permitting and development of a potential full-scale operation pursuant to an FTAA and conforming to best global environmental standards and Philippine law. The Company has received strong local community support and the project has been endorsed by the provincial Palawan Council for Sustainable Development. The application process for full-scale operations pursuant to an FTAA, is well underway. The FTAA has not yet been granted at the date of this MD&A.

The Company has entered into negotiations with several major international strategic partners who wish to secure long-term stable sources of raw material supply. The negotiation of these long-term "framework" supply agreements is ongoing.

One of the Company's Philippine subsidiaries has negotiated several nickel sales agreements for multiple nickel bearing materials ranging from 1.5% nickel to greater than 2.3% nickel as pertaining to the Alpha Project.

A total of 53,198 wet metric tonnes (approximately 35,111 dry metric tonnes) was shipped during the year in one shipment for total proceeds of approximately US\$4,213,339, the Company's joint venture share of which was US\$2,528,003 (\$2,536,593). Since the end of the fiscal year, the Company has shipped approximately 64,000 dry metric tonnes of nickel material to various buyers in China and Japan.

INVESTMENT IN MINERAL EXPLORATION AND DEVELOPMENT

The Company's share of total expenditures on mineral properties during the year ended January 31, 2008 were \$10,667,223 (2007: \$3,142,664). Overall, exploration costs paid in the current year are consistent with maintenance of the Alpha property permits, drilling on the Alpha property, assaying and operation of the lab, geophysical and surveying and extension of the mine road, as well as wages for site personnel. Also includes development of an excavation pit, hauling to the stockyard of mineralized nickel material, as well as crushing, drying, blending and sorting operations necessary for the commencement of first shipments. Additionally, revenues of \$2,536,593 in respect of the Company's first shipment of nickel laterite material were deducted from mineral property and deferred exploration costs, leaving a net increase in deferred costs of \$8,130,630.

Much of the Company's emphasis in this year was on the development of the Alpha project facilities, purchase of equipment, plant and excavation site. Administration facilities, an assay laboratory, infrastructure, including power backup, water and equipment, has been procured and completed. Much development work in the year focused on development drilling, the construction of the stockyard facilities, road widening and acquisition of movable and crushing equipment.

Shipping expenses relates to the charter of LCT/barges from June to January for the loading of nickel material, net of sub-let revenues as well as payments to port authorities, freight and brokerage in respect of the shipment of nickel material.

Though most costs were incurred in respect of the Alpha property, the Company also incurred acquisition, property maintenance and option payments for further permitting of the Olympic properties, and made advances in respect of pre-export financing, exploratory and permitting expenses (secured by the nickel product stockpiles) for a long-term nickel material purchase agreement from a project owned by unrelated interests on Dinagat Island, Philippines.

Additionally, the Company has invested \$2,752,665 in mining equipment during the year, included in property, plant and equipment. This equipment is currently in use on the Alpha property.

Significant expenditures on other properties include expenditures required to advance the permitting process on the Olympic properties, and option payments of PHP4,500,000 (\$109,806) and US\$75,000 (\$78,592) paid to the Olympic Group in respect of a modification to the agreement reducing the joint venture to a 5.5% royalty interest, from its current 40% interest, upon receipt by the Company of an FTAA. Moreover, property payments of US\$520,000 (\$564,158) to complete the Company's contractual obligations were made in the year.

Alpha:

In the current fiscal year, most exploration was focused on Alpha.

During the year, nickel laterite material excavation commenced, the causeway, consisting of the dock facility and pier, and the road to the excavation site was completed and is undergoing improvements. The Company made its first shipment during the year and has made additional shipments since year end (see above). The Company's focus in the immediate term is the attainment of an FTAA permit (application having been made by the Company's joint venture partner, Narra Nickel Mining Development Corp.), which will allow the company to make additional capital investment and to attain full-scale commercial production.

On June 19, 2007 the Company negotiated a modification to the Transaction Documents in respect of the Alpha Property. Upon the issuance of an FTAA, or the Company's decision to allocate interest to a qualified Philippine partner(s), the modification gives the Company, the right to increase its direct and indirect interest from the current direct and indirect 60%, while Alpha shall retain a 5.5% net revenue return royalty.

Pursuant to the Transaction Documents, the Company has now completed the full US\$250,000 in property payments.

Samar:

The Company can maintain its interest in the joint venture by making a total of US\$208,000 (approximately \$208,000) in property payments per property on a phased basis and by financing exploration costs through to production. The Company has made property payments of US\$140,000 (approximately \$165,000), including an advance of US\$18,000 (approximately \$23,000), to maintain its interest in the properties pursuant to the final agreement.

Olympic:

The company entered into an agreement with Olympic Mining and Development Corp. for the joint venture of three properties located on the island of Palawan, Philippines. At the date of this MD&A, the Company has made all applicable property payments of US\$645,000 (approximately \$699,000), thereby maintaining its current 60% direct and indirect interest in the joint venture.

On June 13, 2007, the Company negotiated a modification to the Olympic Agreements. The modification gives the Company, the right to increase its direct and indirect interest above 60% when the Company is issued an FTAA, or decides to allocate a portion of its interest to a qualified Philippine Partner(s). As a result of this modification, the joint venture partner shall retain a 5.5% net revenue return royalty. During the year, and as consideration for this modification, the Company paid PHP4,500,000 (\$109,806). On September 18, 2007, the Olympic group assigned their interest in the Olympic properties to an unrelated party. In order to affect this transfer the Company paid an incentive fee of US\$75,000 (\$78,592).

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

Life of Mine Purchase Agreement:

On June 6, 2007, the Company entered into a long-term Purchase Agreement for Nickel Material in regards to a nickel project on Dinagat Island, Philippines held by a private Philippine company. A facility of up to US\$1 million has been made available to the counterparty, of which \$394,175 has been drawn down for exploratory and permitting expenditures before year end. Advances are included in long-term notes receivable.

The counterparty agrees to repay these advances from the net proceeds of sale of nickel and other mineral materials from the property. The Company will provide financial and technical services; marketing and transaction services with respect to the liquidation of the mineral products produced. In return for the provision of the facility, the Company will receive a return based upon the operating profit of the counterparty, after loan repayments (the "distributable return"), for various commitment, service, facility management and interest fees, for marketing and transaction services and technical services.

The agreement term is for the life of the exploration, development, and exploitation of the property. The Company will provide pre-export financing for the project which will be secured by the nickel and other mineral product stockpiles. The counterparty to this agreement holds a Mineral Production Sharing Agreement ("MPSA") over the property. The price the parties could receive for nickel product is calculated as a percentage of the London Metal Exchange (LME) price.

CAPITAL

The Company's financing source to date has been from the issuance of equity.

A total of \$15,603,986 in cash was raised during the year from the subscription for common shares on private placements, exercises of options and warrants, net of financing costs.

Year ended January 31, 2008:

- a) On March 2, 2007, the Company completed a private placement financing of 4,300,000 Units at \$0.70 per Unit for gross proceeds of \$3,010,000. Each Unit consists of one Common Share and one half (1/2) Common Share Purchase Warrant. Each full Warrant entitles the holder to purchase one Common Share until March 2, 2009 at a price of \$0.90. All Units issued are subject to a four month hold period expiring on July 3, 2007. The fair value of warrants of \$925,832 was bifurcated to contributed surplus.
- b) On March 19, 2007, the Company completed a second and final tranche of a Private Placement financing of 714,286 Units at \$0.70 per Unit for gross proceeds of \$500,000. Each Unit consists of one Common Share and one half (1/2) Common Share Purchase Warrant. Each full Warrant entitles the holder to purchase one Common Share until March 16, 2009 at a price of \$0.90. Finders fees of \$35,000, financing fees of \$17,513, and 42,857 broker warrants having the same terms as the places warrants have been paid in connection with this placement. All Units issued are subject to a four month hold period expiring on July 17, 2007. The fair value of warrants of \$116,257 was bifurcated to contributed surplus.
- c) On December 5, 2007, the Company has closed a non-brokered Private Placement financing of 8,283,261 Units at \$1.15 per Unit for gross proceeds of \$9,525,750. Each Unit will consist of one Common Share and one Common Share Purchase Warrant. Each full Warrant will entitle the holder to purchase one Common Share for a period of 2 years at a price of \$1.40. The Common Shares are subject to a four month hold which expires on March 29th 2008. Finders' fees of \$560,000 and 417,383 broker warrants were paid to Meridian Capital International; \$48,300 and 36,000 broker warrants were paid to Bolder Investment Partners Ltd in connection with this financing. The Broker warrants have the same terms as the places warrants. Other financing fees of \$22,628 were paid in connection with this financing. The fair value of warrants of \$5,703,503 was bifurcated to contributed surplus.
- d) During the year, the Company issued 4,258,837 common shares on the exercise of 1,127,500 stock options and 3,131,337 warrants for total proceeds of \$3,241,678.

Subsequent to period end:

Up to the date of release of this report, and after year end, the Company has not issued any common shares on the exercise of warrants or options.

OPERATING ACTIVITIES

The Company recorded a net loss for the year ended January 31, 2008 of \$10,430,160 (\$0.15 per share), compared with \$2,556,059 (\$0.05 per share) for the same period in 2007. Additional costs are attributable to increased property activities in the Philippines and stock option compensation recorded in the year.

Significant discussion items:

- a) Stock option compensation (\$5,526,404): Stock option compensation expense during the year arose as a result of the vesting of 2,840,000 options at an average exercise price of \$2.99. Moreover, a total 1,090,000 options were granted to acquire common shares of the Company at a price of \$2.00 and 1,750,000 options were granted to acquire common shares at a price of \$3.60. In the previous year, stock option compensation of \$858,939 related to the 733,333 vested portion of 2,000,000 stock options issued to director's, officers and employees in the year and vesting of a further 402,000 options issued to consultants and directors, officers and employees in previous fiscal years.
- b) Administration (\$607,907): The Company incurred administration services of \$550,904 (2007: \$231,667) from directors in the year. Representatives of the Company's board of directors are actively involved in the daily management of the Company. Administration agreements with directors have been entered into (refer note 8(c) of the financial statements).

Most notable increases are in the Philippines where the Company has hired additional management at the Narra site to administer the Alpha project.

- c) Legal and accounting (\$1,193,951): Legal fees were paid in the year for various matters including permitting, general corporate matters, and assistance in the negotiation and advancement of new projects, as well as to appropriately structure the Company's Philippine operations. The increase in legal fees is also a result of the cases being fought by the Company, as disclosed in "Contingencies" below. Philippine legal fees amounted to most of the increase in this account during the year. Legal fees relating to corporate and securities matters were \$116,882 (2007: \$63,134).

Moreover, \$29,683 was paid for the incorporation and general corporate matters for two wholly owned subsidiaries of the Company, in Hong Kong and the Philippines.

Accounting fees increased in the Philippines as a result of an increase in audit and taxation services paid to the Company's professional advisors (approximately \$240,000 was paid (2007: \$139,960). This increased due to a rate increase and additional taxation services required in the year. The Company also retained the services of a Philippine regional controller. Accounting also includes \$64,584 (2007: \$29,181) paid to an officer of the corporation for accounting services.

- d) Consulting and communications (\$1,133,072): Increases in the number of consultants and higher rates paid to consultants in the Philippines, continuing representation in respect of the Alpha FTAA permitting process. An increase in consulting and representation in respect of the Olympic properties has also resulted in significant increases in this expense. Some consulting agreements in McArthur Mining Inc. ("MMI"), one of MBMI's joint venture partners, were in place for only part of the previous fiscal year. Moreover, payments were made for provincial permit applications in MMI. The Company believes that significant gains have been made in respect of both the permitting of the Alpha property as well as attaining local support for the remaining properties on the island of Palawan. The increase over the comparative period is a result of the creation of new geological, engineering and professional roles in the Philippines to aid in the advancement of the Company's existing portfolio of properties and to assist in the ongoing search for new viable projects. Moreover, management roles were

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

needed to complement existing management and to maintain positive and effective communication with stakeholders in Canada and the Philippines.

Consulting has also increased as a result of hiring logistics and procurement specialists, resulting in payments of \$128,658 (2007: \$25,307), and \$67,615 (2007: \$Nil) paid directly to a senior Philippine manager and director. The balance includes amounts paid for investor relations services in Canada.

- e) Foreign exploration (\$253,324): Relates to costs incurred for review of new properties by the Company, for which agreements have not been obtained.
- f) Accretion (\$111,138): relates to the accretion of convertible debt during the year prior to its conversion. An insignificant amount is in respect of the accretion of the asset retirement obligation recorded by the Company.
- g) Amortization (\$36,182): This has increased as a result of the Company's share of investment in new mobile equipment of \$2,880,584 during the year. This was required to effectively develop the Company's Philippine properties.
- h) Duties and taxes (\$108,352): Relates to the taxes paid in respect of various ore sampling and testing made in the year, freight on various permitting and other documents, as well as duties for various equipment transported to Palawan.
- i) Insurance (\$94,427): Relates to a full year of directors and officers liability insurance (\$28,815) (commenced February, 2007), health insurance for employees at the site and various, equipment and shipping insurance.
- j) Office and miscellaneous (\$778,338): The increase in this expense is due to increases in Philippine administrative and general operational employees, office expenses, telephone and administrative building utility charges. Includes vehicle expenses (site), dues and subscriptions, insurance, maps, office supplies, postage freight and delivery, printing and reproduction and other.
- k) Rent (\$78,482): Is rent on the Company's offices in Ortigas, Manila and Vancouver, Canada.
- l) Travel (\$575,257): Is consistent with the increased staffing and related travelling of professionals and management, necessary to ensure the operation the Company's operations in Narra, Palawan. This has resulted in the advancement of permitting for, and development of, an excavation site, camp and assaying facility, and other construction and development on the Company's Alpha property, as well as in the creation of certain future prospects for the Company.

Consistent with the latter half of the previous fiscal year, the Company maintained an increased presence in Manila, with an expanded office and an increase in full time staff for both of the Company's most advanced joint venture companies, Narra Nickel Mining and Development Corp (Alpha), Tesoro Mining and Development, Inc. (Bethlehem) and McArthur Mining Inc. (Rio Tuba properties), and has an increased presence of directors and officers of the Company in the Philippines to facilitate the construction and operation of the Alpha property and deal with corporate matters.

Foreign exchange gains of \$142,584 arose as a result of changes in Canadian, US and Philippine currencies on net financial assets (liabilities) that are required to be maintained by the Company to meet its obligations in the Philippines.

Interest income relates to interest earned on the increase in our outstanding cash balances due to deposits of share subscriptions (see Capital).

FINANCIAL SUMMARY

YEARLY RESULTS	NET LOSS	LOSS PER SHARE	TOTAL ASSETS	LONG TERM LIABILITIES
Year ended January 31, 2008	\$ 10,430,160	\$ 0.15	\$ 24,370,729	\$ 265,191
Year ended January 31, 2007	\$ 2,556,059	\$ 0.05	\$ 12,598,924	\$ 1,166,259
Year ended January 31, 2006	\$ 996,111	\$ 0.03	\$ 3,303,520	\$ 211,467

Quarterly Results	Q-1	Q-2	Q-3	Q-4
2008				
Net loss	\$ (749,438)	\$(3,895,230)	\$ (3,056,420)	\$(2,729,072)
Basic loss per share	\$ (0.01)	\$ (0.06)	\$ (0.04)	\$ (0.04)
2007				
Net loss	\$ (254,244)	\$ (371,075)	\$ (1,023,666)	\$ (907,074)
Basic loss per share	\$ (0.01)	\$(0.01)	\$ (0.02)	\$ (0.02)

As the Company is in the development stage, variances in its quarterly losses are not affected by sales or production-related factors. Variances by quarter reflect overall corporate activity and are also impacted by factors which are not recurring each quarter.

CAPITAL RESOURCES AND LIQUIDITY

As at January 31, 2008, the Company had working capital of \$6,512,765 versus \$6,966,386 in the previous year. During the year, \$15,603,986 of cash was raised from financing activities (private placements, exercises of warrants and options, net of financing fees). Moreover, the Company's share of proceeds from the sale of nickel material was \$1,977,225. These proceeds were expended on administrative and other operations (\$5,304,149), the exploration and development of the Company's properties (\$10,248,090), purchases of property and equipment (\$2,880,584), land (\$450,794) and the financing of a life of mine purchase agreement (\$394,175).

The accumulated deficit increased to \$24,139,722 from \$13,709,562 in the previous year. Losses for the year are discussed above in "Operating Activities".

Cash used in operating activities increased from \$1,822,789 in 2007 to \$5,304,149 in 2008 primarily as a result of an increase in the Company's operating activities as well as investment in stockpile inventory and refundable deposits (related to shipping operations). Significant items causing the increase in operating loss over the year are discussed above. Items of note include increases in administration, legal and accounting, consulting and communications, office and miscellaneous, and travel. All of these are associated with ongoing increases in activities on the Company's Philippine properties.

Cash flows used in investing activities in 2008 were \$11,996,418 compared to \$2,903,225 in the prior year. Costs associated with mineral exploration and acquisitions increased year over year due to a better treasury position providing enough capital to make acquisitions and to conduct planned exploration. Most exploration and property and equipment acquisitions in the current year are on the Company's Alpha property. Refer Investment in Mineral Exploration and Development above. Cash expenditures and advances on mineral properties were \$10,248,090 in 2008 versus \$2,818,288 in 2007.

FINANCIAL AND OTHER INSTRUMENTS

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of financial instruments has been determined as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

a) Current assets and current liabilities

The fair value of financial instruments included in current assets and liabilities approximates their carrying amount due to their short-term nature.

b) Investments and other assets

The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

The carrying value of notes receivable in this category approximates their fair value due to the fact that interest rates are based upon market rates for similar loans in the Philippines.

c) Convertible long-term debt

The carrying value of loans approximates their fair value because interest charges under the terms of the loans are based upon current Canadian bank prime and bankers' acceptance rates and on LIBOR rates.

d) Asset retirement obligations

Retirement obligations approximate fair value as the future obligations are determined annually and are discounted using Philippine credit adjusted prime rates of interest.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company is exposed to interest rate risk on its variable rate deposits and has not engaged in any interest rate hedging activity during the period ending January 31, 2008. The Company is exposed to interest rate risk on its long-term note receivable and does not currently hold any financial instruments that mitigate this risk. Management does not believe that this risk is significant due to the fixed rate nature of the long-term note.

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and accounts receivable. The cash equivalents consist mainly of short-term money market deposits. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The Company has accounts receivable from clients engaged in the steel and manufacturing industries, and are not concentrated in any specific geographic area. These specific industries may be affected by economic factors which may impact accounts receivable. Management mitigates the credit risk associated with the concentration on few industries by limiting its credit exposure on the fair value of each shipment, receiving most funds on loading of the buyer's ship. The Company receives letters of credit with reputable financial institutions up to the fair value of each shipment. There were no letters of credit outstanding at January 31, 2008. Management does not believe that any single geographic region represents significant credit risk. The Company is at risk for environmental issues and fluctuations in commodity pricing. For the year ended January 31, 2008, management believes that this risk is minimal.

The functional currency of the Company is the Canadian dollar. The Olympic, Alpha and Samar Groups report to the Company in Philippine pesos. Sales of nickel material are denominated in US dollars. This gives rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company mitigates its risk to fluctuations in the Philippine peso by maintaining minimal cash balances in Philippine pesos. The Company is exposed to fluctuations between the U.S. and Canadian dollars as many of its property related commitments are denominated in U.S. dollars. Net financial assets of the Company denominated in Philippine Pesos and U.S. dollars (presented in Canadian dollars) at January 31, 2008 were PHP51,419,874 (\$1,275,737) and U.S.\$1,035,270 (\$1,037,548), respectively.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company's President (CEO) and CFO have elected to certify its annual filings under the venture issuer basic certificate.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the venture issuer basic certificate, which requires the Company's President (CEO) and CFO to certify the following:

- i) that they have reviewed the annual financial statements and annual MD&A, including for greater certainty all documents and information that are incorporated by reference in the annual filings of the Company for the fiscal year;
- ii) that, having exercised reasonable diligence, the annual filings do not contain any untrue statement of a 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 was made for the fiscal year;
- iii) that, having exercised reasonable diligence, the annual financial statements together with the other financial information included in the annual filings 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 in the annual filings.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in MI 52-109 may result in additional risks to the quality, reliability, transparency, and timeliness of interim and annual filings and other reports provided under securities legislation.

In contrast to the disclosures required under Multilateral Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (MI 52-109), this MD&A does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in MI 52-109.

The certifying officers filing this MD&A are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation;
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Company's GAAP.

However, management of the Company wish to provide additional disclosure in this management's discussion and analysis regarding the condition of the design of the Company's internal control over financial reporting in view of certain weaknesses that were identified by management. While management believes that control over bank accounts and Company assets is adequate, it is also aware that internal control weaknesses were identified in respect of a lack of segregation of duties, and a high risk of management override of controls and procedures. It is management's opinion that these weaknesses in internal controls over financial reporting are inherently related to the small size of the issuer. Moreover, management noted some areas of weakness in the internal controls over financial reporting in the Company's Philippine operations. In the past year the activity in the Philippines has increased significantly. Management is continually updating its systems to address the ongoing evolution of the Company's activities, has retained the services of a full time financial controller in the

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

Philippines and is committed to improving its internal controls over financial reporting in the Philippines to reduce the risk of material misstatement. To date, management has designed and implemented controls & conducted procedures to ensure that the risk of a significant misappropriation of resources is kept to an acceptably low level.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires the Company to select from possible alternative accounting principles, and to make estimates and assumptions that determine the reported amounts of assets and liabilities at the balance sheet date and reported costs and expenditures during the reporting period. Estimates and assumptions may be revised as new information is obtained, and are subject to change. The Company's accounting policies and estimates used in the preparation of the Financial Statements are considered appropriate in the circumstances, but are subject to judgments and uncertainties inherent in the financial reporting process.

Management has determined that the Company is in the development stage. This requires management to make assumptions as to when the Company will reach commercial production, particularly assumptions regarding sustainable and feasible production levels, resource estimations and market conditions.

Property acquisition costs and related direct exploration costs may be deferred until the properties are placed into production, sold, abandoned, or written down, where appropriate. The Company's accounting policy is to capitalize exploration costs consistent with Canadian GAAP and applicable guidelines for exploration stage companies. The policy is consistent with other junior exploration companies which have not established mineral reserves objectively. An alternative policy would be to expense these costs until sufficient work has been done to determine that there is a probability a mineral reserve can be established; or alternatively, to expense such costs until a mineral reserve has been objectively established. Management is of the view that its current policy is appropriate for the Company at this time. This requires management to make critical assumptions of future events and circumstances, in particular, that each of the properties will reach a full scale permit status, that a market exists for the sale of nickel material, and that reserves can be established at market prices that exceed the cost of extracting the underlying resources. Based on annual impairment reviews made by management, or earlier if circumstances warrant, in the event that the long-term expectation is that the net carrying amount of these capitalized exploration costs will not be recovered, then the carrying amount is written down accordingly and the write-down charged to operations. A write-down may be warranted in situations where a property is to be sold or abandoned; or exploration activity ceases on a property due to unsatisfactory results or insufficient available funding.

Significant estimates are made in respect of the Company's asset retirement obligations. The Company's proposed mining and exploration activities are subject to various laws and regulations for federal, regional and provincial jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures to comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of mining property, plant and equipment. At January 31, 2008 the Company has developed its Alpha property and, in respect of this property, has incurred a reclamation obligation of PHP13,440,000 (approximately \$327,805 - discounted per Note 6). The Company has only performed exploratory work on its other mineral properties, and has not incurred significant reclamation obligations. No asset retirement obligation accrual was made in these financial statements in respect of the Samar, or Olympic properties.

Another significant estimate relates to accounting for stock-based compensation. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's

stock options granted/vested during the period. Unlike other figures in the accounts, this is a calculated amount not based on historical cost, but on subjective assumptions introduced to an option pricing model, in particular: (1) an estimate for the average future hold period of issued stock options before exercise, expiry or cancellation and (2) future volatility of the company's share price in the expected hold period (using historical volatility as a reference). The resulting value calculated is not necessarily the value which the holder of the option could receive in an arm's length transaction, given that there is no market for the options and they are not transferable.

Stockpile inventories are valued at the lower of cost and net realizable value. The estimation of realizable value requires management to make critical assumptions of future events and circumstances, in particular, that a market exists for the sale of nickel material, a reasonable estimation of the cost to sell the material, and that the material (less cost to sell) can be sold at or greater than the cost to extract the underlying resources. Based upon annual impairment analyses, if management determines that the cost to extract stockpile inventories is greater than the value realized then the inventory is written down accordingly and the write-down is charged to operations.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements. Commitments are outlined in Note 14 of the consolidated financial statements.

CONTINGENCIES

The Company is aware of certain cases involving its joint ventures concerning the legitimacy of tenure over the Company's Philippine mineral properties. All of the cases have been raised on a similar premise and can be broadly categorized as follows:

- a) Cases questioning the Company's qualification to own mining interests in the Philippines.

These cases are premised on the question under the Philippine Mining Act (1995) (the "Mining Act") as to qualification of the Company's joint venture companies as "Filipino corporations". The Company believes that the ownership of each of the Philippine joint venture corporations is consistent with accepted practice in the Philippines, namely that the Mining Act considers only the maximum 40% direct foreign ownership interest of each of the joint venture companies. These cases have been brought against the Company through the federal and provincial regulatory boards. The right of appeal exists for both parties to the Supreme Court. All cases are awaiting resolution at this time. In respect of these cases, an order (the "Status Quo Order") has been issued by a regional panel of arbitrators (the "PA"), which limits the Company's ability to further the full-scale permitting process until all legal issues raised have been finally resolved in favor or against any of the parties.

Additionally, in December 2007, the PA issued a resolution ruling in favor of the plaintiff declaring the Company to be invalid to apply for a mineral production sharing agreement permit (an "MPSA") and giving due course to the exploration permit applications by the plaintiff. The Company filed an appeal with the federal board subsequent to year end and believes that its Samar and Palawan properties (the subject properties in this action) remain untainted. The Palawan properties are subject to an FTAA permit application (Note 4), and two of the four Samar properties are the subject of an exploration permit (EP), not an MPSA. Under the Mining Act, even a foreign corporation is able to wholly own an FTAA and EP. The appeal awaits resolution at this time.

- b) Case concerning the environmental sustainability of mining operations on the Company's Alpha property.

The Company has obtained all requisite permits associated with its Alpha operation, including those for environmental compliance and believes the case has no merit.

RELATED PARTY TRANSACTIONS

Several Directors of the Company supply administrative, geological services and legal services to the Company at arm's length rates under existing renewable contracts. Details of these related party

MANAGEMENT'S DISCUSSION AND ANALYSIS

for the Year Ended January 31, 2008

transactions and recorded amounts and balances outstanding at the period end are identified in Note 7 in the Financial Statements.

OUTSTANDING SHARE DATA

The Company has one class of common shares. As at January 31, 2008 the Company had 78,611,045 shares outstanding. As at May 30, 2008, there were 78,611,045 common shares; 17,125,845 warrants; and 5,547,500 stock options outstanding.

SUBSEQUENT EVENTS

Subsequent events not disclosed elsewhere in this MD&A are as follows:

- a) Effective March 1, 2008, administration services contracts with two directors for a total of US\$22,500 per month were renegotiated and replaced with month to month administration services of US\$4,167 and \$4,167 (Canadian funds) per month respectively.
- b) On May 27, 2008, the Company granted a total of 150,000 options to acquire common shares for \$0.80 until May 12, 2011.

INDUSTRY RISKS

The Company is in the mineral exploration and development business and as such is exposed to a number of risks and uncertainties that are common to other companies in the same business. Some of the possible risks include the following:

- a) The industry is capital intensive and subject to fluctuations in metal prices, market sentiment, foreign exchange and interest rates.
- b) The main source of future funds for further exploration and development programs, or if such exploration programs are successful for the development of economic ore bodies and commencement of commercial production thereon, which are presently available to the Company are the sale of equity capital or the offering by the Company of an interest in its properties, but there is no assurance that such sources will be available on acceptable terms in the future.
- c) As with all mining projects worldwide there are various groups including NGO's who oppose the company's plans and progress through legal processes and otherwise. The Company will continue to respond aggressively to these challenges.
- e) The continued operations of the Company require various licenses and permits from various governmental authorities. There is no assurance that the Company will be successful in obtaining the necessary licenses and permits to continue its exploration and development activities in the future.
- f) The Company has not completed a feasibility study on any of its deposits to determine if it hosts a mineral resource that can be economically developed and profitably mined.

OTHER INFORMATION:

Additional information is available on the Company's website at www.mbmresources.com or on SEDAR at www.sedar.com.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS:

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

Management maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of relevant and timely information.

Consolidated Financial Statements

MBMI Resources Inc.
(A Development Stage Company)

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EXPLORE

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DEVELOP

SUPPLY

AUDITORS' REPORT



To the Shareholders,
MBMI Resources Inc.

We have audited the consolidated balance sheets of MBMI Resources Inc. as at January 31, 2008 and 2007 and the consolidated statements of operations and comprehensive loss, shareholders' equity 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 January 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
May 28, 2008

Ernst & Young LLP

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

(Stated in Canadian Dollars)

AS AT JANUARY 31	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 5,276,007	\$ 6,972,588
Receivables	810,566	122,781
Prepaid expenses and refundable deposits	635,793	22,610
Inventory (Note 2)	582,431	—
Marketable securities (Note 3)	25,110	25,110
	7,329,907	7,143,089
Mineral properties and deferred exploration costs (Notes 4 and 6)	13,499,158	5,368,528
Long-term note receivable (Note 4(d))	394,175	—
Property, plant and equipment (Notes 5 and 7(b))	3,147,489	87,307
	\$ 24,370,729	\$12,598,924
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 746,275	\$ 138,094
Due to related parties (Note 7(b))	70,867	38,609
	817,142	176,703
Asset retirement obligations (Note 6)	189,194	—
Convertible long-term debt (Note 12)	—	1,151,079
Future income tax liability (Note 14)	75,997	15,180
	1,082,333	1,342,962
Shareholders' Equity		
Common shares (Note 8)	31,404,843	19,765,975
Contributed surplus	16,023,275	5,219,149
Share subscriptions receivable (Note 8)	—	(19,600)
Deficit accumulated in the development stage	(24,139,722)	(13,709,562)
Accumulated other comprehensive income (loss)	—	—
	23,288,396	11,255,962
	\$ 24,370,729	\$12,598,924

Approved by the Board:

"Michael T. Mason" Director

"David G. Tafel" Director

Commitments (Notes 4 and 16)**Contingencies** (Note 17)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Stated in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31	2008	2007
General and administrative expenses		
Administration (Notes 7(a) and 7(c))	\$ 607,907	\$ 330,120
Accretion expense (Notes 6 and 12)	111,138	50,943
Amortization (Note 5)	36,182	6,025
Project consulting and communications (Note 7(c))	1,133,072	461,487
Duties and taxes	108,352	7,152
Financing fees (Note 12)	34,100	24,974
Foreign exploration	253,324	61,053
Insurance	94,427	10,647
Legal and accounting (Notes 7(a) and 7(c))	1,193,951	263,588
Office and miscellaneous	778,338	106,901
Rent	78,482	30,899
Stock option compensation (Notes 9 and 10)	5,526,404	858,939
Telephone	51,613	36,309
Transfer agent and filing	66,389	78,924
Travel	575,257	244,410
	(10,648,936)	(2,572,371)
Other income (expenses)		
Foreign exchange gain	142,584	45,955
Interest and other income	178,201	11,983
Gain on dilution of Investment in Garson Resources Ltd. (Note 3)	—	3,859
Interest expense (Note 12)	(41,192)	(3,130)
Share of equity investee's loss (Note 3)	—	(55,757)
Net loss for the year before income tax recovery	(10,369,343)	(2,569,461)
Income tax (expense) recovery (Note 14)	(60,817)	13,402
Net loss for the year	(10,430,160)	(2,556,059)
Other comprehensive income (loss)	—	—
Comprehensive loss for the year	\$ (10,430,160)	\$ (2,556,059)
Loss per share - basic and diluted (Note 8)	\$ (0.15)	\$ (0.05)
Weighted average shares outstanding	69,208,873	48,190,823

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Stated in Canadian Dollars)

	SHARE CAPITAL		CONTRIBUTED SURPLUS	SUBSCRIPTIONS RECEIVABLE	DEFICIT ACCUMULATED IN THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
	SHARES	AMOUNT				
Balance, February 1, 2007	58,847,276	\$ 19,765,975	\$ 5,219,149	\$ (19,600)	\$(13,709,562)	\$ 11,255,962
Issued on the exercise of warrants	3,131,337	2,961,128	—	—	—	2,961,128
Fair value of warrants exercised	—	680,866	(680,866)	—	—	—
Issued on the exercise of stock options	1,127,500	280,550	—	—	—	280,550
Fair value of options exercised	—	553,059	(553,059)	—	—	—
Issued by private placement, net of issuance costs of \$683,441	13,297,547	12,352,309	—	—	—	12,352,309
Fair value of warrants issued	—	(6,745,592)	6,745,592	—	—	—
Issued on the conversion of convertible long-term debt, net of financing fees of \$170,498 (Note 12)	2,207,385	1,322,698	—	—	—	1,322,698
Stock based compensation	—	—	5,526,404	—	—	5,526,404
Fair value of equity rights on conversion of convertible debt (Note 12)	—	233,850	(233,945)	—	—	(95)
Subscriptions received	—	—	—	19,600	—	19,600
Net loss for the year	—	—	—	—	(10,430,160)	(10,430,160)
Balance, January 31, 2008	78,611,045	\$31,404,843	\$16,023,275	\$ —	\$(24,139,722)	\$23,288,396

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Stated in Canadian Dollars)

	SHARE CAPITAL SHARES	AMOUNT	CONTRIBUTED SURPLUS	SUBSCRIPTIONS RECEIVABLE	DEFICIT ACCUMULATED IN THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Balance, February 1, 2006	42,337,800	\$12,063,463	\$1,794,682	\$ (5,000)	\$(10,904,518)	\$ 2,948,627
Issued on the exercise of warrants	3,639,500	971,996	—	—	—	971,996
Issued for acquisition option on Samar exploration properties (Note 4)	876,691	324,376	—	—	—	324,376
Issued on the exercise of stock options	25,000	2,279	—	—	—	2,279
Fair value of options exercised	—	37,270	(37,270)	—	—	—
Issued by private placement, net of issuance costs of \$743,709	11,968,285	8,489,891	—	(19,600)	—	8,470,291
Fair value of warrants issued	—	(2,123,300)	2,123,300	—	—	—
Stock option compensation	—	—	858,939	—	—	858,939
Fair value of equity rights in convertible debt issued	—	—	529,850	—	—	529,850
Financing fees on convertible debt (Note 12)	—	—	(50,352)	—	—	(50,352)
Subscriptions received	—	—	—	5,000	—	5,000
Dividends paid (Note 3)	—	—	—	—	(248,985)	(248,985)
Net loss for the year	—	—	—	—	(2,556,059)	(2,556,059)
Balance, January 31, 2007	58,847,276	\$19,765,975	\$5,219,149	\$(19,600)	\$(13,709,562)	\$11,255,962

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

MBMI RESOURCES INC. (A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Stated in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31	2008	2007
Cash flows provided by (used in) operating activities		
Net loss for the year	\$ (10,430,160)	\$ (2,556,059)
Non-cash items:		
Income tax expense (recovery)	60,817	(13,402)
Amortization	36,182	6,024
Accretion expense	111,138	50,943
Financing fees	34,100	24,974
Stock option compensation	5,526,404	858,939
Interest on convertible debt	38,888	—
Gain on dilution of equity investment	—	(3,859)
Share of equity investee's loss	—	55,757
Unrealized foreign exchange loss	—	1,155
	(4,622,631)	(1,575,528)
Changes in non-cash working capital		
Receivables	(144,253)	(60,412)
Prepaid expenses and refundable deposits	(613,183)	(20,673)
Inventory	(582,431)	—
Accounts payable and accrued liabilities	610,255	(10,524)
Due to related parties	32,258	28,388
Long term payables	—	(184,040)
	(5,304,149)	(1,822,789)
Cash flows provided by financing activities		
Proceeds from convertible debt, net of financing fees	—	1,570,075
Net proceeds from issuance of common shares and share subscriptions, net of issue costs	15,603,986	9,449,565
	15,603,986	11,019,640
Cash flows provided by (used in) investing activities		
Payments to acquire land	(450,794)	—
Payments to acquire property, plant and equipment	(2,880,584)	(84,937)
Expenditures and advances on mineral properties	(10,248,090)	(2,818,288)
Advances on life of mine agreement	(394,175)	—
Cash received on sales in the development stage	1,977,225	—
	(11,996,418)	(2,903,225)
(Decrease) Increase in cash and cash equivalents	(1,696,581)	6,293,626
Cash and cash equivalents, beginning of year	6,972,588	678,962
Cash and cash equivalents, end of year	\$ 5,276,007	\$ 6,972,588

Supplemental cash flow information (Notes 15)

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

(Stated in Canadian Dollars)

FOR THE YEARS ENDED JANUARY 31	2008	2007
Mineral property costs		
Acquisitions, property maintenance and option payments (Note 4)	\$ 570,944	\$ 459,264
Exploration and development costs		
Assays, sampling and metallurgical test fees	17,065	75,144
Camp and supplies	42,417	46,100
Consulting	19,819	3,757
Core logging	—	2,852
Drilling	565,736	172,698
Equipment	198,048	—
Foreign exchange loss (gain)	(38,067)	—
Freight & transportation	297	875
Geological consulting	37,073	—
Geophysical & surveying	95,313	55,243
Helicopter and automobile	134,547	141,174
Laboratory management	3,470	26,505
Repairs and maintenance	9,085	959
Travel and other	11,969	60,667
Wages and salaries	85,657	140,542
	1,182,429	726,516
Mine capital costs	861,621	67,590
Plant capital costs	113,256	210,066
Surface facilities and structures	459,601	224,018
Pre-production costs:		
Fuel and oil	295,332	—
Shipping	1,157,861	—
Mining and laboratory supplies	196,310	—
Direct other pre-production costs	445,859	—
Asset retirement costs (Note 6)	184,120	—
	5,467,333	1,687,454
Advances to joint ventures	5,199,890	1,455,210
	10,667,223	3,142,664
Revenues earned in the development stage	(2,536,593)	—
	8,130,630	3,142,664
Mineral properties and deferred exploration costs, beginning of year	5,368,528	2,225,864
Mineral properties and deferred exploration costs, end of year	\$ 13,499,158	\$ 5,368,528

The accompanying summary of significant accounting policies and notes are an integral part of these consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

January 31, 2008 and 200 (Stated in Canadian Dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

The Company is incorporated under the laws of the Province of British Columbia and is engaged in the acquisition, exploration, and development of mineral properties. Currently, the Company is exploring its eight Philippine properties held within the "Olympic", "Alpha", and "Samar" joint ventures and is developing its Alpha property. The Company's shareholdings in Garson Resources Ltd. ("Garson", formerly Tri-Energy Inc.) which holds three Canadian mineral properties, have been distributed by way of dividend to the Company's shareholders (Note 3). The Company has earned revenues from its exploration and development activities on the Alpha property (Note 4) and is considered to be in the development stage.

As of April 23, 2007 the Company's Philippine venture was granted three (3) permits to conduct Small Scale Mining Operations on the Alpha Nickel Project which allows the excavation and sale of nickel laterite material on a limited basis of up to 150,000 metric tons per year (50,000 metric tons per permit) for a period of two years.

Current and planned exploration and development activities are being conducted in the Philippines (Note 4). The Company's main properties are the Alpha Properties (the "Alpha Group") which is located adjacent to the Company's Bethlehem Property (held in the "Olympic Group"), the "Rio Tuba" (Mt Bulangao and Malatgao) properties (also held in the "Olympic Group"), and, four properties in the Samar region of the Philippines (the "Samar Group").

The Company is focused on identifying and developing high-grade zones which can support the potential Direct Shipping Operations (DSO).

Ability to Continue as a Going Concern

The ability of the Company to realize its assets and meet its financial obligations and commitments is dependent upon the ability of the Company to source appropriate exploration properties satisfactory to its investors and, thereafter, upon the existence of economically recoverable reserves, maintaining interest in such properties, obtaining the necessary financing to search and acquire and meet exploration commitments on the properties and upon future profitable operations or proceeds from the disposition of the properties.

At January 31, 2008, the Company has incurred an accumulated deficit at January 31, 2008 of \$24,139,722. At January 31, 2008, the Company has working capital of \$6,512,765. Without additional sources of funding the Company may be unable to meet its obligations as they fall due and complete planned exploration and development of its mineral properties. Management is actively pursuing additional financing but there is no assurance that additional funding will be available in the future. In the event that additional financing or an alternative source of funding is not obtained, there is substantial doubt about the ability of the Company to continue as a going concern.

These consolidated financial statements have been prepared on a going concern basis, which assumes the Company will be able to realize assets and discharge liabilities and commitments in the normal course of business for the foreseeable future. These consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to continue as a going concern.

Basis of Consolidation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada and include the accounts of the Company, Garson (reduced to an equity method investment in October 2005 and to a short-term investment on September 25, 2006 - below, Note 3), and on a proportionate consolidation basis, the accounts of the Olympic, Alpha, and Samar Philippine Groups. Moreover, from April 11, 2007, the accounts of a wholly

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

Basis of Consolidation (Continued)

owned subsidiary, MBMI Resources (Hong Kong) Limited ("MBMI HK"), and, from July 19, 2007, MBMI Resources

Philippines Inc. are fully consolidated in these financial statements. Both were incorporated by the Company. All intercompany balances and transactions are eliminated on consolidation.

At January 31, 2008, all of the Company's exploration and development activities are conducted through joint ventures.

Investment in Garson Resources Ltd.

The Company retained a significant influence over the financing, operating and investing activities of Garson from October 31, 2005 and until the Company's shares in Garson were distributed by way of stock dividend to its shareholders on September 25, 2006. Hence, between November 1, 2005 and September 25, 2006, the Company accounted for its investment in Garson using the equity method. Under the equity method, the Company includes its proportionate equity interest of earnings (losses) of Garson in its financial statements.

Currently, the Company holds its residual investment in Garson as a short-term investment, which is carried at market value. Restatements of the fair value of this investment are included in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term highly liquid investments readily convertible to cash, or with a maturity of 90 days from purchase or less.

Joint Ventures

The Olympic, Alpha, and Samar Groups consist of ownership interests in various mining ventures engaged in the acquisition, exploration and development of mineral properties in the Philippines.

a) Olympic Group

The Olympic Group consists of the Bethlehem, Mt. Bulanjao and, Malatgao properties. Through agreements with various Philippine companies, the Company holds directly and indirectly a 60% effective equity interest in the Olympic Properties. Pursuant to shareholders' agreements, the Company holds joint control over the companies in the Olympic Group and has the right to earn up to 100% subject to a 5.5% net revenue royalty, and subject to meeting certain conditions and milestones.

b) Alpha Group

Through a joint venture agreement with a Philippine company, the Company holds directly and indirectly a 60% effective equity interest in the Alpha Property. Pursuant to shareholders' agreements, the Company holds joint control over the companies in the Alpha Group and has the ability to earn up to 100% subject to a 5.5% net revenue royalty, and subject to meeting certain conditions and milestones.

c) Samar Group

The Samar Group consists of the Homonhon, Gen. McCarthur; Borongan-Maydolong and Giporlos properties.

Under a joint venture agreement the Company holds directly and indirectly an effective 64% equity interest in the Samar Properties. Pursuant to shareholders' agreements, the Company holds joint control over the companies in the Samar Group and has the ability to earn up to 92% interest in the properties subject to meeting certain conditions.

The Olympic, Alpha, and Samar Groups have been accounted for in the Company's consolidated financial statements using the proportionate consolidation basis, whereby the Company records

Joint Ventures (Continued)

on a line by line basis its proportionate share of the assets, liabilities, revenues and expenses of the investees. All intercompany balances and transactions are eliminated on consolidation.

Marketable Securities

Marketable securities are recorded at fair value, which is based upon the market value of the securities. Unrealized changes in the fair value of securities is recorded in other comprehensive income.

Property, Plant and Equipment

Property, plant and equipment held in the Company's administrative offices is recorded at cost less accumulated amortization charged on a declining-balance basis over their estimated useful lives.

Property, plant and equipment held at the Company's operating sites is recorded at cost and carried net of depreciation. Mobile and other equipment is amortized, net of residual value, using the straight-line-method, over the estimated productive life of the asset, as follows:

Mining equipment	5 years
Communication equipment	5 years
Furniture and equipment	2-5 years
Automotive equipment	3-5 years
Computer equipment	3-5 years
Leasehold improvements	2-5 years

Site buildings, plant and fixed equipment used in carrying out the project activities are amortized using the unit-of-production ("UOP") method over the estimated life of the ore body based upon recoverable values to be mined from estimated proven and probable reserves, once determined. Repairs and maintenance expenditures are expensed as incurred. Expenditures that extend the useful lives of existing facilities or equipment are capitalized and amortized over the remaining useful life of the related asset.

Mineral Properties and Deferred Exploration Costs

The amounts recorded as mineral properties and deferred exploration costs represent exploration, development and associated activity costs incurred to date and are not intended to reflect present or future values. These costs are deferred until the discovery of economically exploitable reserves and the startup of the production phase on a property by property basis or until the property is abandoned. Mineral properties are abandoned when management allows property interests to lapse or when they determine that properties are not economically viable. Costs accumulated relating to projects that are abandoned are written off in the year in which a decision to discontinue the project is made. Proceeds received on the sale or option of the Company's properties are recorded as a reduction of the mineral property cost. The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

When it has been determined that a mineral property can be economically developed as a result of establishing proven and probable reserves, costs incurred prospectively to develop the property are capitalized as incurred and are amortized using the UOP method over the estimated life of the ore body based upon recoverable ounces to be mined from estimated proven and probable reserves.

The Company is in the development stage and, hence, commercial production has not yet commenced. Commercial production occurs when an asset or property is substantially complete, is fully permitted and ready for its intended use. No amortization has been charged in these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

Mineral Properties and Deferred Exploration Costs (Continued)

On a periodic basis, senior management reviews the carrying values of mineral properties and deferred exploration expenditures with a view to assessing whether there has been any impairment in value. In the event that it is determined there is an impairment in the carrying value of any property, the carrying value will be written down or written off, as appropriate. There was no impairment write-down required at January 31, 2008.

Foreign Currency Transactions and Translation

The Company's interests in its foreign exploration ventures are treated as integrated foreign operations. Accordingly, foreign currency transactions and balances are translated into Canadian dollars as follows:

- a) monetary items are translated at the exchange rate prevailing at the balance sheet date;
- b) non-monetary items are translated at historical exchange rates;
- c) revenue and expense items are translated at the average rate of exchange for the year in which they were incurred; and
- d) exchange gains and losses arising from translation are included in the determination of net earnings for the year in which they were incurred.

Foreign Currency Risk

The functional currency of the Company is the Canadian dollar. The Olympic, Alpha and Samar Groups report to the Company in Philippine pesos. This gives rise to significant exposure to market risks from changes in foreign currency rates. The financial risk is the risk to the Company's operations that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. Currently, the Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company mitigates its risk to fluctuations in the Philippine peso by maintaining minimal cash balances in Philippine pesos. The Company is exposed to fluctuations between the U.S. and Canadian dollars as many of its property related commitments are denominated in U.S. dollars. Net financial assets of the Company denominated in Philippine Pesos and U.S. dollars (presented in Canadian dollars) at January 31, 2008 were PHP51,419,874 (\$1,275,737) and U.S.\$1,035,270 (\$1,037,548), respectively.

Interest Rate Risk

The Company is exposed to interest rate risk on its long-term note receivable and does not currently hold any financial instruments that mitigate this risk. Management does not believe that this risk is significant due to the fixed rate nature of the long-term note.

Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist of cash equivalents and accounts receivable. The cash equivalents consist mainly of short-term money market deposits. The Company has deposited the cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The Company has accounts receivable from clients engaged in the steel and manufacturing industries, and are not concentrated in any specific geographic area. These specific industries may be affected by economic factors which may impact accounts receivable. Management mitigates the credit risk associated with the concentration on few industries by limiting its credit exposure on the fair value of each shipment, receiving most funds on loading of the buyer's ship. The Company places letters of credit with reputable financial institutions up to the fair value of each shipment. There were no letters of credit outstanding at January 31, 2008. Management does not believe that any single geographic region represents significant credit risk.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Actual

Use of Estimates (Continued)

results could differ from those estimates. Key items in these financial statements subject to significant estimates and assumptions include stock option compensation, the valuation of mineral properties and deferred exploration costs, accounts payable and accrued liabilities, asset retirement obligations, retirement obligations and contingent liabilities. (Notes 4, 6, 10 and 17).

Other judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements are:

Determining Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional of the Company has been determined to be the Canadian dollar, being the source currency of the Company's capital funds.

Recoverability of Mineral Properties and Deferred Exploration Costs

The Company's accounting policy for exploration, evaluation and development expenditure results in certain items of expenditure being capitalized for properties that are considered to be in the development stage, or where costs are known to be recoverable by future exploitation of the property, or from the sale of nickel material. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular, that each of the properties will reach a full-scale permit status, that a market exists for the sale of nickel material, and that reserves can be established at market prices that exceed the cost of extracting the underlying resources. Any such estimates and assumptions may change as new information becomes available.

Revenue Recognition

Revenue is recognized to the extent that revenues can be measured and it is probable that the economic benefits will accrue to the Company. In respect of the sale of nickel material, revenue is recognized when the significant risks and rewards of ownership passes to the buyer. This is determined to be when the material is loaded on to the buyer's vessel.

As the Company is in the development stage, all revenues have been offset against mineral properties and deferred exploration costs in accordance with the recommendations of the Emerging Issues Committee, *EIC 27 "Revenues and Expenditures During the Pre-operating Period"*.

Loss Per Share

The Company uses the "Treasury Stock Method" to calculate loss per common share. Under this method, the basic loss per share is calculated based on the weighted average aggregate number of common shares outstanding during each year. The diluted loss per share assumes that the outstanding stock options and share purchase warrants had been exercised at the beginning of the year.

Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. Future income tax assets are only recognized when it is likely that the associated benefits on loss carry forwards will be realized.

Stock-Based Compensation

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, "Stock-Based Compensation and Other-Stock-Based Payments" establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that all stock-based awards be measured and recognized in these consolidated financial statements using a fair value based

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

Stock-Based Compensation (Continued)

method such as the Black-Scholes option pricing model. The fair value of stock options granted to non-employees is re-measured on each balance sheet date. Compensation expense for options granted to directors, officer and employees is recognized on the date the options vest.

Warrants

Share issuances during the year that include a warrant have been bifurcated into a share and warrant component for accounting purposes. The warrant component is recorded in contributed surplus and is accreted when exercised to share capital.

Asset Retirement Obligation

The Company's proposed mining, development and exploration activities are subject to various laws and regulations for federal, regional and provincial jurisdictions governing the protection of the environment. These laws are continually changing. The Company believes its operations are in compliance with all applicable laws and regulations. The Company expects to make, in the future, expenditures to comply with such laws and regulations but cannot predict the full amount or timing of such future expenditures. Estimated future reclamation costs are based principally on legal and regulatory requirements. Reclamation and remediation obligations arise from the acquisition, development, construction and normal operation of mining property, plant and equipment.

The Company follows the recommendations of CICA Handbook section 3110, "Asset Retirement Obligations" which requires companies to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The obligation will be measured initially at fair value using present value methodology and the resulting costs will be capitalized into the carrying amount of the related asset. In subsequent periods, the liability will be adjusted for any changes in the amount or timing of the underlying future cash flows. Capitalized asset retirement costs will be depreciated on the same basis as the related asset and the discounted accretion of the liability is included in determining the results of operations.

At January 31, 2008 the Company has developed its Alpha property and, in respect of this property, has incurred a reclamation obligation of 13,440,000 Philippine pesos (approximately \$327,805 - discounted per Note 6). The Company has only performed exploratory work on its other mineral properties, and has not incurred significant reclamation obligations. No asset retirement obligation accrual was made in these financial statements in respect of the Samar, or Olympic properties.

Inventory

Inventories classifications include "stockpiled material" and "materials and supplies." All of our inventories are recorded at the lower of cost or net realizable value. The stated value of all inventories include direct production costs and attributable overhead and depreciation, except for materials and supplies inventories.

Stockpiled material represents nickel material that has been extracted from the mine and is ready for further processing, crushing and benefaction. Stockpile ore is measured by estimating the number of tonnes (via truck counts or by physical surveys) added or removed from the stockpile, and the percentage Nickel material and number of contained dry metric tonnes (based on assay data).

Stockpiled material value is based on the costs incurred (including depreciation and amortization) in bringing nickel material to the stockpile. Costs are added to stockpiled material based on current mining costs per tonne and are removed at the average cost per tonne in the stockpile.

Inventory (Continued)

Materials and supplies inventories consist mostly of equipment parts, fuel and lubricants and reagents consumed in laboratory testing and nickel material processing. Materials and supplies are valued at the lower of average cost or replacement cost.

Changes in Accounting Policies

The Company has adopted the following new Handbook Sections issued by the CICA:

- a) Handbook Section 3855, "Financial Instruments — Recognition and Measurement", effective for interim periods beginning on or after October 1, 2006. The Section describes the standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial assets, except for those classified as held-to-maturity, and derivative financial instruments must be measured at their fair value. All financial liabilities must be measured at their fair value if they are classified as held for trading purposes, if not, they are measured at their carrying value. No impact on the Company was identified upon the adoption of this new Section, as the carrying value of financial instruments held by the Company closely approximates their fair value. The Company's financial instruments consist of cash, receivables, marketable securities, refundable deposits, long-term notes receivable, accounts payable, due to related parties and employment retirement benefits. All financial assets, except for those classified as held-to-maturity, and derivative financial instruments are measured at their fair value. All financial liabilities are measured at their fair value if they are classified as held for trading purposes, if not, they are measured at their carrying value. The fair values of these financial instruments, except for marketable securities, the long-term note receivable and employment retirement benefits, approximate their carrying values due to the short term or demand nature of these instruments. The fair value of the long-term note receivable approximates its carrying value due to the fixed rate nature of the note interest. The fair value of marketable securities is disclosed in Note 3.

The Company does not enter into financial instrument contracts to hedge its net investment in foreign subsidiaries, nor does the Company enter into forward contracts to hedge forecasted cash flows denominated in currencies other than the functional currency of its subsidiaries. Moreover, the Company does not hold or use any derivative instruments for trading purposes.

- b) Handbook Section 1530, "Comprehensive Income", and Section 3251, "Equity", effective for interim periods beginning on or after October 1, 2006. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources. It includes items that would normally not be included in net income such as changes in the foreign currency translation adjustment relating to self-sustaining foreign operations and unrealized gains or losses on available for sale financial instruments. This section describes how to report and disclose comprehensive income and its components. Section 3251, "Equity", replaces Section 3250, "Surplus", and describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, "Comprehensive Income". Upon adoption of this Section, these consolidated financial statements includes a statement of equity and comprehensive income.
- c) Handbook Section 3865, "Hedges", effective for interim periods beginning on or after October 1, 2006. This Section describes when hedge accounting is appropriate. Derivatives that qualify as hedging instruments must be designated as either a "cash flow hedge," when the hedged item is a future cash flow, or a "fair value hedge," when the hedged item is a recognized asset or liability. Unrealized gains and losses related to a cash flow hedge are included in other comprehensive income. For a fair value hedge, both the derivative and the hedged item are recorded at fair value in the consolidated balance sheet and the unrealized gains and losses from both items are included in earnings. For derivatives that do not qualify as hedging instruments, unrealized gains and losses are reported in earnings. The Company did not

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

Changes in Accounting Policies (Continued)

enter into any hedging instruments during the period to reduce its exposure to fluctuations in foreign currency or resource prices and the adoption of these standards has no effect on these statements.

New Accounting Pronouncements

Effective February 1, 2008 the Company is required to adopt the following new Canadian accounting pronouncements:

- a) *Assessing going concern – Section 1400*: The Accounting Standards Board (AcSB) amended the Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern.
- b) *Capital disclosures – Section 1535*: This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences.
- c) *Financial Instruments – Sections 3862 & 3863 – Disclosures and Presentation*: These new sections 3862 (on disclosures) and 3863 (on presentation) replace Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. Section 3862 complements the principles recognizing measuring and presenting financial assets and financial liabilities in Financial Instruments. Section 3863 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.

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

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 January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended January 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2008 and 2007 (Stated in Canadian Dollars)

2. INVENTORY

	2008	2007
Nickel material in stockpiles	\$ 582,431	\$ —

There are approximately 90,942 wet metric tonnes of stockpiled nickel material at January 31, 2008.

3. MARKETABLE SECURITIES

At January 31, 2008, the Company has an interest in Garson Gold Corp. (formerly Piper Capital Inc.) ("Garson") of 264,227 common shares, which is held as a short-term investment. The Company obtained the shares in Garson by way of amalgamation of Garson Resources Ltd. and Piper Capital Inc. The Company's 364,451 common shares in Garson Resources Ltd. were consolidated to 264,227 common shares of Garson Gold Corp. The market value of these securities at January 31, 2008 was \$60,772.

Prior to its distribution on September 25, 2006, the Company's 44.91% ownership of Garson was diluted down to 23.33% as a result of various private placements and option exercises in Garson. The dilution resulted in a gain of \$3,859 during the previous fiscal year.

The Company's investment in Garson Resources Ltd. consists of the following:

Balance, January 31, 2006	\$ 325,993
Gain on dilution in equity investment	3,859
Share of losses during the year	(55,757)
Distribution by way of stock dividend	(248,985)
Balance, January 31, 2007 and 2008	\$ 25,110

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

	Philippines								Total
	Olympic Properties				Samar Properties				
	Alpha	Mt. Bulanjao	Malalgao	Bethlehem	Maydolong	Giporlos	Homorhon	Gen. MacArthur	
Balance - February 1, 2006	\$858,973	\$81,581	\$82,397	\$888,883	103,919	\$70,037	\$70,037	\$70,037	\$2,225,864
Additions: Acquisition, property maintenance & option costs	115,807	—	—	82,290	36,631	36,631	36,361	36,361	344,621
Exploration and development costs	2,304,095	30,283	29,466	349,516	11,135	24,516	24,516	24,516	2,798,043
Balance - January 31, 2007	3,278,875	111,864	111,863	1,320,689	151,685	131,184	131,184	131,184	5,368,528
Additions: Acquisition, property maintenance & option costs	145,257	204,193	204,193	17,301	—	—	—	—	570,943
Exploration and development costs	2,454,026	65,216	65,216	55,932	(5,870)	(5,870)	(5,870)	(5,870)	2,616,908
Direct pre-production costs	2,095,362	—	—	—	—	—	—	—	2,095,362
Asset retirement costs	184,120	—	—	—	—	—	—	—	184,120
Revenue earned in the development stage	(2,536,593)	—	—	—	—	—	—	—	(2,536,593)
Advances to joint venture partners	4,057,314	205,119	205,119	657,428	18,728	18,728	18,728	18,728	5,199,890
Balance - January 31, 2008	\$9,678,361	\$586,391	\$586,390	\$2,051,350	\$164,542	\$144,041	\$144,041	\$144,041	\$13,499,158

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (CONTINUED)

a) Olympic Properties

On September 9, 2004, the Company and Olympic Mines & Development Corporation (“Olympic”) entered into a series of agreements including a Property Purchase and Development Agreement (the Transaction Documents) with respect to three nickel laterite properties in Palawan, Philippines (the “Olympic Properties”). The Transaction Documents effectively establish a joint venture between the Company and Olympic for purposes of developing the Olympic Properties. The Company holds directly and indirectly an initial 60% interest in the joint venture.

The Company has determined that each of the properties shall be advanced to production status, and paid the remaining US\$520,000 (\$564,158) property payments and has applied for an FTAA.

After the point of a mine feasibility study, and should Olympic fail to make any required capital contributions, then, with their consent, and subject to compliance with Philippine Law, Olympic could be diluted to a 5.5% net revenue return royalty. On June 13, 2007, the Company negotiated a modification to the Olympic Agreements. The modification gives the Company the right to increase its direct and indirect interest above the current 60% when the Company is issued a Financial and Technical Assistance Agreement (“FTAA”), or decides to allocate a portion of its interest to a qualified Philippine Partner(s). As a result of this modification, Olympic shall retain a 5.5% net revenue return royalty. As consideration for this modification, the Company paid PHP4,500,000 (\$109,806). On September 18, 2007, the Olympic group assigned their interest in the Olympic properties to an unrelated party. In order to affect this transfer the Company paid an incentive fee of US\$75,000 (\$78,592).

b) Alpha Property

On May 24 2005, the Company and Palawan Alpha South Development Corporation (“Alpha”) entered into a series of agreements including a Property Purchase and Development Agreement (the Transaction Documents) with respect to the “Alpha” nickel laterite property in Palawan, Philippines (the “Alpha Property”). The Transaction Documents effectively establishes a joint venture for purposes of developing the Alpha Property. The Company is entitled to hold directly and indirectly an initial 60% interest in the joint venture. The Company maintained its interest in the joint venture by making a total of US\$250,000 (approximately \$250,000 - paid) in property payments on a phased basis and by financing exploration and development costs through to production. The Company has advanced the Alpha property to production status, and has now completed the full US\$250,000 (approximately \$270,000) in property payments.

On April 23, 2007, the Company’s Philippine venture was granted all requisite mining, and environmental permits to commence development and mining on the Alpha nickel property in Narra, Palawan, Philippines, under a Small Scale Mining Operation (“SSMO”) permit. This allows the Company to extract a total of 300,000 dry metric tonnes over the two year life of the SSMO permit, which expires in August, 2008.

The Company’s joint venture, Narra Nickel Mining and Development Company, has applied for an FTAA.

On June 19, 2007 the Company negotiated a modification to the Transaction Documents in respect of the Alpha Property.

The modification gives the Company, the right to increase its direct and indirect interest from the current 60%, while Alpha shall retain a 5.5% net revenue return royalty, upon the issuance of a Financial and Technical Assistance Agreement (“FTAA”), or the Company’s decision to allocate interest to a qualified Philippine Partner(s).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COST (CONTINUED)

c) Samar Properties

The Company entered into a Memorandum of Agreement ("MOA") with Falcon Ridge Resources Management Corporation ("Falcon Ridge") of the Philippines on April 9, 2005, revised June 14, 2005, and July 20, 2005, through which the Company can maintain up to a 92% interest in four properties located in Samar, Philippines. The Company will initially hold directly and indirectly a 64% interest and will have an exclusive option, under certain circumstances, for a period of 10 years to earn up to a 92% interest. The modified MOA contemplates entering into a joint venture, which will be structured in a series of phases. The Company can maintain its interest in the joint venture by making a total of US\$208,000 (approximately \$208,000) in property payments per property on a phased basis and by financing exploration costs through to production.

The Company has made total property payments of US\$140,000 (approximately \$165,000), including an advance of US\$18,000 (approximately \$23,000), to maintain its interest in the properties pursuant to the final agreement.

On March 2, 2006 the Company received TSX Venture Exchange approval for a definitive joint venture agreement entered into between the Company and Falcon Ridge. On March 13, 2006, the Company issued 876,691 common shares and 438,345 warrants (exercisable at \$0.65 per warrant for a period of two years) in connection with this transaction.

d) Life of Mine Purchase Agreement

On June 6, 2007, the Company entered into a long-term Purchase Agreement for Nickel Material in regards to a nickel project on Dinagat Island, Philippines held by a private Philippine company. A facility of up to US\$1 million has been made available to the counterparty, of which \$394,175 has been drawn down for exploratory and permitting expenditures before year end. Advances are included in long-term notes receivable.

The counterparty agrees to repay these advances from the net proceeds of sale of nickel material from the property. The Company will provide financial and technical services; marketing and transaction services with respect to the liquidation of the mineral products produced. In return for the provision of the facility, the Company will receive a return based upon the operating profit of the counterparty, after loan repayments (the "distributable return"), for various commitment, service, facility management and interest fees, marketing and transaction services and for technical services.

The agreement term is for the life of the exploration, development, and exploitation of the property. The Company will provide pre-export financing for the project which will be secured by the nickel product stockpiles. The counterparty to this agreement holds a Mineral Production Sharing Agreement ("MPSA") over the property. The price the parties could receive for nickel product is calculated as a percentage of the LME price.

5. PROPERTY, PLANT AND EQUIPMENT

	2008		
	Cost	Accumulated Amortization	Net Book Value
Land	\$ 450,794	\$ —	\$ 450,794
Mining equipment	2,752,665	234,988	2,517,677
Communication equipment	27,474	12,506	14,968
Furniture and equipment	51,323	8,040	43,283
Computer equipment	65,027	7,638	57,389
Automotive equipment	33,354	8,732	24,622
Leasehold improvements	45,902	7,146	38,756
	\$ 3,426,539	\$ 279,050	\$ 3,147,489

	2007		
	Cost	Accumulated Amortization	Net Book Value
Furniture and equipment	\$ 18,921	\$ 1,261	\$ 17,660
Computer equipment	25,093	1,578	23,515
Automotive equipment	8,383	2,051	6,332
Leasehold improvements	41,026	1,226	39,800
	\$ 93,423	\$ 6,116	\$ 87,307

6. ASSET RETIREMENT OBLIGATIONS

During the year, the Company, in developing its Alpha property, has incurred significant reclamation obligations. These expenditures are required under local, provincial and federal Philippine laws and regulations. Additionally, the Company is required to internally restrict funds based upon future mining operations and to remit to a government sinking fund (based on 1% of gross output).

Expenses for community development may be credited to or charged against this royalty, including required contributions of a minimum of one percent (1%) of the direct mining and milling costs to a Social Development Management Program. Total contributions of PHP1,813,164 (approximately \$42,277) (2007: \$Nil) were expensed during the year.

Additionally, the total future value of cash flows required to settle reclamation obligations is estimated to be 13,440,000 Philippine pesos (approximately \$327,805, of which the Company's discounted joint venture portion is \$184,120). Future cash flows have been discounted over a term that approximates the most probable timing for payment and at credit adjusted risk free rates of interest reflective of the Company's experience and type of operations. Weighted average assumptions used in the calculation of deferred retirement costs and long-term asset retirement obligations are as follows:

Term:	2 years
Compounding term:	Monthly
Credit-adjusted risk free rate:	5.875% p.a.
Rate of inflation:	4.9% p.a.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

6. ASSET RETIREMENT OBLIGATIONS (CONTINUED)

Accretion expense is recognized during the year to account for the time-based increases in the value of retirement costs and the associated asset retirement obligation.

	2008	2007
Asset Retirement Obligations,		
Initial recognition	\$ 184,120	\$ —
Accretion expense	5,074	—
Balance, end of year	\$ 189,194	\$ —

7. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these consolidated financial statements were as follows:

a) Related party transactions

The Company has undertaken the following transactions with related parties:

- Incurred legal services of \$111,492 (2007: \$61,360) from a law firm whose principal is a director of the Company.
- Incurred administration services of \$550,904 (2007: \$231,667) from directors.
- Incurred accounting services of \$64,584 (2007: \$20,582) from an officer of the corporation.

All of the above transactions are recorded at exchange amounts, being the amount agreed upon by the related parties.

b) Related party balances

i) Due to related parties:

At January 31, 2008 the balance due to certain directors and officers inclusive of management fees and reimbursable expenses was \$63,072 (2007: \$11,305). At year-end the amount due to related parties includes \$7,795 (2007: \$27,304) due to a law firm whose principal is a director of the Company.

During the year, directors advanced the Company short-term notes totaling \$692,140. The short-term notes were settled through the issuance of common shares of the Company with interest at a rate of 10% per annum. Interest paid by the Company to directors in the year totaled \$4,205 (2007: \$Nil). These funds were advanced for the temporary funding of the Philippine operations and working capital.

ii) Long-term note receivable:

The Company advanced funds of \$450,794 to a director of the Company's Philippine subsidiary during the year for the acquisition of land necessary for the development of the Alpha property and are subject to a loan agreement dated January 31, 2008. Advances are repayable over 10 years, are secured by the land and bear interest at 12% per annum. Interest revenue recognized in respect of these advances during the fiscal year was \$Nil (2007: \$Nil). The loan is carried at fair value. The fixed rate of interest approximates the effective discount interest rate.

c) Consulting Agreements

The Company has consulting agreements in place with its directors, officers and employees as follows:

- i) Consulting services from a director of a company in which the Company has a joint venture interest, for US\$3,333 (approximately \$3,333) per month. On June 1, 2007 this was increased to US\$6,666 (approximately \$6,666) per month.

7. RELATED PARTY TRANSACTIONS (CONTINUED)

- ii) Administration services from directors of the Company for \$9,000 plus US\$35,000 (approximately \$35,000) per month. Fees paid to a director increased from US\$8,333 to US\$12,500, effective May 1, 2007. Also, a director signed a new services agreement for US\$12,500 (approximately \$12,500) per month, effective June 1, 2007. Previously, this director was compensated on a per diem basis.
- iii) Accounting services from an officer of the Company for \$6,250 per month.
- iv) Administration services from a director for representation and oversight of Philippine operations for \$500 per day, effective February 1, 2007.

Contracts are written for a period of one year, after which they are automatically renewed for a 12-month period, unless the Company gives notice of cancellation not less than 60 days prior to the end of the term or renewal term.

8. COMMON SHARES

Authorized
Unlimited Common shares without par value

During the period, the Company issued 2,207,385 common shares on the conversion of \$1,850,000 in convertible debentures and \$62,288 of interest accrued on the company's convertible debt (Note 12).

Loss Per Share

Basic net income per common share is calculated by adjusting reported net income by the net charge to retained earnings related to the accretion of the equity component of the 10% convertible notes (Note 12). Diluted net income per common share assumes the dilutive effect of the conversion of the 10% convertible notes as of the beginning of each period at the Conversion Price and the dilutive effect of the stock-based compensation plans (Note 10).

	2008	2007
Basic		
Net loss attributable to common shareholders	<u>\$ 10,430,160</u>	<u>\$ 556,059</u>
Diluted		
Net Loss	\$ 10,430,160	\$ 2,556,059
Convertible debt - Net inclusion in (charge to) loss	<u>(179,052)</u>	<u>(75,917)</u>
Net loss attributable to common shareholders	<u>\$ 10,251,108</u>	<u>\$ 2,480,142</u>

Common equivalent shares shown below were not included in the computation of diluted earnings per share because the effect was antidilutive:

Common equivalent dilutive shares:	2008	2007
Issued on the assumed conversion of convertible long-term debt	—	2,176,470
Issued on the assumed exercising of warrants	17,564,190	3,252,283
Issued on the assumed exercising of stock options	<u>5,397,500</u>	<u>1,610,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

8. COMMON SHARES (CONTINUED)

- a) On March 13, 2006, the Company issued 876,691 common shares and 438,345 common share-purchase warrants to Falcon Ridge in respect of an option to acquire the Samar properties (Note 4). The proceeds of \$324,376 of the issued common shares are based upon the exchange amount of \$0.37 per common share, as agreed with Falcon Ridge in the MOA. Management estimates that this value approximates the trading price of the Company's shares immediately before and after the time of entering into the agreement with Falcon Ridge. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.65 until March, 2008. The fair value of warrants of \$56,986 was bifurcated to contributed surplus.
- b) On May 15, 2006, the Company closed a non-brokered Private Placement financing of 2,566,000 units at \$1.00 per unit for gross proceeds of \$2,566,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share for a period of two years after closing at a price of \$1.50. Finders' fees of \$203,680 were paid, and 185,600 broker warrants (having the same terms as the private placement warrants) were issued. The fair value of warrants of \$586,406 was bifurcated to contributed surplus.
- c) On November 28, 2006, the Company closed a non-brokered private placement of 860,000 common share units at \$0.80 per unit for gross proceeds of \$688,000. Each unit consists of one common share and one-half common share purchase warrant. Each full warrant will entitle the holder to purchase one common share for a period of 2 years at a price of \$1.10. Finders' fees of \$48,160 and 51,600 broker warrants have been paid with the same terms as the subscribers to the financing. The securities are subject to a four month hold period expiring March 28, 2007. The fair value of warrants of \$135,765 was bifurcated to contributed surplus.
- d) On January 16, 2007, the Company closed a non brokered Private Placement financing of 8,357,142 Units at \$0.70 per Unit for gross proceeds of \$5,850,000. Each Unit consisting of one Common Share and one half (1/2) Common Share Purchase Warrant. Each full Warrant will entitle the holder to purchase one Common Share for a period of 2 years at a price of \$0.90. Finders' fees of \$409,500 and 501,429 broker warrants have been paid with the same terms as the subscribers to the financing. The securities are subject to a four month hold period expiring May 13, 2007. The fair value of warrants of \$1,317,516 was bifurcated to contributed surplus.
- e) On January 16, 2007, the Company also closed a non-brokered Private Placement financing of 185,142 units at \$0.70 per unit for gross proceeds of \$129,600. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant entitles the holder to purchase one common share for a period of two years after closing at a price of \$0.90. Finders' fees of \$9,072 were paid, and 1,680 broker warrants (having the same terms as the private placement warrants) were issued. The securities are subject to a four month hold period expiring May 13, 2007. The fair value of warrants of \$26,627 was bifurcated to contributed surplus.
- f) On March 2, 2007, the Company completed a private placement financing of 4,300,000 Units at \$0.70 per Unit for gross proceeds of \$3,010,000. Each Unit consists of one Common Share and one half (1/2) Common Share Purchase Warrant. Each full Warrant entitles the holder to purchase one Common Share until March 2, 2009 at a price of \$0.90. All Units issued are subject to a four month hold period expiring on July 3, 2007. The fair value of warrants of \$925,832 was bifurcated to contributed surplus.
- g) On March 19, 2007, the Company completed a second and final tranche of a Private Placement financing of 714,286 Units at \$0.70 per Unit for gross proceeds of \$500,000. Each Unit consists of one Common Share and one half (1/2) Common Share Purchase Warrant. Each full Warrant entitles the holder to purchase one Common Share until March 16, 2009 at a price of \$0.90. Finders fees of \$35,000, financing fees of \$17,513, and 42,857 broker warrants having the same terms as the places warrants have been paid in connection with this placement. All Units issued

8. COMMON SHARES (CONTINUED)

are subject to a four month hold period expiring on July 17, 2007. The fair value of warrants of \$116,257 was bifurcated to contributed surplus.

- h) On December 5, 2007, the Company has closed a non-brokered Private Placement financing of 8,283,261 Units at \$1.15 per Unit for gross proceeds of \$9,525,750. Each Unit will consist of one Common Share and one Common Share Purchase Warrant. Each full Warrant will entitle the holder to purchase one Common Share for a period of 2 years at a price of \$1.40. The Common Shares are subject to a four month hold which expires on March 29th 2008. Finders' fees of \$560,000 and 417,383 broker warrants were paid to Meridian Capital International; \$48,300 and 36,000 broker warrants were paid to Bolder Investment Partners Ltd in connection with this financing. The Broker warrants have the same terms as the places warrants. Other financing fees of \$22,628 were paid in connection with this financing. The fair value of warrants of \$5,703,503 was bifurcated to contributed surplus.
- i) During the year, the Company issued 4,258,837 common shares on the exercise of 1,127,500 stock options and 3,131,337 warrants for total proceeds of \$3,241,678.

9. STOCK OPTIONS

On June 19, 2007, the Company granted to directors, officers and employees options to acquire 1,750,000 common shares of the Company at a price of \$3.60 per common share until June 2012. Also, on August 27, 2007, the Company granted to directors, officers and employees options to acquire 1,090,000 common shares of the Company at a price of \$2.00 per common share until August 2012. All options vest as to one-third on each of the grant date, first and second anniversaries and are for a 5 year term.

During the year ended January 31, 2008, the change in stock options outstanding was as follows:

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	3,685,000	\$ 0.55	1,635,000	\$ 0.17
Forfeited	—	—	—	—
Granted	2,840,000	2.99	2,075,000	0.84
Exercised	(1,127,500)	0.25	(25,000)	0.15
Outstanding, end of year	5,397,500	\$ 1.49	3,685,000	\$ 0.55
Exercisable, end of year	2,971,242	\$ 1.42	2,418,334	\$ 0.37

At January 31, 2008, the following stock options were outstanding:

Options Outstanding	Exercise Price	Expiry Date
140,000	\$ 0.15	September 2008
375,000	\$ 0.15	October 2009
100,000	\$ 0.29	August 2010
1,867,500	\$ 0.84	August 2011
75,000	\$ 0.84	December 2009
1,750,000	\$ 3.60	June 2012
1,090,000	\$ 2.00	August 2012
5,397,500		

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

10. STOCK-BASED COMPENSATION

The Board of Directors adopted a Stock Option Plan dated October 20, 2000, amended by resolution of the shareholders on September 30, 2003, and further amended on March 31, 2005, pursuant to which the directors were authorized to grant stock options to directors, officers, consultants and employees. The granting term and pricing of such options shall be in accordance with the prevailing policies of the regulatory bodies and security exchanges having jurisdiction over the Company.

During the year ended January 31, 2008, 2,840,000 stock options were granted to certain directors, officers and employees of the Company. Of the options granted 1,073,742 are fully vested. The fair value of these vested options is \$2,931,993.

Additionally, 633,333 options issued in August 2006, and exercisable at \$0.84, vested during the fiscal year. The fair value of these vested options is \$437,000.

Unvested options will vest on the following schedule:

Number of Options Vesting	Exercise Price	Vesting Date
552,085	\$ 3.60	June 2008
633,333	\$ 0.84	August 2008
331,040	\$ 2.00	August 2008
25,000	\$ 0.84	December 2008
552,088	\$ 3.60	June 2009
331,045	\$ 2.00	August 2009

Compensation expense was determined using the Black-Scholes option pricing model and resulted in stock option compensation of \$5,526,404 (2007: \$858,939) for the year ended January 31, 2008. Weighted average assumptions used in calculating compensation expense in respect of the remaining year for the vesting of the options were as below:

	2008	2007
Risk-free rate	4.58%	3.61%
Dividend yield	Nil%	Nil%
Volatility factor of the expected market price of the Company's common shares	148%	111%
Expected life of the options	5 years	5 years

11. SHARE PURCHASE WARRANTS

During the year ended January 31, 2008, changes in warrants outstanding were as follows:

	2008		2007	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Outstanding, beginning of year	9,492,634	\$ 0.95	4,916,250	\$ 0.17
Issued	11,286,643	\$ 1.29	8,215,884	\$ 0.78
Exercised	(3,131,337)	\$ 0.95	(3,639,500)	\$ 0.27
Forfeited	(83,750)	\$ 1.00	—	—
Outstanding, end of year	17,564,190	\$ 1.16	9,492,634	\$ 0.95

11. SHARE PURCHASE WARRANTS (CONTINUED)

At January 31, 2008, the following warrants were outstanding and exercisable:

<u>Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
438,345	\$ 0.65	March 2008
392,900	\$ 1.10	November 2008
880,588	\$ 1.25	December 2008
4,575,714	\$ 0.90	January 2009
2,539,999	\$ 0.90	March 2009
8,736,644	\$ 1.40	November 2009
<u>17,564,190</u>		

12. CONVERTIBLE LONG-TERM DEBT

On December 1, 2006, the Company closed a non-brokered private placement financing consisting of \$1,850,000 in 10% 2-year convertible debenture units (the "Debentures"). The Debentures may be exchanged in part or in whole into common shares of the issuer during the 2-year term. Debentures can be convertible into common shares of the issuer in Year 1 at \$0.85 per share and in Year 2 at \$1.10 per share. Should the common shares of the issuer trade at a price greater than or equal to a 75% premium to the conversion schedule above, for a period of 15 consecutive trading days, the Company shall have the option of forcing conversion of the then outstanding Principal Amount in to common shares of the Company (the "Forced Conversion") in whole or in part. In addition, any principal amount outstanding at maturity will be redeemed in common shares of the Company at the greater of \$0.90 per share or the discounted market price. Each \$1 Debenture contains a one half common share purchase warrant exercisable at \$1.25 for a two-year period expiring December 1, 2008. Finder's fees of \$129,500, and 130,588 broker warrants having the same terms as the placees have been paid. Should any debentures be converted into common shares within four months those shares would be subject to a hold period expiring April 1, 2007.

Section 3860 "Financial Instruments — Disclosure and Presentation", ("Section "3860"), requires that obligations to be settled, at the issuer's option, by a variable number of the issuer's own equity instruments, be presented as liabilities. Any securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount of cash or the equivalent value of its own equity instruments will no longer be presented as equity. Although adopted retroactively, there is no retroactive effect on these financial statements. The Convertible debentures were bifurcated into a principal and an option component for accounting purposes. The principal component was recorded as debt and the option component recorded as equity. The principal component was accreted over the life of the convertible debentures through periodic charges to expense. The company allocated the proceeds using the residual approach as follows:

Convertible debenture	
Debt component	<u>\$ 1,320,150</u>
Equity component	<u>529,850</u>
	<u>\$ 1,850,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

12. CONVERTIBLE LONG-TERM DEBT (CONTINUED)

The continuity of the convertible debenture during the year is as follows:

	2008	2007
Convertible long-term debt, beginning of year	\$ 1,355,677	\$ —
Convertible debenture issued	—	1,320,150
Accretion of discount interest	106,064	50,943
Interest on convertible debt	62,288	—
Interest payable	(30,833)	(15,416)
Conversion of debt	(1,493,196)	—
	<u>\$ —</u>	<u>\$ 1,355,677</u>
Deferred debt issuance costs, beginning of year	\$ (204,598)	\$ —
Debt issuance costs - incurred *	—	(229,524)
Debt issuance costs - amortized	34,100	24,926
Applied against shares issued on conversion	170,498	—
	<u>\$ —</u>	<u>\$(204,598)</u>
Convertible long-term debt, end of year, net of Debt issuance costs	<u>\$ —</u>	<u>\$ 1,151,079</u>

*Financing fees were apportioned between debt (\$229,524) and contributed surplus (\$50,352) to reflect the split of convertible long-term debt between debt and equity (above). The total amount of interest expensed in respect of the convertible long-term debt during the year was \$38,888 (2007: \$Nil).

13. FINANCIAL INSTRUMENTS

The adoption of the new handbook standards, effective February 1, 2007, did not result in any significant changes to the Company's consolidated financial statements. Financial instruments have been classified as held for trading, held to maturity, loans and receivables, or as available for sale financial assets.

The fair value of financial instruments has been determined as follows:

a) Current assets and current liabilities

The fair value of financial instruments included in current assets and liabilities approximates their carrying amount due to their short-term nature.

b) Investments and other assets

The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

The carrying value of notes receivable in this category approximates their fair value due to the fact that interest rates are based upon market rates for similar loans in the Philippines.

c) Convertible long-term debt

The carrying value of loans approximates their fair value because interest charges under the terms of the loans are based upon current Canadian bank prime and bankers' acceptance rates and on LIBOR rates.

13. FINANCIAL INSTRUMENTS (CONTINUED)

d) Asset retirement obligations

Retirement obligations approximate fair value as the future obligations are determined annually and are discounted using Philippine credit adjusted prime rates of interest.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

14. INCOME TAXES

The income tax expense shown in the Consolidated Statements of Operations and Deficit differ from the amounts obtained by applying statutory rates due to the following:

	2008	2007
Statutory tax rate	33.14%	33.34%
Net loss for the year before income taxes	\$ (10,369,343)	\$ (2,569,461)
Net Canadian tax benefit based on statutory rates	\$ (3,436,400)	\$ (856,273)
Effect of changes in effective tax rates	709,035	290,784
Permanent differences	2,040,221	381,558
Tax rate differences	(49,859)	(6,224)
Increase in valuation allowance	293,746	(423,941)
Other adjustments	504,074	600,694
	\$ 60,817	\$ (13,402)

The tax effect of temporary differences that give rise to the Company's future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets related to temporary differences in:		
Tax loss carry forwards	\$ 2,357,781	\$ 1,631,723
Resource properties	992,948	568,170
Property and equipment	5,438	7,622
Other	2,468,088	270,220
FIT liability set off against assets	(2,108,785)	—
Valuation allowance	(3,715,470)	(2,477,735)
Net future tax assets	\$ —	\$ —
FIT liability not set against assets	\$ (75,997)	\$ (15,180)

The Company estimates its valuation allowance based on its ability to realize benefits of its future tax assets. When circumstances change and this causes a change in management's judgment about the recoverability of future income tax assets, the valuation allowance will be adjusted accordingly and the impact of the change is reflected in current income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

January 31, 2008 and 2007 (Stated in Canadian Dollars)

14. INCOME TAXES (CONTINUED)

The Company has Canadian noncapital losses of \$7,024,123 to reduce future taxable income in Canada. These losses, if unused, will expire in the following years:

Non capital loss expiration:

2009	\$ 635,099
2010	553,738
2011	381,251
2014	513,717
2014	820,706
2025	1,577,074
2026	2,542,538
	<u>\$ 7,024,123</u>

In addition, the Company has approximately \$2,707,038 of Canadian Exploration Expenses, Canadian Development Expenses, Foreign Exploration and Development Expenses and Foreign Resource Expenses that could be used to reduce taxable income for Canadian income tax purposes and have no expiration.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental information not disclosed elsewhere in the consolidated financial statements is as follows:

	2008	2007
Non-cash investing and financing activities		
Dividend distribution of shares in Garson Resources Ltd	\$ —	\$248,985
Issuance of common shares for Samar property acquisition	\$ —	\$324,376
Common shares issued for payment of interest on convertible long-term debt	\$ 62,288	\$ —
Other cash items		
Interest paid	\$ 41,192	\$ 3,122
Income taxes paid	\$ —	\$ —

16. COMMITMENTS

The Company and its joint venture operations have various contracts for office rental, land and property leases, shipping operations and machinery leases. Total contractual commitments over the next five fiscal years are summarized in the table below:

	2008
2009	\$ 689,845
2010	18,2711
2011	168,328
2012	133,910
2013 and thereafter	<u>1,433,588</u>
	<u>\$ 2,608,382</u>

17. CONTINGENCIES

The Company is aware of certain cases involving its joint ventures concerning the legitimacy of tenure over the Company's Philippine mineral properties. All of the cases have been raised on a similar premise and can be broadly categorized as follows:

- a) Cases questioning the Company's qualification to own mining interests in the Philippines. These cases are premised on the question under the Philippine Mining Act (1995) (the "Mining Act") as to qualification of the Company's joint venture companies as "Filipino corporations". The Company believes that the ownership of each of the Philippine joint venture corporations is consistent with accepted practice in the Philippines, namely that the Mining Act considers only the maximum 40% direct foreign ownership interest of each of the joint venture companies. These cases have been brought against the Company through the federal and provincial regulatory boards. The right of appeal exists for both parties to the Supreme Court. All cases are awaiting resolution at this time. In respect of these cases, an order (the "Status Quo Order") has been issued by a regional panel of arbitrators (the "PA"), which limits the Company's ability to further the full-scale permitting process until all legal issues raised have been finally resolved in favor or against any of the parties.

Additionally, in December 2007, the PA issued a resolution ruling in favor of the plaintiff declaring the Company to be invalid to apply for a mineral production sharing agreement permit (an "MPSA") and giving due course to the exploration permit applications by the plaintiff. The Company filed an appeal with the federal board subsequent to year end and believes that its Samar and Palawan properties (the subject properties in this action) remain untainted. The Palawan properties are subject to an FTAA permit application (Note 4), and two of the four Samar properties are the subject of an exploration permit (EP), not an MPSA. Under the Mining Act, even a foreign corporation is able to wholly own an FTAA and EP. The appeal awaits resolution at this time.

- b) Case concerning the environmental sustainability of mining operations on the Company's Alpha property.

The Company has obtained all requisite permits associated with its Alpha operation, including those for environmental compliance and believes the case has no merit.

18. SUBSEQUENT EVENTS

Subsequent events not disclosed elsewhere in these consolidated financial statements are as follows:

- a) One of the Company's Philippine subsidiaries has negotiated several nickel sales agreements for multiple nickel bearing materials ranging from 1.5 % nickel to greater than 2.3 % nickel as pertaining to the Alpha, Philippines nickel project located in Narra, Palawan. Since the end of the fiscal year, the Company has shipped approximately 64,000 dry metric tonnes of nickel material to various buyers in China and Japan.
- b) Effective March 1, 2008, administration services contracts with two directors for a total of US\$22,500 per month were renegotiated and replaced with month to month administration services of US\$4,167 and \$4,167 (Canadian funds) per month respectively.
- c) On May 27, 2008, the Company granted a total of 150,000 options to acquire common shares for \$0.80 until May 12, 2011.

19. COMPARATIVE FIGURES

Certain comparative amounts from the prior year have been reclassified to conform to the current year's presentation.

