

Financial Statements of

**DITEM EXPLORATIONS INC.**

Year ended December 31, 2009 and 2008



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheets of Ditem Explorations Inc. as at December 31, 2009 and 2008 and the statements of deferred expenditures, operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Accountants

Montréal, Canada

March 27, 2010

# DITEM EXPLORATIONS INC.

## Financial Statements

Year ended December 31, 2009 and 2008

### Financial Statements

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# DITEM EXPLORATIONS INC.

## Balance Sheets

December 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 1,285	\$ 728,735
Accounts receivable (note 5)	141,160	228,043
Deposits and prepaid expenses	583	8,715
	143,028	965,493
Explorations funds (note 4)	1,320,000	-
Property and equipment (note 6)	31,418	27,370
Marketable securities (note 7)	210,280	179,364
Mining properties (note 8)	416,648	394,818
Deferred exploration costs (note 8)	7,886,467	7,791,190
	\$ 10,007,841	\$ 9,358,235

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 9)	\$ 277,938	\$ 125,647
Future income taxes (note 13)	-	369,000
Shareholders' equity:		
Capital stock (note 10)	18,844,567	17,450,302
Contributed surplus (note 12)	1,994,607	1,697,758
Deficit	(11,109,271)	(10,284,472)
	9,729,903	8,863,588
Subsequent event (note 17)		
	\$ 10,007,841	\$ 9,358,235

See accompanying notes to financial statements.

On behalf of the Board:

(signed) Richard-Marc Lacasse \_\_\_\_\_ Director

(signed) Raymond Savoie \_\_\_\_\_ Director

# DITEM EXPLORATIONS INC.

## Statement of Deferred Expenditures

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Balance, beginning of year	\$ 7,791,190	\$ 4,994,607
Increase (decrease):		
Diamond drilling	180,524	3,107,733
Surveying and geology	16,335	233,100
Geological work	12,869	111,537
Other	10,844	436,770
Less resource tax credits	(37,000)	(434,757)
Loss on write-down of mining properties	(88,295)	(657,800)
	95,277	2,796,583
Balance, end of year (note 8)	\$ 7,886,467	\$ 7,791,190

See accompanying notes to financial statements.

# DITEM EXPLORATIONS INC.

## Statement of Operations, Comprehensive Loss and Deficit

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Revenue:		
Interest	\$ 5,525	\$ 54,719
Gain on disposal of marketable securities	20,517	-
Unrealized gain (loss) on marketable securities	30,916	(265,546)
	56,958	(210,827)
Expenses:		
Stock-based compensation (note 11)	238,212	765,443
Professional fees	227,948	356,476
Travel	61,549	267,931
Office, trustee and reports to shareholders	194,671	221,999
Salaries and fringe benefits	149,544	53,125
Rent and taxes	50,819	31,688
Depreciation	5,625	6,515
Financial	587	1,335
Loss on write-down of mining properties and deferred exploration costs	124,545	1,755,800
Loss on sale of capital assets	8,920	-
	1,062,420	3,460,312
Loss before income taxes	(1,005,462)	(3,671,139)
Future income taxes (note 13)	(594,000)	(213,000)
Net loss and comprehensive loss	(411,462)	(3,458,139)
Deficit, beginning of year	(10,284,472)	(6,770,083)
Future income taxes arising from flow-through shares (note 13)	(225,000)	-
Share issue expenses	(188,337)	(56,250)
Deficit, end of year	\$ (11,109,271)	\$ (10,284,472)
Loss per share, basic and diluted	\$ (0.01)	\$ (0.08)

See accompanying notes to financial statements.

# DITEM EXPLORATIONS INC.

## Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
Cash flows from operating activities:		
Net loss	\$ (411,462)	\$ (3,458,139)
Adjustments for:		
Stock-based compensation	238,212	765,443
Depreciation	5,625	6,515
Loss on disposal of property and equipment	8,920	-
Gain on disposal of marketable securities	(20,517)	-
Unrealized (gain) loss on marketable securities	(30,916)	265,546
Future income tax	(594,000)	(213,000)
Loss on write-down of mining properties and deferred exploration costs	124,545	1,755,800
<u>Net change in non-cash operating working capital items</u>	<u>321,571</u>	<u>831,589</u>
	(358,022)	(46,246)
Cash flows from financing activities:		
Proceeds from share issuance	1,320,000	833,450
<u>Share issue expenses</u>	<u>(129,700)</u>	<u>(56,250)</u>
	1,190,300	777,200
Cash flows from investing activities:		
Additions to fixed assets	(18,593)	(2,621)
Disposal of marketable securities	20,517	3,077,025
Mining properties	(58,080)	(59,216)
Deferred exploration costs, net of government assistance and credits of \$37,000 (2008 - \$434,757)	(183,572)	(3,454,382)
<u>Increase in explorations funds</u>	<u>(1,320,000)</u>	<u>-</u>
	(1,559,728)	(439,194)
<u>Net (decrease) increase in cash and cash equivalents</u>	<u>(727,450)</u>	<u>291,760</u>
Cash and cash equivalents, beginning of year	728,735	436,975
<u>Cash and cash equivalents, end of year</u>	<u>\$ 1,285</u>	<u>\$ 728,735</u>
Additional cash flow information:		
Share issue expenses representing cost of compensation warrants	\$ 58,637	\$ -
Debt settlement against the issue of capital stock	74,265	-

See accompanying notes to financial statements.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements

Year ended December 31, 2009 and 2008

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Ditem Explorations Inc. (the "Company") was incorporated on November 26, 1993 under the Canada Business Corporations Act and commenced operations in January 1995. The Company holds interests in mining properties which are presently in the exploration stage and has not yet determined whether the properties contain reserves that are economically recoverable.

## 1. Nature of operations and going concern:

The Company is in a development stage and has mineral exploration and development properties in the provinces of Québec and Saskatchewan.

The Company is in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether its properties and projects contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become payable, including the acquisitions of mineral properties and the development of projects, is dependent on the ability of the Company to obtain necessary financing. The recoverability of amounts shown for mineral properties is dependent upon the ability of the Company to obtain necessary financing to complete the acquisition, exploration and development thereof, and upon future profitable production or proceeds from the disposal of properties.

The financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to realize its assets or discharge its obligations in the ordinary course of operations.

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

## 2. Changes in accounting policies:

### Effective in 2009:

#### (i) Goodwill and intangible assets:

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and amends Section 1000, *Financial Statement Concepts*. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and other intangible assets subsequent to its initial recognition. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. This new standard is applicable to fiscal years beginning on or after October 1, 2008 and the Company implemented it as of January 1, 2009.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## 2. Changes in accounting policies (continued):

Effective in 2009 (continued):

(i) Goodwill and intangible assets (continued):

The implementation of this new standard had no significant impact on the financial position or the results of the Company.

(ii) Financial Instruments - Disclosures:

In June 2009, the AcSB issued amendments to CICA Handbook Section 3862, *Financial Instruments - Disclosures*, in order to align it with International Financial Reporting Standard IFRS 7: *Financial Instruments - Disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments establish a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The amendments apply to annual financial statements relating to fiscal years ended after September 30, 2009 and are applicable to the Company as at December 31, 2009. The amended Section relates to disclosures only and did not impact the financial results of the Company.

*Future accounting pronouncements:*

International financial reporting standards:

In February 2008, the Accounting Standards Board ("AcSB") announced that accounting standards in Canada are to converge with IFRS and that public companies will be required to present their financial statements, with comparative data, under these standards for fiscal years beginning on or after January 1, 2011. The Company is currently evaluating the impact of these requirements on its financial statements.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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### 3. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include temporary investments with a maturity date of three months or less, and are stated at cost, which approximates market value.

(b) Mining properties and deferred exploration costs:

Exploration assets are carried at cost. Exploration and development expenses relating to a non-producing property are deferred until the property is brought into production or abandoned. Upon abandonment, these costs are charged to earnings. Management reviews the carrying values of assets on a regular basis to determine whether any write-downs are necessary.

Recovery of the cost of properties and deferred exploration and development expenses depends on the discovery of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete the exploration and development of the properties and future profitable production or the disposal of the properties for proceeds in excess of their carrying value.

(c) Property and equipment:

Fixed assets are carried at cost. Depreciation is calculated using the diminishing balance method at the rate of 20%. Leasehold improvements are amortized over the period of the lease.

(d) Marketable securities:

Marketable securities are stated at fair value.

(e) Administrative expenses:

Administrative expenses are charged to operations as incurred.

(f) Stock option plan:

The Company records stock-based compensation to its participants at fair value. According to the fair value method, a compensation expense is charged to operating expenses based on the fair value of the stock options issued over their vesting period. Upon the exercise of stock options, capital stock is credited in the amount paid plus the corresponding employee compensation amount previously recorded in contributed surplus.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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### 3. Significant accounting policies (continued):

(g) Income and mining taxes:

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying values and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment or substantive enactment date.

The Company renounces tax deductions relating to resource expenditures that are financed by the issuance of flow-through shares for the benefit of its shareholders, as permitted by the tax legislation.

Under the asset and liability method used to account for income taxes, future income taxes related to the temporary differences created by this renouncement are recorded in accordance with EIC-146 when the Company renounces its right to these deductions and a corresponding cost is also recorded as share issue expenses.

(h) Resource tax credits:

The Company incurs exploration expenses that are eligible for tax credits. The tax credits are recorded based on the estimated amounts to be recovered. The amounts claimed are subject to an audit by the tax authorities.

Tax credits on exploration relating to mining and exploration assets are deducted from the related assets.

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Significant areas requiring the use of estimates relate to assessing the realizable values of properties and deferred exploration costs and the value of resource tax credits. Consequently, actual results could differ from those estimates.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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### 3. Significant accounting policies (continued):

(j) Financial instruments:

Sections 3855 and 3865 establish standards for recognizing and measuring financial assets, financial liabilities and derivatives. Under these standards, financial instruments are now classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities and measurement in subsequent periods depends on their classification. Transaction costs are expensed as incurred for financial instruments classified as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and presented as an adjustment to the underlying financial instruments. Financial assets and financial liabilities held-for-trading are measured at fair value with changes recognized in income. Available-for-sale financial assets are measured at fair value or at cost, in the case of financial assets that do not have a quoted market price in an active market, and changes in fair value are recorded in comprehensive income.

Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. The Company has classified its cash and cash equivalents, exploration funds and marketable securities as held-for-trading. Accounts receivable were classified as loans and receivables. All of the Company's financial liabilities were classified as other financial liabilities.

### 4. Cash and cash equivalents:

	2009	2008
Cash	\$ 267,583	\$ 728,735
Money market funds - rate of 1.1%	1,053,702	-
Less exploration funds	(1,320,000)	-
	<u>\$ 1,285</u>	<u>\$ 728,735</u>

As a result of the 2009 flow-through private placements, the Company is committed to \$1,320,000 of exploration work, none of which was incurred as at December 31, 2009.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 5. Accounts receivable:

	2009	2008
Resource tax credits	\$ 37,000	\$ -
Sales tax	16,684	24,856
Others	87,476	203,187
	<u>\$ 141,160</u>	<u>\$ 228,043</u>

As at December 31, 2009, included in the accounts receivable is an amount of \$27,046 receivable from a company controlled by an officer of the Company.

## 6. Property and equipment:

	2009		2008	
	Cost	Accumulated depreciation	Net book value	Net book value
Computer equipment	\$ 12,795	\$ 5,048	\$ 7,747	\$ 18,227
Equipment and tools	12,470	5,532	6,938	9,143
Leasehold improvements	18,592	1,859	16,733	-
	<u>\$ 43,857</u>	<u>\$ 12,439</u>	<u>\$ 31,418</u>	<u>\$ 27,370</u>

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 7. Marketable securities:

	2009		2008	
	Fair value	Cost	Fair value	Cost
90,000 common shares of Strateco Resources Inc.	\$ 73,800	\$ 35,100	\$ 53,100	\$ 35,100
225,466 common shares of Gastem Inc.	105,960	24,946	112,733	24,946
No common shares of Cadiscor Resources Inc. (2008 - 49,202)	-	-	13,531	-
8,316 common shares of North American Palladium Ltd. (2008 - none)	30,520	-	-	-
	\$ 210,280	\$ 60,046	\$ 179,364	\$ 60,046

## 8. Mining properties and deferred exploration costs:

	2009		2008	
	Properties	Deferred exploration cost	Properties	Deferred exploration cost
Otish Uranium	\$ 241,559	\$ 4,046,992	\$ 272,049	\$ 4,162,261
Beartooth	-	3,693,521	-	3,512,941
Cree Lake	174,320	145,954	122,000	115,988
Hemmingford	769	-	769	-
	\$ 416,648	\$ 7,886,467	\$ 394,818	\$ 7,791,190

### (a) Otish Uranium property:

The Company holds a 100% interest in the Otish Uranium property.

Matoush property:

Ditem holds a 2% net smelter return royalty.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## 8. Mining properties and deferred exploration costs (continued):

### (b) Beartooth property:

On January 20, 2006, Ditem signed a letter of agreement with Golden Valley Mines granting to Ditem the option to acquire a 66% interest in the Beartooth property. Ditem may acquire an interest of 50% by incurring exploration expenditures of \$1,000,000 within 3 years from the date of signature. The Company also issued 2,000,000 warrants that were exercised at \$0.10 each. Ditem will be able to increase its interest to 60% by incurring additional exploration expenditures of \$2,000,000 in the 4<sup>th</sup> year of the agreement.

Since January 2006, Ditem incurred exploration expenditures of over \$3,000,000, and thus, now holds a 60% interest in this property and is the operator.

Ditem can then further increase its interest by 6% by the deposit of a feasibility study within 10 years of the agreement.

### (c) Cree Lake property:

The Company holds a 100% interest in the Cree Lake property, subject to a net smelter return of 2%.

## 9. Accounts payable and accrued liabilities:

	2009	2008
Accounts payable	\$ 46,323	\$ 9,637
Accrued liabilities	21,000	20,500
Others	210,615	95,510
	<u>\$ 277,938</u>	<u>\$ 125,647</u>

As at December 31, 2009, following a cost sharing arrangement, included in the accounts payable is an amount of \$210,615 (2008 - \$106,958) payable to a company in which an officer of the Company is also an officer.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 10. Capital stock:

Authorized:

An unlimited number of common shares without par value

	2009	2008
Issued:		
61,712,005 common shares (2008 - 46,305,318)	\$ 18,844,567	\$ 17,450,302
Weighted average number of shares outstanding during the year	49,184,066	45,889,523

Issuance during the year:

	2009	2008
For cash:		
14,416,667 shares (2008 - 1,500,000) pursuant to private placement <sup>(i)</sup>	\$ 1,320,000	\$ 750,000
No shares (2008 - 265,000) pursuant to the exercise of warrants	-	83,450
990,020 shares (2008 - none) for debt settlement	74,265	-
	\$ 1,394,265	\$ 833,450

<sup>(i)</sup> All common shares issued for cash in 2009 and 2008 were flow-through shares.

Share purchase warrants:

The Company has granted share purchase warrants in connection with several financings and could be required to issue shares as follows upon the exercise of such warrants:

- 333,333 shares at \$0.12 until June 9, 2010 <sup>(ii)</sup>
- 166,667 shares at \$0.20 until June 9, 2010 <sup>(ii)</sup>
- 2,083,334 shares at \$0.20 until June 9, 2010
- 3,562,500 shares at \$0.135 until December 15, 2010
- 356,250 shares at \$0.08 until December 15, 2010 <sup>(ii)</sup>
- 178,125 shares at \$0.135 until December 15, 2010 <sup>(ii)</sup>
- 1,562,500 shares at \$0.135 until December 18, 2010
- 156,250 shares at \$0.08 until December 18, 2010 <sup>(ii)</sup>
- 78,125 shares at \$0.135 until December 18, 2010 <sup>(ii)</sup>

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 10. Capital stock (continued):

Share purchase warrants (continued):

- (ii) The Company accounted for its compensation warrants issued during the year 2009 (1,268,750 shares) by using the Black-Scholes pricing model. At the date of the grant, the weighted average fair value of warrants granted was \$0.0462 per warrant for a total value of \$58,637.

## 11. Stock option plan:

As at December 31, 2009, 4,441,744 common shares were reserved for future issuances under the stock option plan for the benefit of the directors and officers of the Company. The life of the options cannot exceed 10 years. The options vest over a period of 18 months.

The number of stock options outstanding fluctuated as follows:

	2009	Average exercisable price	2008	Average exercisable price
Balance, beginning of year	2,750,000	\$ 0.82	2,825,000	\$ 0.81
Issued	849,500	0.15	50,000	0.46
Cancelled/expired	-	-	(125,000)	0.35
Balance, end of year	3,599,500	\$ 0.55	2,750,000	\$ 0.82
Exercisable options, end of year	3,337,225	\$ 0.55	2,487,500	\$ 0.84

As at December 31, 2009, the following options were outstanding and could be exercised:

- 1,500,000 shares at \$0.97 until February 9, 2012
- 1,200,000 shares at \$0.65 until December 20, 2012
- 25,000 shares at \$0.56 until January 28, 2013
- 25,000 shares at \$0.36 until July 28, 2013
- 25,000 shares at \$0.19 until January 29, 2014
- 799,500 shares at \$0.15 until March 27, 2019
- 25,000 shares at \$0.06 until July 28, 2014

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## 11. Stock option plan (continued):

During the year ended December 31, 2009, the Company granted 849,500 stock options at a price from \$0.06 to \$0.19 per share. These options may be exercised on a cumulative basis over a period of 18 months. The fair value of each option granted was determined using the Black-Scholes option pricing model. At the date of the grant, the weighted average fair value of stock options granted was \$0.137 per option. The following weighted average assumptions were used in these calculations:

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Risk-free interest rate	1.80% to 2.89%
Expected life	2 years
Expected volatility	155 to 160 %
Expected dividend yield	0%

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## 12. Contributed surplus:

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	2009	2008
Balance, beginning of year	\$ 1,697,758	\$ 932,315
Stock-based compensation	238,212	765,443
Cost of compensation warrants	58,637	-
Balance, end of year	\$ 1,994,607	\$ 1,697,758

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# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 13. Income tax:

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and provincial income tax rate at 30.9% (2008 - 30.9%) as a result of the following:

	2009	2008
Loss before taxes	\$ (1,005,462)	\$ (3,671,139)
Computed "expected" tax recovery	\$ (310,688)	\$ (1,134,382)
Increase in income taxes resulting from:		
Non-deductible stock-based compensation	73,608	236,522
Non-deductible unrealized (gain) loss	(9,553)	82,054
Valuation allowance	(101,000)	330,000
Impact of decrease in income tax rate on future income tax balance	40,200	47,806
Other	(286,567)	225,000
Total income tax expenses	\$ (594,000)	\$ (213,000)

The income tax effect of temporary differences that give rise to future tax assets and liabilities is as follows :

	2009	2008
Future tax assets:		
Operating loss carryforwards	\$ 1,000,000	\$ 884,000
Share issue expenses	108,000	131,000
	1,108,000	1,015,000
Valuation allowance	(914,000)	(1,015,000)
	194,000	-
Future tax liabilities:		
Deferred exploration expenditures	(194,000)	(369,000)
Net future tax	\$ -	\$ (369,000)

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## 13. Income tax (continued):

As at December 31, 2009, the Company has tax losses of approximately \$3,703,000 available to apply against future taxable income as follows:

Expiry date	Amount
2010	\$ 300,000
2014	221,000
2015	187,000
2026	279,000
2027	767,000
2028	1,059,000
2029	890,000

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The Company also has Canadian exploration expenditures of approximately \$7,585,000 which may be deducted from future taxable income.

The future tax benefit resulting from these items was not recorded.

## 14. Related party transactions:

During the year, the Company paid its share of the cost of the lease and other office costs to a company controlled by an officer of the Company in the amount of \$88,171 (2008 - \$77,750). These transactions were recorded at the exchange amount.

## 15. Financial instruments:

The Company is exposed to various financial risks resulting from both its operations and its investment activities. The Company's management monitors financial risks. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## 15. Financial instruments (continued):

The Company's main financial risk exposure and its financial risk management policies are as follows:

(a) Credit risk:

Credit risk results from the possibility that a loss may occur from the failure of another party to perform according to the terms of the contract. Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash is maintained with high-credit, quality financial institutions. Cash equivalents consist of money market funds.

(b) Interest rate risk:

The cash and cash equivalents bear interest at a variable rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not comprise any interest rate risk, since they do not bear interest.

(c) Liquidity risk:

Management serves to maintain a sufficient amount of cash and cash equivalents, and to ensure that the Company has at its disposal sufficient sources of financing such as private placements. The Company establishes cash budgets to ensure it has the necessary funds to fulfill its obligations. Being able to obtain new funds allows the Company to pursue its activities and even though the Company was successful in the past, there is no guarantee that it will succeed in the future.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

## 15. Financial instruments (continued):

(d) Fair value:

The fair value of financial assets and liabilities together with the carrying amounts included in the balance sheet are as follows:

	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Held-for-trading:				
Cash and cash equivalents	\$ 1,285	\$ 1,285	\$ 728,735	\$ 728,735
Marketable securities	60,046	210,280	60,046	179,364
Exploration funds	1,320,000	1,320,000	-	-
Loans and receivables:				
Accounts receivable	141,160	141,160	228,043	228,043
Financial liabilities:				
Other liabilities:				
Accounts payable and accrued liabilities	277,938	277,938	125,647	125,647

Fair value estimates are made at the balance sheet date, based on relevant market information and other information about financial instruments.

Financial assets held for trading are measured at fair value level 1.

## 16. Capital disclosures:

The Company's objectives when managing its capital are to safeguard the Company's ability to continue as a going concern in order to support ongoing exploration programs and development of its mining assets, to provide sufficient working capital to meet its ongoing obligations and to pursue potential investments.

# DITEM EXPLORATIONS INC.

Notes to Financial Statements, Continued

Year ended December 31, 2009 and 2008

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## **16. Capital disclosures (continued):**

In the management of capital, the Company includes the components of shareholders' equity, cash and cash equivalents as well as short-term investments.

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and short-term investments. The Company does not use long-term debts since it does not generate operating revenues. There is no dividend policy. The Company is not subject to externally imposed capital requirements. The Company's management of capital remained unchanged since the last period.

## **17. Subsequent event:**

In February 2010, the Company granted an aggregate of 600,000 incentive stock options to the directors and officers of the Company exercisable at a price of \$0.08 per share expiring ten years from the date of grant.