

# ANNUAL REPORT

## 2009



## SUMMARY OF EXPLORATION PROJECTS

### NOR, YUKON

- Iron Oxide, Copper, Gold, Uranium, REE
- 9,363 hectares (23,127 acres), 448 claims
- 100%-owned (+ 2% NSR)

The Nor Property is located 395 km north of Dawson City, Yukon and 65 km east of the Dempster Highway. The property is prospective for IOCG (iron oxide-copper-gold), uranium, and REE (rare-earth elements).

The Nor displays striking geological, geochemical, and geophysical similarities to the Olympic Dam deposit in Australia. It is associated with a large gravity anomaly and magnetic anomaly similar to but larger than those associated with Olympic Dam. Broad geochemical anomalies (copper, uranium, gold, and rare earth – lanthanum) have been delineated on the property, which typify Olympic Dam-type mineralization.

KRL drilled nine holes in 2006 and another seven holes in 2007. Highlights include 0.20% Cu over 64.95 m, including 31.95 m of 0.29% Cu in hole NOR 07-15 and 3 m of 0.42% Cu in hole NOR-07-14. Grab samples have returned between 0.80% to 5.54 % U<sub>3</sub>O<sub>8</sub>.

Further exploration plans include conducting a Titan 24 geophysical survey, a deep penetrating geophysical method which is ideally suited for the type of target at the NOR.

### WOLF, YUKON

- Silver, Lead, Zinc
- 6,040 hectares / 14,926 acres, 289 claims
- 60% interest (+2% NSR)

The Wolf property is located 72 km west of Watson Lake, Yukon and is accessible by road. The target is a high grade silver-lead-zinc carbonate-hosted deposit, similar to the Silvertip (Midway), 20 km to the southwest.

Previous trenching has uncovered silver, lead and zinc bearing iron and manganese oxides over widths of 30 metres along a strike length of 1 km.

Samples from the property include a 4-metre chip sample averaging 10.28 oz/ton silver and 9.12% lead from Trench #3 and a grab sample from Trench #1 with 36.41 oz/ton silver and 49.50 % lead

Preliminary drilling by KRL in 2008 on coincident geophysical and geochemical targets intersected zones of minor copper, lead, and zinc sulphides, as well as brecciation and silicification, indicative of proximity to a major hydrothermal system.

This project warrants further exploration to define new drill targets.

## **TURN RIVER, YUKON**

- Uranium, Nickel
- 41,932 hectares/103,616 acres, 2,006 claims
- 50%-owned

This massive joint venture uranium-nickel project with Logan Resources Ltd. (TSX-V: LGR) consists of nine separate claim blocks in the Cassiar Plateau region of the Yukon Territory.

During 2007, a helicopter magnetic and radiometric survey totalling 3,157 line km was flown over the Turn River claim blocks. Three high priority and 24 secondary priority radiometric anomalies were identified with potential for uranium mineralization. Numerous magnetic anomalies also warrant further exploration for nickel mineralization.

International KRL and Logan Resources plan to seek another joint venture partner to further explore the project.

## **BEAR RIVER, BRITISH COLUMBIA**

- Gold, Silver
- 775 hectares / 1,918 acres, 31 claim units
- 100%-owned (+ NSR)

The Bear River property is located in northwestern BC, 8 km from the town of Stewart in the historic Stewart Gold Camp. The property is prospective for gold and silver mineralization hosted in epithermal quartz veins and gold with massive sulphides in altered volcanics.

The principal target is the Hill Top Zone, covering an area 500m x 300m. Geology consists mainly of silicified and pyritized volcanic, sedimentary and intrusive rocks.

IP survey and soil sampling confirms the presence of sulphides in a large silicified area.

Results from the 1993 diamond drill program include:

- Hole MM-13: 3.00 m @ 2.61 g/t Au and 8.00 m @ 1.94 g/t Au
- Hole MM-1: 29.50 m @ 0.54 g/t Au

## **CARSWELL, SASKATCHEWAN**

- Uranium
- 2,425 hectares / 5,993 acres, 1 claim
- 100%-owned (ESO holds 80% interest)

The Carswell property lies within the Athabasca Basin, one of the most prolific uranium regions in the world. The property is adjacent to the past producing Cluff Lake Mine.

Conductors have been confirmed by detailed ground geophysical survey (horizontal loop EM). A boulder from the property assayed 16.9% U3O8 (338 lbs/ton) and 2.9 g/t Au, located up-ice from uranium orebodies mined on the Cluff Lake Mine.

In July of 2008, KRL signed an agreement with ESO Uranium Corp. resulting in ESO having an 80% undivided interest in the property, subject to the delivery of a bankable feasibility study. A drill program to test the conductors has been proposed by ESO.

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**International KRL Resources Corp.**

**Management Discussion and Analysis**

**For the Year Ended May 31, 2009  
(Prepared September 14, 2009)**

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## **DATE**

For the year ended 31 May 2009.

## **INTRODUCTION**

The following management discussion and analysis (MD&A) of the financial position of International KRL Resources Corp. (the “Company”), its 50% owned joint venture and its investment in Golden Harp Resources Inc. (GHR) and results of operations should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended May 31, 2009. The audited annual consolidated financial statements together with the following management discussion and analysis are intended to provide readers with a reasonable basis for assessing the financial performance of the Company as well as forward-looking statements relating to potential future performance. All statements, other than those of historical fact, included in this MD&A, including without limitation, statements regarding potential mineralization and reserves, exploration results and future plans and objectives of the Company, are forward-looking statements that involve various risks and uncertainties. There can be no assurance such statements will prove accurate and actual results and future events could differ materially from those anticipated in such statements.

This MD&A contains certain statements that may constitute “forward looking statements”. Forward looking statements include, but are not limited to, statements regarding future anticipated property acquisitions, the content, cost, timing and results of future anticipated exploration programs, the anticipated discovery and delineation of mineral resources/reserves, proposed business and financing plans (including private placements of equity securities), anticipated business trends and potential future operating revenues. Although the Company believes that such statements are reasonable, it can give no assurance that such expectations will prove to be correct. Forward-looking statements are typically identified by words such as: believe, expect, anticipate, intend, estimate, postulate and similar expressions or are those which, by their nature, refer to future events. The Company cautions investors that any forward-looking statements by the Company are not guarantees of future performance, and that actual results may differ materially from those in forward-looking statements as a result of various factors, including, but not limited to, the Company’s inability to negotiate successfully for the acquisition of interests in mineral properties, the Company’s inability to identify one or more economic deposits on its properties, variations in the nature, quality and quantity of any mineral deposits that may be located, the Company’s inability to obtain any necessary permits, consents or authorizations required for its activities, to produce minerals from its properties successfully or profitably, to continue its projected growth, to raise the necessary capital or to be fully able to implement its business strategies.

Historical results of operations and trends that may be inferred from this MD&A may not necessarily indicate future results from operations. In particular, the current state of the global securities markets may cause significant reductions in the price of the Company’s securities and render it difficult or impossible for the Company to raise the funds necessary to continue operations. See “Risk Factors – Insufficient Financial Resources/Share Price Volatility”.

All of the Company's public disclosure filings, including its most recent management information circular, material change reports, press releases and other information, may be accessed via [www.sedar.com](http://www.sedar.com) and readers are urged to review these materials, including the technical reports filed with respect to the Company's mineral properties.

This MD&A includes material occurring up to and including September 14, 2009.

## **DESCRIPTION OF BUSINESS**

International KRL Resources Corp. was incorporated in the Province of British Columbia. The Company is a reporting issuer in British Columbia and its shares trade on the TSX Venture Exchange under the symbol IRK. The Company is engaged in the acquisition, exploration and development of mineral properties in British Columbia, Saskatchewan, the Yukon Territory, and Quebec. International KRL is currently focusing its exploration activities for base and precious metals on its Nor and Wolf properties in the Yukon Territory. During the fiscal year, the Coyote and Lac d'Or were allowed to lapse. All expenses incurred on these two properties have been written off.

## **OVERALL PERFORMANCE**

The Company recorded its investment in Golden Harp on a fully-consolidated basis until February 29, 2008. Thereafter, the Company's investment in Golden Harp was determined by management to have converted from a controlled entity to an equity investment. At both May 31, 2009 and 2008, the Company owned 10,000,000 shares in Golden Harp. The Company's interest in Golden Harp declined from 65.32% to 40.53% during fiscal 2008 as a result of share issuances by Golden Harp, and from the exercise of stock options and warrants. During fiscal 2009 the Company's interest in Golden Harp remained unchanged at 40.53%.

At this time, the Company does not own any operating mines and has no operating income/sales from mineral production. Funding for operations is raised primarily through public and private share offerings. Future operations and the Company's ability to meet mineral property option commitments are dependent on the Company's ability to raise sufficient funding through share offerings or operations to support current and future expenditures. At May 31, 2009, the Company had working capital deficit of \$260,609.

Realization of the carrying value of mineral interests is dependent upon funding, the ability of the Company and third parties to bring mineral interests into profitable production, or recovery from sale.

The audited annual consolidated financial statements have been prepared on a going concern assumption which contemplates the Company will continue in operation and realize its assets and discharge its liabilities in the normal course of operations. Should the going concern assumption not continue to be appropriate, further adjustments to carrying values may be required.

During the year, the Company raised no cash from private placements. Pursuant to the Company's mineral property option agreements, the Company issued 400,000 shares at fair value ranging from \$0.01 to \$0.03 per share for a total fair value of \$8,000.

The Company spent a total of \$161,485 on mineral interest acquisition and exploration expenditures. Administration expenses amounted to \$363,696 which includes non-cash stock-based compensation totaling \$4,884 and amortization expense totaling \$10,607. There was a net decrease in cash and cash equivalents of \$349,604 for the year.

The Company has decided to discontinue its joint venture operations with respect to the Airborne Magnetometer & Spectrometer asset in order to concentrate on its core business with the available resources. Accordingly, the Company has decided to sell the Airborne Magnetometer & Spectrometer asset. The effect of discontinued Joint Venture operations on current operations is a loss of \$164,927.

## **RESULTS OF OPERATIONS – MINERAL PROPERTIES**

The Company spent a total of \$161,485, on exploration in the current period. The focus of the work in the current period was on the Company's Nor and Wolf properties in the Yukon where expenditures totaled \$101,682 and \$38,672 respectively.

A total of \$21,131, was spent on the Company's remaining mineral interests. Full details on exploration expenditures are disclosed in Note 7 accompanying the audited annual consolidated financial statements for the year ending May 31, 2009. See the mineral property update below, for further details of activities.

## **EXPLORATION EXPENDITURES**

### **Investment in Golden Harp:**

#### **COPPER HILL PROPERTY, Ontario - Gold**

GHR's Copper Hill property is located in the Shining Tree/Gowganda Area of Northern Ontario, and consists of 849 claim units or approximately 17,000 hectares covering 56 sq. miles in the prolific Abitibi Greenstone Belt. Exploration to date has identified five known gold zones and one copper zone. Numerous exploration targets are identified on the property, which warrant follow-up exploration work to be done. Ownership details are listed in Note 7(a) to the 2009 audited consolidated financial statements.

#### **Update on the Spin-off for Copper Hill Property**

International KRL announced that the proposed distribution of 10,000,000 common shares in the capital of Golden Harp Resources Inc. ("Golden Harp" or "GHR"), as previously disclosed in a news release dated December 1, 2006, will not be proceeding.

The GHR shares were received by the Company as consideration for the transfer of certain mineral claims and

leases generally known as the Copper Hill Property to Golden Harp. The Company has previously proposed to distribute all of the Golden Harp shares that it owns to the shareholders of the Company on a pro rata basis as a reduction of stated capital (the "Distribution"), and has obtained shareholder approval for such at the annual general meeting of shareholders of the Company held on November 29, 2006, however such approval was subject to the authority of the directors to revoke the resolution at any time before it is acted upon, and to determine not to proceed with the Distribution.

This decision has been taken as a result of a significant change in the circumstances from the time when the proposed Distribution was initially contemplated in 2006. Important factors include: (i) a long delay in completing an initial public offering and the listing of the Golden Harp shares on the Exchange, which was not completed until March 2008 and was a pre-condition to completing the Distribution; and (ii) unprecedented deterioration in market conditions which have restricted the ability of the Company to raise capital. As a result, the directors of the Company have concluded that it is in the best interest of the Company to retain the Golden Harp shares as an asset of the Company until such time as a potential sale of all or a portion of such shares can be arranged.

#### **Background on Golden Harp Resources Inc.**

GHR was incorporated on May 3, 2006 as a subsidiary of International KRL for the purpose of "spinning -off" to the Company's shareholders its various mineral properties located in the Shining Tree Area in the Abitibi Greenstone Belt of Northeast Ontario.

The Return of Capital Shares were issued to International KRL last in fiscal 2006 year, on May 31, 2006 when 10,000,000 GHR shares were issued to the Company in consideration of the transfer by the Company of the Copper Hill Claims at a deemed issue price of \$0.32 per share. During fiscal year 2008, GHR gained reporting issuer status and completed an initial public offering and listed its shares on the TSX Venture Exchange.

Mr. Young has resigned from the board of directors of GHR as of March 10, 2009.

#### **Exploration Activity on the Copper Hill Property**

Following a successful spring drill program, GHR completed additional diamond drilling in the fall of 2008 consisting of 2 holes (158.9 m) on the Golden Sylvania (GS) Zone and 4 holes (1464.5 m) on or proximal to the MC Zone. All of the holes drilled intersected a significant number of broad low grade gold intercepts suggesting potential for a near surface bulk tonnage deposit and/or the presence of a mineralized halo proximal to higher grade mineralization along strike or at depth. The highlight of the program was the intersection of 14.29 g/t gold over 2 meters (including 20.30 g/t gold over 1 meter) in GH-019, from within a large brittle deformation zone a short distance west of the collars of GH-023 & GH-025, which demonstrates the potential for higher grade mineralization in the system.

Pursuant to an Option Agreement dated March 12, 2009, GHR granted an option to Benton Resources Corp. to acquire 60% of GHR's interest in Block A of the Copper Hill Property. Block A represent 351 claim units of the 855 claim units, including the Cook, and the MC, Decker & Jude. In order to exercise the option, Benton must pay the Company a total of \$75,000 cash, issue a total of 550,000 shares and expend a total of \$2,000,000 on exploration in phases before March 03, 2012. Benton announced their phase two drill program on September 9, 2009

Benton also has the right to acquire an additional 10% in the Copper Hill Property, Block A, increasing their interest to 70% by incurring an additional \$1,000,000 exploration expenses over two years and incurring a

further \$50,000 cash payments. This option must be exercised within 60 days of the 60% interest being earned.

Benton is currently in the midst of earning up to a 70% interest in the property Block A property from Golden Harp.

### **BEAR RIVER PROPERTY, BC - Gold**

The Company's Bear River property is located in the Skeena Mining Division, BC, in the historic Stewart Gold Camp. It consists of three (and a fraction) 100% owned mineral claims (subject to NSR's) representing 31 claim units and a fraction, covering an approximate area of 775 hectares (1,918 acres).

#### **Exploration Activity on the Bear River Property**

Exploration to date identified gold and silver mineralization in epithermal quartz veins and gold with massive sulphides in altered volcanics. With improving markets and exploration conditions in BC, the area is undergoing extensive exploration. The Company is seeking a strategic partnership to take advantage of this cycle and accelerate the evaluation of the mineral potential of the Bear River property.

### **NOR PROPERTY, Yukon - Copper/Gold/Uranium**

The Nor IOCG (iron oxide-copper-gold) property is located on the east flank of the Richardson Mountains, about 65 km east of the Dempster Highway and 395 km north of Dawson City, Yukon Territory. International KRL acquired the right to earn a 100% interest in the Nor property, subject to a 2% NSR by an option agreement signed in October 2004. The terms of the option are detailed in Note 7(b) in the 2009 annual audited consolidated financial statements. Since signing the option, the Company has staked additional ground contiguous to, and in the vicinity of the property.

During fiscal 2007 the Company extended its claim block from 236 claims (48 sq. km) to 448 claims covering approximately 94 sq. km (23,127 acres/9,363 hectares). The property was expanded to secure additional areas of interest including the geophysical expression of the Wernecke Breccia. This property bears striking geological, geochemical and geophysical similarities to the Olympic Dam IOCG type deposit in Australia.

#### **Exploration Activity on the Nor**

During fiscal 2008, International KRL conducted a seven-hole diamond drill program totalling 1,188 metres. Holes NOR 07-12 to -15 targeted the contact zone of a body of Wernecke Breccia with the surrounding Fairchild Lake Group, where notable copper mineralization was intersected in 2006 (e.g. 0.25% Cu over 20m from hole NOR 06-09). Highlights of the drill program include 0.20% Cu over 65 m in NOR 07-15 and 0.14% Cu over 11 m in NOR 07-14. Uranium mineralization observed in surface samples and trenches, with values of 1.3% to 5.54% U<sub>3</sub>O<sub>8</sub> from grab samples over a strike length of more than 1.1 km, was not intersected in the drill program. An airborne radiometric and magnetic survey was also conducted during fiscal 2008, outlining a deep seated intrusive feature towards the east which requires further investigation.

Contingent on raising the necessary financing, International KRL plans to conduct a Titan 24 Magnetotellurics (MT) and IP/Resistivity (DCIP) survey over the property to detect deep mineralization.

## **CARSWELL PROPERTY, Saskatchewan - Uranium**

The Carswell uranium property is located in the uranium-rich Athabasca Basin. The Company's claim, in the Cluff Lake Structure, also known as the Carswell Dome, is flanked by claims of Titan Uranium Corp. to the south and east, Hathor Exploration Ltd. to the north and on the west side by the mining licenses of the past producing Cluff Lake Mine. The claim covers 2,416 hectares (5,970 acres). International KRL granted an option to ESO Uranium Corp. (previously known as Essendon Solutions Inc.) to acquire a 50% interest in the property in return for \$25,000 cash consideration, 200,000 shares and a \$100,000 work commitment (see Note 7 (c) in the 2009 annual audited financial statements). During the year, ESO Uranium Corp. met the terms of the option agreement and has a 50% interest in the property.

Pursuant to a Joint Venture Agreement dated July 24, 2008, the Company granted the third party ESO Uranium Corp. a further 30% interest in the claim, resulting in the third party having a 80% undivided interest in the property, subject to the delivery by the third party of a bankable feasibility study. The Company will retain a carried interest until the feasibility study is delivered, at which time the company will have the choice to take on a 20% participating interest in a new company to operate the production facility or take on a 2% gross overriding royalty for all uranium mineral products and a 2% net smelter returns royalty for all other metals.

The third party will return all the Company's interest in any of the claims upon a decision by the third party to terminate work thereon.

## **TURN RIVER (Yukon)**

In March 2007, the Company and Logan Resources Ltd. jointly acquired the Turn River Project by staking. The property is located in the Cassiar Plateau, approximately 95 km northeast of Whitehorse in the Yukon Territory and has potential for uranium. The Turn River property currently consists of 3,151 claims in twelve non-contiguous blocks, covering an area of 65,866 hectares (162,759 acres). Each company has a 50% interest in the property.

In April 2007, the Company and Logan signed an agreement with Longview Capital Partners Incorporated ("Longview") granting Longview the option to earn a 50% interest in the Turn River project for CDN\$15 million in staged exploration expenditures over five years. The option agreement with Longview was terminated during fiscal 2008 as Longview did not meet the commitments of the agreement.

Both Logan and International KRL Resources Corp. plan to seek a joint venture partner to facilitate further exploration of the Turn River property.

## **WOLF (Yukon)**

The Wolf (silver, lead, zinc) property, previously referred to as the Tim and Kuda property, is located 72km west of Watson Lake, Yukon. The Company acquired the right to earn a 60% interest in the Wolf property from Tarsis Capital Corp. subsequent to an option agreement signed in September 2007. The terms of the option are detailed in Note 7(f) in the 2009 audited annual financial statements. Since signing the option, the Company staked additional ground contiguous to, and in the vicinity of the property, bringing the total to. The property

now consists of 289 claims covering 14,926 acres.

During the spring of 2008, International KRL staked the Coyote claims on the B.C. side of the border, adjoining the Wolf claims. During fiscal 2009, the Coyote claims were allowed to lapse.

Trenching by previous operators uncovered an oxide zone up to 30 m wide which returned 352.4 g/t Ag and 9.12% Pb over 4 metres.

### **Exploration Activity on the Wolf**

During the spring of fiscal year 2008, International KRL conducted a five-hole diamond drill program on the Wolf to target coincident induced polarization (IP) and soil geochemical anomalies.

Some encouraging mineralization was encountered in the preliminary drill holes. Iron sulphide (pyrite) mineralization was noted in all holes and intense silicification was noted in the final hole (W-08-05). Copper, lead and zinc sulphides (chalcopyrite, galena, and sphalerite) were intersected in minor amounts. Intervals of elevated values include 10.6 g/t Ag, 0.21% Pb, and 0.83% Zn over four meters in hole W-08-01. A program of MMI soil sampling has been recommended to identify additional targets in a cost effective manner.

### **LAC D'OR (Quebec)**

During the 2008 fiscal year, International KRL obtained by staking the Lac d'Or property in the James Bay region of northern Quebec. The property is 100%-owned by the Company and consists of 72 mineral claims and covers an approximate area of 3,800 hectares.

During fiscal 2009, due to the current economic climate and difficulties to raise money, the Company decided not to do any further work on the property and to allow this property to expire.

### **SELECTED ANNUAL INFORMATION**

	May 31, 2009	May 31, 2008	May 31, 2007	May 31, 2006
Net income (loss)	(652,727)	(647,421)	(1,894,578)	(187,656)
Net income (loss) per share (basic and diluted)	(0.01)	(0.01)	(0.03)	0.00
Total assets	8,126,701	8,847,818	10,701,277	9,467,561

As the Company has no revenues, increased exploration activity and operations causes an increase in losses. Other losses can be caused by write-downs or write-offs of carrying value of impaired mineral assets.

## RESULTS OF OPERATIONS

Net loss in the current year was \$652,727 compared to a net loss of \$647,421 for the prior year, reflecting a net overall decrease in loss of \$5,306. Significant line item changes were as follows:

- Gain on dilution on shares issued by GHR was \$294,973 in the prior year compared to \$Nil in the current year due to a change to the equity accounting method and no shares being issued by GHR
- Impairment loss was \$28,029 due to the abandonment of the Coyote claims of the Wolf project and the Lac d'Or claims compared to a loss in the prior year of \$211,367 due to the abandonment of the U-Claims and the White River Copper properties. This resulted in a net decrease in loss of \$183,338 from the prior year.
- Professional fees decreased by \$135,912 due to the decreased activities associated with the spin-off of the Copper Hill property to GHR and GHR seeking reporting issuer status. GHR expenses were not consolidated during fiscal 2009.
- Stock-based compensation decreased by \$133,723 and current year expense only reflects vesting rights on incentive stock options issued in fiscal 2008.
- Amortization decreased by \$39,992 mainly due to no amortization of the new Airborne Field equipment in the joint venture with Logan Resources Ltd being disclosed as Discontinued Joint Venture and GHR assets not consolidated.
- Interest income decreased by \$34,870 due to the decrease in cash and investments.
- Future Income Tax recovery decreased by \$336,000 because there were no flow-through shares issued and renounced in the current year.

## SUMMARY OF QUARTERLY RESULTS

(Prepared in accordance with Canadian generally accepted accounting principals and expressed in Canadian dollars)

	May 31, 2009	Feb 29, 2009	Nov 30, 2008	Aug 31, 2008	May 31, 2008	Feb 29, 2008	Nov 30, 2007	Aug 31, 2007
Net income (loss)	(246,962)	(27,379)	(198,513)	(179,873)	(33,125)	3,109	(506,476)	(110,929)
Net income (loss) per share (Basic and diluted)	(0.004)	(0.000)	(0.003)	(0.003)	(0.001)	0.000	(0.008)	(0.002)

## LIQUIDITY

At May 31, 2009, the Company had a negative working capital of \$260,609 which management considers to be insufficient to continue operations for the coming year. In addition there are insufficient funds to meet all operational and property commitments as they now stand. The Company will be seeking further funding from private placement financings to meet these commitments or may seek extensions to the exploration schedule. Also, in the longer term, in order to continue operations, and in particular, to fund ongoing expenditure commitments listed below and in the note 7 to the financial statements, the Company will need to raise additional capital. The Company plans to do this through private placements and public offerings.

## CAPITAL RESOURCES AND EXPLORATION EXPENDITURE COMMITMENTS

The Nor and Wolf properties are held under option agreements. During the fiscal year 2008 the Company entered into a property mineral option agreement with Tarsis Capital Corp. to earn 60% interest in the original 10 claims of the Wolf property. International KRL Resources Corp. staked an additional 300 claims and the Wolf property now consists of 310 claims. The Company terminated the property option agreements to earn 100% interest in the Coyote claims of the Wolf project and the Lac d'Or claims.

Under the Nor property agreement, International KRL had to pay a total of \$207,500 cash and issue a total of 1,000,000 shares. These obligations were fulfilled and the Company now owns a 100% interest in the NOR property, subject to the 2% NSR royalty as described in the annual financial statements.

Under the option agreement for the Wolf property, the Company is up to date with its obligations to date. The Company must issue a further 300,000 shares to Tarsis Capital Corp. and must spend a total of \$750,000 in aggregate before October 14, 2009 (expended). Details of these requirements are listed in the notes to the consolidated audited annual consolidated financial statements.

## **OFF BALANCE SHEET ARRANGEMENTS:**

The Company has no off-balance sheet arrangements that would potentially affect current or future operations, or the financial condition of the Company.

## **TRANSACTIONS WITH RELATED PARTIES**

For details of related party transactions, the reader is directed to Note 13 and comments included in the May 31, 2009 audited annual financial statements. Additional details are as follows:

International KRL Resources Corp. pays a company controlled by the President of the Company, Seamus Young, \$5,000 per month for management and consulting services in relation to the evaluation, acquisition, maintenance and exploration of International KRL's mineral properties plus a per diem for supervision time spent at the properties; and \$5,000 per month for general office administration services including financing, liaison with professionals, continuous disclosure and general office functions (management fees). A total of \$70,000 fees was unpaid and accrued as management fees during fiscal 2009. The company also owed \$9,132 to the president of the Company for expenses paid on behalf of the Company.

Logan Resources Ltd. is a resource exploration company that has a common Director with International KRL, including the President of both companies, Seamus Young. Amounts owed to Logan Resources Ltd. of \$48,704, represents amounts billed under a cost sharing arrangement with Logan Resources Ltd. for office space and administrative services.

## **FOURTH QUARTER COMPARISON**

For the three months ended May 31, 2009 the general and administration expenses totaled \$16,242 compared to \$69,212 in Q4-2008 resulting in a decrease of \$52,970. The majority of the decrease was a result of lower stock based compensation and administration salaries.

Administration salaries expenses were \$2,641 in Q4-2009 (Q4-2008: \$51,914). The \$49,273 decrease is attributed to savings due to reduced office activity and salaries.

Stock-based compensation of \$637 in Q4-2009 (Q4-2008: \$42,084) reflects vesting rights on incentive stock options issued in fiscal 2008. The decrease of \$41,447 is due to the fact that no incentive stock options were issued during 2009.

## **PROPOSED TRANSACTIONS**

The Company is in the process of raising \$150,000 by issuing 10,000,000 non-flow-through units through a non-brokered private placement at a price of \$0.015 per unit for total proceeds of \$150,000. Each non-flow-through-unit consists of one non-flow-through common share and one non-flow-through share purchase

warrant. Each Warrant is exercisable for a period of 60 months at a price of \$0.05 per year for the first year, and at \$0.10 per share for the balance of the term of the warrant.

## **SUBSEQUENT EVENTS**

- a.) Mr Mike Muzylowski resigned as a member of the board of directors effective July 9, 2009, for personal reasons after serving seventeen years on the board. The Company expresses its appreciation for his contribution to the company and wishes him all the best in his future endeavours.
- b.) The Company appointed Mr Shaun Maskerine as member of the board of directors. He has considerable experience in structuring and administration of public resource companies. He has been involved in venture capital and public companies for over 12 years and in that time has held a number of senior management and board positions. Mr. Maskerine was most recently a director and corporate secretary of Waratah Coal Inc. an Australian coal exploration company, prior to its takeover on December 2008. He is currently Corporate secretary of Leisure Canada Inc. and X-Ta Minerals Corp.
- c.) Ms. Judith Mazvihwa has resigned as Chief Financial Officer and director effective August 7, 2009. The Company thanks Ms. Mazvihwa for her many years of dedicated service and wishes her well in her future endeavours.
- d.) The Company has appointed Mr. Abdul Allibhai as Chief Financial Officer. Mr Allibhai is a chartered accountant and has managed his own accounting practice for over 25 years.
- e.) The first tranche of a private placement was closed. The Company has issued 3,300,000 non-flow-through units through a non-brokered private placement at a price of \$0.015 per unit for total proceeds of \$49,500. Each non-flow-through-unit consists of one non-flow-through common share and one non-flow-through share purchase warrant. Each Warrant is exercisable for a period of 60 months at a price of \$0.05 per year for the first year, and at \$0.10 per share for the balance of the term of the warrant. The proceeds from the offering will be used for general working capital, and the Company will continue to offer the remaining 6,700,000 units contemplated by the original news release.
- f.) The Company and Logan Resources Ltd. have decided to cancel the Joint Venture agreement and the proportionate assets and liabilities were taken into the books of the respective companies.
- g.) The Company sold the Airborne Magnetometer and Spectrometer for \$85,500 net. The Company received the first 10% non refundable deposit against purchase. The next payment of 50% will be on or before 30 September 2009 which will allow shipment of all the equipment to the original supplier for upgrade and testing. The final payment of 40% will be on or before 31 October 2009 prior to shipment of the equipment to the purchaser.

## **ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective June 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants' ("CICA") Handbook:

- (a) Capital Disclosures (Section 1535)

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures for managing

capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in note 3[q].

(b) Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (section 3863)

Section 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 3[r].

(c) General Standards of Financial Statement Presentation (Section 1400)

The Company adopted the CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to provide revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have any significant impact on the Company's financial statements.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In February 2008, the Accounting Standards Board issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450,

“Research and Development Costs”. Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for interim and annual periods relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company’s financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

## **RISK FACTORS**

The Company is in the business of acquiring, exploring and, if warranted, developing and exploiting natural resource properties in Canada. Due to the nature of the Company’s proposed business and the present stage of exploration of its mineral properties (which are primarily early stage exploration properties with no known resources or reserves), the following risk factors, among others, will apply:

***Resource Exploration and Development is Generally a Speculative Business:*** Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these

factors may result in the Company not receiving an adequate return on invested capital. There is no known resource, and there are no known reserves, on most of the Company’s properties. The vast majority of exploration projects do not result in the discovery of commercially mineable deposits of ore. Substantial expenditures are required to establish ore reserves through drilling and metallurgical and other testing techniques, determine metal content and metallurgical recovery processes to extract metal from the ore, and construct, renovate or expand mining and processing facilities. No assurance can be given that any level of recovery of ore reserves will be realized or that any identified mineral deposit, even it is established to contain an estimated resource, will ever qualify as a commercial mineable ore body which can be legally and economically exploited.

***Fluctuation of Metal Prices:*** Even if commercial quantities of mineral deposits are discovered by the Company, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations

of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any commodities will be such that any of the properties in which the Company has, or has the right to acquire, an interest may be mined at a profit.

***Insufficient Financial Resources/Share Price Volatility:*** The Company has raised additional private placement financing in the fiscal year ended May 31, 2009. However, the Company does not have sufficient financial resources to undertake all of its planned acquisition, exploration and development programs in the financial year ending March 31, 2010, and will need to raise additional funding. In the future, the Company's ability to continue its exploration, assessment, and development activities depends primarily on the Company's ability to commence operations and generate revenues or to obtain financing through joint ventures, debt financing, equity financing, production sharing arrangements, sale of assets or some combination of these or other means. There can be no assurance that any such arrangements will be concluded and the associated funding obtained. There can be no assurance that the Company will generate sufficient revenues to meet its obligations as they become due or will obtain necessary financing on acceptable terms, if at all. The failure of the Company to meet its on-going obligations on a timely basis will likely result in the loss or substantial dilution of the Company's interests in its properties. The Company's priority is to maintain its properties (all of which have minimal holding costs during the financial year ending March 31, 2010). In addition, should the Company incur significant losses in future periods, it may be unable to continue as a going concern, and realization of assets and settlement of liabilities in other than the normal course of business may be at amounts significantly different from those reflected in its current financial statements.

Recent market events and conditions, including disruptions in the Canadian, United States and international credit markets and other financial systems and the deterioration of the Canadian, United States and global economic conditions, could, among other things, impede access to capital or increase the cost of capital, which would have an adverse effect on the Company's ability to fund its working capital and other capital requirements. In 2007 and into 2008, the U.S. credit markets began to experience serious disruption due to a deterioration in residential property values, defaults and delinquencies in the residential mortgage market (particularly, subprime and non-prime mortgages) and a decline in the credit quality of mortgage backed securities. These problems led to a slow-down in residential housing market transactions, declining housing prices, delinquencies in non-mortgage consumer credit and a general decline in consumer confidence. These conditions continued and worsened in 2008 and into 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by the U.S. and foreign governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. In addition, general economic indicators have deteriorated, including declining consumer sentiment, increased unemployment and declining economic growth and uncertainty about corporate earnings. These unprecedented disruptions in the current credit and financial markets have had a significant material adverse impact on a number of financial institutions and have limited access to capital and credit for many companies, particularly junior resource exploration companies such as the Company. These disruptions could, among other things, make it more difficult for the Company to obtain, or increase its cost of obtaining, capital and financing for its

operations. The Company's access to additional capital may not be available on terms acceptable to the Company or at all. In recent months, worldwide securities markets, particularly those in the United States and Canada, have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered exploration or development stage companies, have experienced unprecedented declines in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. Most significantly, the share prices of junior natural resource companies have experienced an unprecedented decline in value and there has been a significant decline in the number of buyers willing to purchase such securities. In addition, significantly higher redemptions by holders of mutual funds has forced many of such funds to sell such securities at any price. As a consequence, despite the Company's past success in securing significant equity financing, market forces may render it difficult or impossible for the Company to secure places to purchase new share issues at a price which will not lead to severe dilution to existing shareholders, or at all. Therefore, there can be no assurance that significant fluctuations in the trading price of the Company's common shares will not occur, or that such fluctuations will not materially adversely impact on the Company's ability to raise equity funding without significant dilution to its existing shareholders, or at all.

***Mining Industry is Intensely Competitive:*** The Company's business of the acquisition, exploration and development of mineral properties is intensely competitive. The Company may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Company. The Company may also encounter increasing competition from other mining companies in efforts to hire experienced mining professionals. Increased competition could adversely affect the Company's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

***Permits and Licenses:*** The operations of the Company will require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects, on reasonable terms or at all. Delays or a failure to obtain such licenses and permits or a failure to comply with the terms of any such licenses and permits that the Company does obtain, could have a material adverse effect on the Company.

***Government Regulation:*** Any exploration, development or mining operations carried on by the Company will be subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In addition, the profitability of any mining prospect is affected by the market for precious and/or base metals which is influenced by many factors including changing production costs, the supply and demand for metals, the rate of inflation, the inventory of metal producing corporations, the political environment and changes in international investment patterns.

***Environmental Restrictions:*** The activities of the Company are subject to environmental regulations promulgated by government agencies in different countries from time to time. Environmental legislation generally provides for restrictions and prohibitions on spills, releases or emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Certain types of operations

require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

***Dependence Upon Others and Key Personnel:*** The success of the Company's operations will depend upon numerous factors, many of which are beyond the Company's control, including (i) the ability to design and carry out appropriate exploration programs on its mineral properties; (ii) the ability to produce minerals from any mineral deposits that may be located; (iii) the ability to attract and retain additional key personnel in exploration, marketing, mine development and finance; and (iv) the ability and the operating resources to develop and maintain the properties held by the Company. These and other factors will require the use of outside suppliers as well as the talents and efforts of the Company and its consultants and employees. There can be no assurance of success with any or all of these factors on which the Company's operations will depend, or that the Company will be successful in finding and retaining the necessary employees, personnel and/or consultants in order to be able to successfully carry out such activities.

***Title Matters:*** Although the Company has taken steps to verify the title to the mineral properties in which it has or has a right to acquire an interest in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title (whether of the Company or of any underlying vendor(s) from whom the Company may be acquiring its interest). Title to mineral properties may be subject to unregistered prior agreements or transfers, and may also be affected by undetected defects or the rights of indigenous peoples. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties for which titles have been issued are in good standing.

***Acquisition of Mineral Properties under Agreements:*** The agreements pursuant to which the Company has the right to acquire a number of its properties provide that the Company must make a series of cash payments and/or share issuances over certain time periods, expend certain minimum amounts on the exploration of the properties or contribute its share of ongoing expenditures. The Company does not presently have the financial resources required to make all payments and complete all expenditure obligations under its all of its various property acquisition agreements over their full term. Failure by the Company to make such payments, issue such shares or make such expenditures in a timely fashion may result in the Company losing its interest in such properties. There can be no assurance that the Company will have, or be able to obtain, the necessary financial resources to be able to maintain all of its property agreements in good standing, or to be able to comply with all of its obligations thereunder, with the result that the Company could forfeit its interest in one or more of its mineral properties.

***Exploration and Mining Risks:*** Fires, power outages, labour disruptions, flooding, explosions, cave-ins, land slides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the operation of mines and the conduct of exploration programs. Substantial expenditures are required to establish reserves through drilling, to develop metallurgical processes, to develop the mining and processing facilities and infrastructure at any site chosen for mining. Although substantial benefits may be derived from the discovery of a major mineralized deposit, no assurance can be given that minerals will be discovered in sufficient quantities to justify commercial operations or that funds required for development can be obtained on

a timely basis. The economics of developing mineral properties is affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Short term factors, such as the need for orderly development of ore bodies or the processing of new or different grades, may have an adverse effect on mining operations and on the results of operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under on-site conditions or in production scale operations. Material changes in geological resources, grades, stripping ratios or recovery rates may affect the economic viability of projects.

***Regulatory Requirements:*** The activities of the Company are subject to extensive regulations governing various matters, including environmental protection, management and use of toxic substances and explosives, management of natural resources, exploration, development of mines, production and postclosure reclamation, exports, price controls, taxation, regulations concerning business dealings with indigenous peoples, labour standards on occupational health and safety, including mine safety, and historic and cultural preservation. Failure to comply with applicable laws and regulations may result in civil or criminal fines or penalties, enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions, any of which could result in the Company incurring significant expenditures. The Company may also be required to compensate those suffering loss or damage by reason of a breach of such laws, regulations or permitting requirements. It is also possible that future laws and regulations, or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expense, capital expenditures, restrictions on or suspension of the Company's operations and delays in the exploration and development of the Company's properties.

***Limited Experience with Development-Stage Mining Operations:*** The Company has very limited experience in placing mineral resource properties into production, and its ability to do so will be dependent upon using the services of appropriately experienced personnel or entering into agreements

with other major resource companies that can provide such expertise. There can be no assurance that the Company will have available to it the necessary expertise when and if it places its resource properties into production.

***Uncertainty of Resource Estimates/Reserves:*** Unless otherwise indicated, mineralization figures presented in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time are based upon estimates made by Company personnel and independent geologists and engineers. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. There can be no assurance that:

- these estimates will be accurate;
- reserves, resource or other mineralization figures will be accurate; or
- this mineralization could be mined or processed profitably.

Because the Company has not commenced production at any of its properties, and has not defined or delineated any proven or probable reserves on any of its properties, mineralization estimates for the Company's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by drilling results. There can be no assurance that minerals recovered in small-scale tests will be duplicated in large-scale tests under on-site conditions or in production scale. The resource estimates contained in the Company's filings with securities regulatory authorities, press releases and other public statements that may be made from time to time have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold, silver, copper, iron or other metals may render portions of the Company's mineralization uneconomic and result in reduced reported mineralization. Any material reductions in estimates of mineralization, or of the Company's ability to extract this mineralization, could have a material adverse effect on the Company's results of operations or financial condition. The Company has not established the presence of any proven or probable reserves at any of its mineral properties. There can be no assurance that subsequent testing or future studies will establish any proven or probable reserves at the Company's properties. The failure to establish proven or probable reserves could restrict the Company's ability to successfully implement its strategies for long-term growth.

**No Assurance of Profitability:** The Company has no history of earnings and, due to the nature of its business there can be no assurance that the Company will ever be profitable. The Company has not paid dividends on its shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the sale of its common shares or, possibly, from the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through further equity offerings or through the sale or possible syndication of its properties, there can be no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.

**Uninsured or Uninsurable Risks:** The Company may become subject to liability for pollution or hazards against which it cannot insure or against which it may elect not to insure where premium costs are disproportionate to the Company's perception of the relevant risks. The payment of such insurance premiums and of such liabilities would reduce the funds available for exploration and production activities.

## **OUTSTANDING SHARE CAPITAL**

At September 14, 2009, the Company had the following number of securities outstanding:

<b>Securities</b>	<b>Number</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
Common shares issued and outstanding	70,239,641	N/A	N/A
Share purchase warrants	3,300,000	\$0.05	6 August 2014
Share purchase options	1,550,000	\$0.15	3 March 2010 to 1 May 2010
Fully diluted share Capital	75,089,641	N/A	N/A

## **ADDITIONAL INFORMATION**

Additional information relating to the Company's operations and activities can be found by visiting the Company's website at [www.krl.net](http://www.krl.net) and by accessing the Company's news releases and filings on the SEDAR website: [www.sedar.com](http://www.sedar.com)

## **DISCLAIMER**

The information provided in this document is not intended to be a comprehensive review of all matters concerning the Company. The users of this information, including but not limited to investors and prospective investors, should read it in conjunction with all other disclosure documents provided including but not limited to all documents filed on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)) No securities commission or regulatory authority has reviewed the accuracy or adequacy of the information presented herein.

**INTERNATIONAL KRL RESOURCES CORP.**  
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**BRITISH COLUMBIA**  
**V6E 3X1**  
**TEL: (604) 689-0299**  
**FAX: (604) 689-0288**

## **CORPORATE INFORMATION**

### **1. DIRECTORS**

Seamus Young, Vancouver, British Columbia  
Clifford H. Frame, Toronto, Ontario  
Shaun Maskerine, Vancouver, British Columbia

### **2. OFFICERS**

Seamus Young, President and CEO  
Abdul R. Allibhai, CFO

### **3. REGISTERED OFFICE AND LEGAL COUNSEL**

Miller Thomson LLP  
Robson Court  
1000-840 Howe Street  
Vancouver, BC  
V6Z 2M1

### **4. AUDITORS**

Manning Elliott, LLP Chartered Accountants  
11<sup>th</sup> Floor  
1050 West Pender Street  
Vancouver, BC  
V6E 3S7

### **5. TRADE SYMBOL**

IRK: TSX-Venture

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**INTERNATIONAL KRL RESOURCES CORP.  
CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
MAY 31, 2009 AND 2008**

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MANNING ELLIOTT  
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7

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## AUDITORS' REPORT

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To the Shareholders of  
International KRL Resources Corp.  
(An Exploration Stage Company)

We have audited the consolidated balance sheets of International KRL Resources Corp. (An Exploration Stage Company) as at May 31, 2009 and 2008, and the consolidated statements of operations and deficit, comprehensive loss, accumulated other comprehensive loss, 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 May 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.

*Manning Elliott LLP*

Chartered Accountants

Vancouver, British Columbia

September 15, 2009

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****CONSOLIDATED BALANCE SHEETS****AS AT MAY 31, 2009 AND 2008**(Expressed in Canadian Dollars)

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	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 6,630	\$ 356,234
Marketable securities	11,540	29,865
Amounts receivable	2,414	46,477
Prepaid expenses and deposits	23,196	144,874
Due from related parties (Note 13(b))	-	22,703
	43,780	600,153
Property and equipment (Note 6)	104,338	161,653
Investment in Golden Harp (Note 8)	2,291,427	2,380,548
Mineral Properties (Note 7)	5,601,656	5,465,697
Equipment Relating to Discontinued Operations (Note 5)	85,500	239,767
	\$ 8,126,701	\$ 8,847,818
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 176,553	\$ 367,338
Due to related parties (Note 13(b))	127,836	-
	304,389	367,338
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 9)	16,280,011	16,272,011
CONTRIBUTED SURPLUS (Note 12)	799,464	794,580
ACCUMULATED OTHER COMPREHENSIVE LOSS	(52,795)	(34,470)
DEFICIT	(9,204,368)	(8,551,641)
	7,822,312	8,480,480
	\$ 8,126,701	\$ 8,847,818

NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS (Note 1)

COMMITMENTS (Notes 7 and 16)

SUBSEQUENT EVENTS (Note 17)

Approved on Behalf of the Board:

/s/ "Seamus Young"

Seamus Young, Director

/s/ "Shaun Maskerine"

Shaun Maskerine, Director

(The Accompanying Notes are an Integral Part of these Consolidated Financial Statements)

**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

(Expressed in Canadian Dollars)

	<b>2009</b>	<b>2008</b>
REVENUE	\$ —	\$ —
EXPENSES		
Administration salaries	57,916	154,106
Amortization	10,607	16,346
Management fees (Note 13(a))	95,000	173,414
Office and miscellaneous (Note 13(a))	89,552	148,315
Professional fees	62,779	198,691
Stock-based compensation (Note 10)	4,884	138,607
Transfer agent and filing fees	15,353	48,824
Travel and promotion	27,605	237,489
	<u>363,696</u>	<u>1,115,792</u>
LOSS BEFORE OTHER INCOME (EXPENSE)	<u>(363,696)</u>	<u>(1,115,792)</u>
OTHER INCOME (EXPENSE)		
Dilution income on share issuance (Note 8)	—	294,973
Impairment loss on mineral properties (Note 7)	(28,029)	(211,367)
Loss from equity investment (Note 8)	(89,121)	(71,298)
Gain on option of mineral property	1,943	37,108
(Loss) Gain on disposal of property and equipment	(10,000)	15,763
Interest income	1,103	35,973
Penalty on unexpended flow-through funds	—	(51,210)
	<u>(124,104)</u>	<u>49,942</u>
LOSS BEFORE DISCONTINUED JOINT VENTURE, INCOME TAXES AND NON-CONTROLLING INTEREST	<u>(487,800)</u>	<u>(1,065,850)</u>
Loss on Discontinued Joint Venture	(164,927)	(27,211)
LOSS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	<u>(652,727)</u>	<u>(1,093,061)</u>
FUTURE INCOME TAX RECOVERY (Note 14)	—	336,000
NON-CONTROLLING INTEREST (Note 8)	—	109,640
NET LOSS FOR THE YEAR	<u>(652,727)</u>	<u>(647,421)</u>
DEFICIT - BEGINNING OF YEAR	<u>(8,551,641)</u>	<u>(7,904,220)</u>
DEFICIT - END OF YEAR	<u>\$ (9,204,368)</u>	<u>\$ (8,551,641)</u>
NET LOSS PER SHARE - BASIC AND DILUTED	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
WEIGHTED AVERAGE SHARES OUTSTANDING	<u>66,773,614</u>	<u>66,298,000</u>

(The Accompanying Notes are an Integral Part of these Consolidated Financial Statements)

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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	2009	2008
	\$	\$
Net Loss for the Year	(652,727)	(647,421)
Other Comprehensive loss:		
Unrealized loss on available for sale marketable securities	(18,325)	(47,977)
<b>Comprehensive loss</b>	<b>(671,052)</b>	<b>(695,398)</b>

## Consolidated Statements of Accumulated Other Comprehensive Loss

For the Years Ended March 31, 2009 and 2008

**(Expressed in Canadian Dollars)**

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	2009	2008
	\$	\$
Opening Accumulated other Comprehensive loss	(34,470)	–
New accounting policy, June 1, 2007	–	13,507
Unrealized loss on available for sale marketable securities	(18,325)	(47,977)
<b>Closing Accumulated other Comprehensive loss</b>	<b>(52,795)</b>	<b>(34,470)</b>

(The Accompanying Notes are an Integral Part of these Consolidated Financial Statements)

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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	<b>2009</b>	<b>2008</b>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (652,727)	\$ (647,421)
Items not involving cash		
Amortization	10,607	16,346
Future income tax recovery	–	(336,000)
Impairment loss on mineral property	28,029	211,367
Gain on option of mineral property	(1,943)	(37,108)
Loss (gain) on sale of property and equipment	10,000	(15,763)
Loss on discontinued joint venture	154,267	34,253
Stock-based compensation	4,884	138,607
Dilution (gain) loss on share issuances	–	(294,973)
Non-controlling interest	–	(109,640)
Loss from equity investment	89,121	71,298
	<hr/> (357,762)	<hr/> (969,034)
Changes in non-cash working capital items		
Amounts receivable	44,063	(3,736)
Prepaid expenses and deposits	121,678	52,044
Accounts payable and accrued liabilities	(190,785)	261,481
Due from related parties	22,703	401,467
Due to related parties	127,836	–
	<hr/> (232,267)	<hr/> (257,778)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<hr/> (232,267)	<hr/> (257,778)
<b>INVESTING ACTIVITIES</b>		
Proceeds on sale of short-term investments	–	1,500,000
Acquisition of property and equipment	–	(422,868)
Proceeds on sale of property and equipment	36,708	36,823
Proceeds received on property option agreements	7,440	588,029
Acquisition of and expenditures on mineral properties	(161,485)	(2,304,515)
Deconsolidation of Golden Harp	–	320,736
	<hr/> (117,337)	<hr/> 281,795
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<hr/> (117,337)	<hr/> 281,795
<b>FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares – Golden Harp	–	108,500
	<hr/> –	<hr/> 108,500
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<hr/> –	<hr/> 108,500
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<hr/> (349,604)	<hr/> (431,073)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	<hr/> 356,234	<hr/> 787,307
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<hr/> \$ 6,630	<hr/> \$ 356,234

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(The Accompanying Notes are an Integral Part of these Consolidated Financial Statements)

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**(Expressed in Canadian Dollars)

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## NON-CASH FINANCING AND INVESTING ACTIVITIES

Marketable securities received pursuant to a mineral property option agreement	\$	–	–
Issuance of shares pursuant to mineral property option agreements		8,000	58,000
Issuance of shares for finders' fees		–	11,330

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## SUPPLEMENTAL INFORMATION

Interest paid	\$	–	–
Income tax paid		–	–

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(The Accompanying Notes are an Integral Part of these Consolidated Financial Statements)

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS**

International KRL Resources Corp. ("the Company") was incorporated in the Province of British Columbia and is primarily engaged in the acquisition, exploration and development of mineral properties throughout Canada. There has been no determination whether properties held contain ore reserves, which are economically recoverable. In the ordinary course of business, the Company sells or options its mineral property interests to third parties, accepting as consideration cash and/or securities of the acquiring party. The Company is a public company listed on the TSX Venture Exchange.

The recoverability of valuations assigned to mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the properties, the ability to obtain necessary financing to complete development, and future profitable production or proceeds from disposition.

The Company incurred a loss before future income tax recovery of \$566,965 during the year ended May 31, 2009 (2008 - \$1,093,061) and had a deficit of \$9,118,606 at May 31, 2009 (2008 - \$8,551,641) which has been funded primarily by the issuance of equity. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. There is substantial doubt that the entity will continue as a going concern.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business, and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

**2. ADOPTION OF NEW ACCOUNTING STANDARDS**

Effective June 1, 2008, the Company adopted the following standards of the Canadian Institute of Chartered Accountants' ("CICA") Handbook:

**(a) Capital Disclosures (Section 1535)**

Section 1535 specifies the disclosure of: (i) an entity's objectives, policies and procedures for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

As a result of the adoption of this standard, additional disclosure on the Company's capital management strategy have been included in note 3[o].

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**2. ADOPTION OF NEW ACCOUNTING STANDARDS (continued)**

- (b) Financial Instruments – Disclosures (Section 3862) and Financial Instruments – Presentation (section 3863)

Section 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosures and Presentation", revising its disclosure requirements, and carrying forward its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Section 3862 specifies disclosures that enable users to evaluate: (i) the significance of financial instruments for the entity's financial position and performance; and (ii) the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

As a result of the adoption of these standards, additional disclosures on the risks of certain financial instruments have been included in note 3[r].

- (c) General Standards of Financial Statement Presentation (Section 1400)

The Company adopted the CICA Handbook Section 1400, "General Standards of Financial Statement Presentation", to provide revised guidance on management's responsibility to assess and disclose the Company's ability to continue as a going concern. The adoption of this standard did not have any significant impact on the Company's financial statements.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- (a) Basis of presentation

These financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles prepared on a consolidated basis and include the accounts of the Company and its 50% share of the assets, liabilities, other income and expenses of the joint venture formed on November 15, 2007, on a proportionate consolidation basis in accordance with CICA Handbook Section 3055, "Interests in Joint Ventures". All inter-company transaction and balances have been eliminated upon consolidation.

These consolidated financial statements also include 100% of the operations of Golden Harp Resources Inc. ("Golden Harp") beginning May 31, 2006 to November 30, 2006 and 65.32% of the operations of Golden Harp from Dec. 1, 2006 to February 29, 2008 resulting from the issuance of shares to outside interests. As of February 29, 2008, Golden Harp's financial statements are no longer consolidated as a result of the issuance of shares to outside interests decreasing the Company's ownership percentage to 40.53%. As a result, the Company's ownership is now accounted for on the equity method.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(b) 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 at the date of the financial statements and revenues and expenses for the period reported. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the impairment of mineral properties, valuation allowance for future income tax assets and stock-based compensation.

In assessing the underlying values of resource properties, management considers the exploration and development plans and any future operation of the resource properties. These arrangements may, and likely will, change in the future in response to changes in business conditions, and these changes may impact the Company's estimates of cash flows. As a result, actual results could differ from current estimates.

**(c) Cash and cash equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**(d) Short-term investments**

Short-term investments consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase. Short-term investments are recorded at the lower of cost plus accrued interest or fair market value.

**(e) Marketable securities**

Marketable securities are recorded at fair market value with the corresponding unrealized gain or loss recorded in other comprehensive income until sold or considered impaired at which time it is recorded in net income. As at May 31, 2009, the fair market value of the securities held was \$11,540 (May 31, 2008 - \$29,865).

**(f) Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining balance method over the estimated useful lives at the following annual rates:

Computer equipment	30%	
Computer software	50%	
Office and field equipment	20%	
Vehicle	30%	
Field equipment – Airborne	25%	Straight - line

In the year of acquisition, amortization is recorded at one-half the above rates.

**(g) Investments**

Investments in which the Company has a significant influence are accounted for by the equity method, whereby the Company records its proportionate share of the investee's income or loss.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(h) Mineral properties and deferred expenditures**

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against future income of the project using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are charged to operations.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contains economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

**(i) Long-lived assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

**(j) Asset retirement obligations**

The Company follows the recommendations of the CICA Handbook Section 3110, with respect to asset retirement obligations. This standard required liability recognition for retirement obligations associated with the Company's resource properties. The standard required the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statements of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties. At May 31, 2009 and 2008 the Company did not have any asset retirement obligations.

**(k) Income taxes**

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(l) Flow-through shares**

The Company follows the recommendations of EIC 146 with respect to flow-through shares. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and the share capital is reduced.

If the Company has sufficient unrecognized tax losses or other future income tax assets to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these future income tax assets, a portion of such unrecognized losses is recorded as tax recovery up to the amount of the future income tax liability that would otherwise have been recognized on the renounced expenditures.

**(m) Non-controlling interests**

As described in note 3(a), during the previous year the Company's accounting for its investment in Golden Harp changed from the consolidation method of accounting to the equity method of accounting. Accordingly, Golden Harp's results of operations from June 1, 2007 to February 29, 2008 are presented on a consolidated basis reflecting 100% of the results of operations of Golden Harp with an offsetting proportionate allocation to non-controlling interests of approximately 35%.

When the Company's subsidiary or equity investee issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's proportionate share of the proceeds and the carrying value of the underlying equity.

**(n) Stock-based compensation**

The Company follows the recommendations in CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which provides standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. In accordance with these recommendations, stock options granted are recorded at their fair value over the vesting period as a compensation cost with a corresponding increase in contributed surplus. Agents' warrants issued in connection with common share placements are recorded as share issuance costs with a corresponding increase in contributed surplus. When the options and warrants are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

**(o) Income (loss) per share**

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted income (loss) per share. The existence of warrants and options affects the calculation of income (loss) per share on a fully diluted basis. As the effect of this dilution is to increase the reported income per share and reduce the reported loss per share and diluted loss per share excludes all potential common shares if their effect is anti-dilutive, basic and diluted loss are the same.

**(p) Government assistance**

Mining exploration tax credits for certain exploration expenditures incurred in BC and Yukon Territory are treated as a reduction of the exploration and development costs of the respective mineral property.

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**INTERNATIONAL KRL RESOURCES CORP.**

**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

(Expressed in Canadian Dollars)

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares.

The Company includes the components of shareholders' equity in its management of capital.

As at May 31, 2009, the Company had capital resources consisting of cash. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or adjust the amount of cash.

The Company's investment policy is to invest its cash in investment instruments with high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

Although the Company has been successful at raising funds in the past through the issuance of share capital, there is substantial doubt whether it will continue this financing due to the current difficult market conditions.

(r) Financial instruments and risk

*Financial Instruments*

As at May 31, 2009, the Company's financial instruments consist of cash and cash equivalents, marketable securities, accounts payable and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

The Company classifies its cash as held-for-trading, marketable securities as available for sale, amounts receivable and amounts due to related parties as loans and receivables, and its accounts payable as other financial liabilities.

*Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash. The risk arises from the non-performance of counterparties of contractual financial obligations. To minimize the credit risk the Company places these instruments with high credit quality at financial institutions. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by reputable financial institutions with which it keeps its bank accounts.

*Liquidity Risk*

The Company's approach to managing liquidity risk is to provide reasonable assurance that it has sufficient capital to meet short-term financial obligations after taking into account its exploration obligations and cash equivalents on hand. The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits. The Company will require additional equity financing to meet its administrative overhead costs and further exploration activities on its mineral properties in fiscal 2010.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) Financial instruments and risk (continued)***Market Risk*

Market risks consist of interest rate risk, foreign exchange risk and other price risk. It is management's opinion that the Company is not exposed to significant market risk.

*Commodity Price Risk*

The Company's ability to raise capital to fund exploration or development activities is subject to risks associated with fluctuations in the market price of gold and iron. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

**(s) Comparative figures**

Certain of the prior year's figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purpose only and has no effect on previously reported results.

**4. RECENT ACCOUNTING PRONOUNCEMENTS**

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combination and related disclosures. The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, and 1602, Non-controlling interests, which replaces existing guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier adoption permitted. The Company is currently evaluating the impact of this standard on the financial statements.

In February 2008, the Accounting Standards Board issued CICA Handbook Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets and is effective for interim and annual periods relating to fiscal years beginning on or after October 1, 2008. The Company is currently assessing the impact of the new standard and has not yet determined its effect on the Company's financial statements.

In January 2006, the CICA Accounting Standards Board ("AcSB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). On February 13, 2008, the AcSB confirmed that the standards will become effective for all publicly accountable enterprises in interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**(Expressed in Canadian Dollars)

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**5. JOINT VENTURE**

During fiscal 2008, the Company acquired a 50% interest in Airborne Magnetometer and Spectrometer equipment for use in the exploration of its mineral properties for \$274,019. The equipment is jointly used by the Company and Logan Resources Ltd. who holds the remaining 50% interest. The two parties entered into a joint venture agreement on November 15, 2007 to govern the use of the equipment. Logan Resources Ltd is a Canadian public company that has a common director with the Company.

The Company's proportionate share of its interest in and results from the joint venture as at and for the years ended May 31, 2009 and 2008 is:

	2009	2008
	\$	\$
Assets - Field Equipment - Airborne	85,500	201,291
Liabilities	(*) (189,132)	(139,996)
Joint Venture Retained Earnings (Deficit)	(103,632)	61,295

	2009	2008
	\$	\$
Amortization and other expenses	-	(41,485)
Write down of asset held for sale	(154,267)	-
Insurance	(10,060)	-
Other (loss) Income	(600)	102,780
Income (loss) on discontinued joint venture	(164,927)	(*) 61,295
Joint Venture Retained Earnings – beginning	61,295	-
Joint Venture Retained Earnings (Deficit) – ending	(103,632)	61,295

(\*) Intercompany transactions reflected in the above balances are eliminated upon proportionate consolidation.

**DISCONTINUED JOINT VENTURE**

The Airborne Magnetometer and Spectrometer asset was no longer required and the Company's management decided to sell the asset in April 2008. The asset was written down to its estimated fair value of \$85,500 and a loss of \$154,267 was recorded, representing the difference between the asset's carrying value and the estimated fair value. Refer to Note 17 (g). The assets and operations of the Joint Venture are classified as discontinued operations and are presented separately on the balance sheet and statement of operations.

**EQUIPMENT RELATING TO DISCONTINUED OPERATIONS**

	2009	2008
	\$	\$
Airborne Magnetometer and Spectrometer – 50% share*	85,500	239,767

\* Shared 50% with Logan Resources Ltd.

**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

(Expressed in Canadian Dollars)

**6. PROPERTY AND EQUIPMENT**

	Cost	Accumulated Amortization	2009 Net Carrying Value	2008 Net Carrying Value
Computer equipment	\$ 18,236	15,997	2,239	8,590
Computer software	2,327	2,218	109	219
Crew house option	—	—	—	10,000
Field equipment	41,972	19,699	22,273	27,842
Office equipment	13,964	9,247	4,717	5,896
Storage facility	75,000	—	75,000	75,000
Vehicle	—	—	—	34,106
	<b>\$ 151,499</b>	<b>47,161</b>	<b>104,338</b>	<b>161,653</b>

**7. MINERAL PROPERTIES**

	Acquisition Costs \$	Exploration Expenditures \$	Total 2009 \$	Total 2008 \$
Copper Hill Project [(a) below]				
Beginning of year	—	—	—	3,519,188
Incurred during the year	—	—	—	224,626
Removed upon deconsolidation	—	—	—	(3,743,814)
End of year	—	—	—	—
Nor Property, Yukon [(b) below]				
Beginning of year	360,080	4,172,998	4,533,078	2,910,221
Incurred during the year	62,000	41,682	103,682	1,622,857
End of year	422,080	4,214,680	4,636,760	4,533,078
Carswell Property, Saskatchewan[(c) below]				
Beginning of year	—	7,500	7,500	—
Incurred during the year	—	3,250	3,250	7,500
End of year	—	10,750	10,750	7,500
Bear River Project, BC [(d) below]				
Beginning of year	10,389	21,626	32,015	22,985
Incurred during the year	—	6,550	6,550	9,030
End of year	10,389	28,176	38,565	32,015
U-Claims Project, BC [(e) below]				
Beginning of year	—	—	—	123,341
Incurred during the year	—	—	—	20,575
Impairment loss	—	—	—	(143,916)
End of year	—	—	—	—
White River Project, Yukon [(f) below]				
Beginning of year	—	—	—	61,149
Incurred during the year	—	—	—	6,303
Impairment loss	—	—	—	(67,452)
End of year	—	—	—	—

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**(Expressed in Canadian Dollars)

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## 7. MINERAL PROPERTIES (continued)

	Acquisition Costs \$	Exploration Expenditures \$	Total 2009 \$	Total 2008 \$
Turn River Project, Yukon [(g) below]				
Beginning of year	–	–	–	368,087
Incurred during the year	–	5,497	5,497	182,834
Option payments received	–	(7,440)	(7,440)	(588,029)
Gain on option payments received.	–	1,943	1,943	37,108
End of year	–	–	–	–
Wolf Property, Yukon [(h) below]				
Beginning of year	110,219	770,219	880,438	–
Incurred during the year	6,000	38,672	44,672	880,438
Impairment	(5,952)	(3,577)	(9,529)	–
End of year	110,267	805,314	915,581	880,438
Lac d'Or, Quebec [(i) below]				
Beginning of year	8,314	4,352	12,666	–
Incurred during the year	–	5,834	5,834	12,666
Impairment	(8,314)	(10,186)	(18,500)	–
End of year	–	–	–	12,666
Total	542,736	5,058,920	5,601,656	5,465,697

**INTERNATIONAL KRL RESOURCES CORP.**

**(An Exploration Stage Company)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED MAY 31, 2009 AND 2008**

(Expressed in Canadian Dollars)

7. MINERAL PROPERTIES (continued)

The following table represents exploration expenditures incurred during fiscal 2009:

	Nor \$	Carswell \$	Bear River \$	Turn River \$	Wolf \$	Lac D'Or \$	Total \$
Accommodation and meals	986	—	—	—	1,905	—	2,891
Assays	6,442	—	—	—	—	—	6,442
Drafting	1,497	—	—	2,042	4,446	1,847	9,832
Fuel	1,976	—	—	—	5,570	—	7,546
Geologist	4,765	—	—	—	6,747	1,071	12,583
Geophysics	—	—	—	284	—	—	284
Helicopter	15,892	—	—	—	—	—	15,892
Licenses and permits	—	—	3,550	910	8,260	33	12,753
Miscellaneous	840	—	—	11	288	133	1,272
Property supervision (Note 13(a))	6,000	3,250	3,000	2,250	7,750	2,750	25,000
Transportation	195	—	—	—	3,706	—	3,901
Wages	3,089	—	—	—	—	—	3,089
	41,682	3,250	6,550	5,497	38,672	5,834	101,485

The following table represents exploration expenditures incurred during fiscal 2008:

	Copper Hill \$	Nor \$	Carswell \$	Bear River \$	U Claims \$	White River \$	Turn River \$	Wolf \$	Lac D'Or \$	Total \$
Accommodation and meals	22,537	68,944	—	—	—	—	—	49,329	—	140,810
Assays	13,726	13,881	—	—	—	—	—	2,006	—	29,613
Drafting	3,046	5,997	—	—	—	—	97	5,160	1,361	15,661
Drilling	85,556	383,370	—	—	—	—	—	332,969	—	801,895
Fuel	281	134,302	—	—	—	—	—	53,464	—	188,047
Geologist	47,745	143,167	—	—	—	—	—	69,495	943	261,350
Geophysics	—	110,997	—	—	18,036	—	145,200	2,483	—	276,716
Helicopter	—	383,208	—	—	—	—	—	72,486	—	455,694
Licenses and permits	2,137	21,094	—	2,530	—	3,360	23,825	1,310	—	54,256
Line cutting	10,790	—	—	—	—	—	—	—	—	10,790
Miscellaneous	2,114	54,766	—	—	689	43	—	18,692	48	76,352
Mobilization/ Demobilization	—	—	—	—	—	—	—	118,925	—	118,925
Property supervision	3,000	27,000	7,500	4,000	1,850	2,900	—	10,250	2,000	58,500
Surveys	25,000	—	—	—	—	—	—	—	—	25,000
Transportation	2,381	45,699	—	—	—	—	—	15,738	—	63,818
Wages	6,313	154,432	—	—	—	—	—	17,912	—	178,657
	224,626	1,546,857	7,500	6,530	20,575	6,303	169,122	770,219	4,352	2,756,084

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**7. MINERAL PROPERTIES (continued)****(a) Copper Hill Project, Ontario**

As a result of the Company's reduced ownership in Golden Harp, as described in more detail in Note 8, effective February 29, 2008, the Company no longer consolidates its investment in Golden Harp and accordingly Golden Harp's investment in the Copper Hill property is no longer presented on a consolidated basis. The Copper Hill Project was transferred to Golden Harp in exchange for 10,000,000 shares in the subsidiary. The property was transferred at \$3,200,000 representing the fair value at the time of transfer.

**(b) Nor Property, Yukon Territory**

The Nor Property consists of 448 mineral claims in the Dawson Mining District, Yukon Territory. A total of 396 claims were acquired through staking. The remaining 52 claims are held pursuant to an Option Agreement dated October 28, 2004. During fiscal 2008 the Company earned a 100% interest in the property by making the final payment of \$60,000 cash for a total of \$207,500 cash and issued the final payment of 200,000 shares for a total of 1,000,000 shares. The final payment of cash and shares incurred during the year adds to \$62,000 and has been allocated to acquisition cost.

A total of 402 claims are subject to a 2% NSR royalty. The Company will have the right to purchase 50% of the NSR royalty retained by the Optionor for a purchase price of \$2,000,000 and the right of first refusal on the remaining 50%.

**(c) Carswell Property, Saskatchewan**

During October 2004, the Company staked 1 claim, consisting of 5,990 acres in the Athabasca Basin area of Saskatchewan.

Pursuant to an Option Agreement dated March 2, 2005, the Company granted an option to a third party to earn a 50% interest in the Carswell Property. To earn this interest the optionee paid \$25,000 cash, issued 200,000 of its shares and incurred \$100,000 in exploration expenditures.

Pursuant to a Joint Venture Agreement dated July 24, 2008, the Company granted the third party a further 30% interest in the claim, resulting in the third party having a 80% undivided interest in the property, subject to the delivery by the third party of a bankable feasibility study. The Company will retain a carried interest until the feasibility study is delivered, at which time the company will have the choice to take on a 20% participating interest in a new company to operate the production facility or take on a 2% gross overriding royalty for all uranium mineral products and a 2% net smelter returns royalty for all other metals.

The third party will return all the Company's interest in any of the claims upon a decision by the third party to terminate work thereon.

**(d) Bear River Property, British Columbia**

The Company owns a 100% interest in 3 mineral claims plus a fraction of a claim representing 31 units, located in the Skeena Mining Division of British Columbia. One of these claims is subject to a 4% NSR Royalty.

**(e) U-Claims Project, British Columbia**

During fiscal 2008, the Company terminated its Option Agreement dated August 1, 2006. Accordingly all related expenses have been written off as at May 31, 2008.

**(f) White River Project, Yukon**

During fiscal 2008, the Company terminated its Option Agreement dated August 1, 2006. Accordingly all related expenses have been written off as at May 31, 2008.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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## 7. MINERAL PROPERTIES (continued)

## (g) Turn River, Yukon

The Turn River property is jointly owned by the Company and Logan Resources Ltd., a Company related by a common director. The property was acquired in February 2007 through staking and consists of 3,151 claims, covering 162,759 acres in the Cassiar Plateau, Yukon Territory which includes twelve distinct project areas. Of the total claims, 1,307 were staked in the 2008 fiscal year.

Pursuant to an option agreement dated April 2, 2007, the Company granted an option to a non-related company to earn a 50% interest in the Turn River property. The Company issued 103,000 shares with a fair value of \$11,330 as finders fees to a related party for finding the optionee. The Company received \$588,029 in recovery of its costs from the optionee pursuant to earn a 50% interest in the Turn River Property. On May 26, 2008, the option agreement with this third party was terminated.

## (h) Wolf, Yukon

During fiscal 2008, the Company staked 300 mineral claims and acquired 10 claims through an option agreement dated September 10, 2007 located in the Watson Lake Mining District, Yukon Territory. Of the 310 claims held, 289 claims are subject to the terms of the option agreement which gives the Company the right to earn a 60% interest and are subject to a 2% NSR royalty. In order to exercise the option, the Company must issue 1,000,000 shares and incur \$3,000,000 in exploration expenses on the claims as follows:

Share consideration:

- (i) 200,000 shares issued by October 14, 2007 (issued);
- (ii) a further 200,000 shares issued on October 14, 2008 (issued);
- (iii) a further 300,000 shares to be issued on October 14, 2009; and
- (iv) a further 300,000 shares to be issued on October 14, 2010.

Exploration expenditures:

- (i) \$250,000 before October 14, 2008 (incurred);
- (ii) \$750,000 in aggregate before October 14, 2009;
- (iii) \$1,750,000 in aggregate before October 14, 2010; and
- (iv) \$3,000,000 in aggregate before October 14, 2011.

For purpose of this option agreement certain acquisition expenses will be deemed to be exploration expenditures. During the year, the Company allowed the BC portion of the claim to expire.

## (i) Lac d'Or, Quebec

The Lac d'Or property was acquired by staking and consists of 72 mineral claims in James Bay, Quebec, covering 3,794 hectares, in Quebec.

During the year, due to the current economic climate and difficulties to raise money, the Company decided not to do any further work on the property and to allow this property to expire.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**8. INVESTMENT IN GOLDEN HARP**

The Company recorded its investment in Golden Harp on a fully-consolidated basis until February 29, 2008. Thereafter, the Company no longer had a controlling interest in Golden Harp which was then accounted for under the equity method. As of May 31, 2009 and 2008, the Company owned 10,000,000 shares of Golden Harp. The Company's interest in Golden Harp declined from 65.32% to 40.53% during fiscal 2008 as a result of issuances of common shares by Golden Harp and from the exercise of stock options and warrants. The Company, through its shareholding in Golden Harp, exercises significant influence over that company. As a result, the investment in Golden Harp is accounted for using the equity method. The dilution gain represents the fair value of the Company's share of the consideration paid by the new investors in Golden Harp in excess of the carrying value of the Company's investment in Golden Harp.

The following is a summary of the Golden Harp equity transactions completed during the year and prior year that resulted in changes in the Company's ownership interest in Golden Harp:

For fiscal 2009

- (a) During fiscal 2009, Golden Harp had no further share transactions and the Company retained its 10,000,000 shares in Golden Harp, resulting in an unchanged 40.53% equity interest as of May 31, 2008.

For fiscal 2008

- (a) During the period prior to February 29, 2008, Golden Harp issued a total of 321,432 common shares pursuant to the exercise of 40,000 warrants at \$0.25 per share for proceeds of \$10,000 and 281,432 common shares pursuant to the exercise of options at \$0.35 per share for proceeds of \$98,500. These issuances resulted in the Company's ownership in Golden Harp decreasing from 65.32% to 63.98% and a reported gain on dilution of \$23,717.
- (b) Effective February 29, 2008, Golden Harp completed an initial public offering consisting of 2,557,000 flow-through units and 6,333,700 non-flow-through units at \$0.35 per unit for gross proceeds of \$3,111,745.

The Shares issued in the initial public offering resulted in the Company's ownership in Golden Harp decreasing from 63.98% to 40.78%. Effective February 29, 2008 the Company no longer has a controlling interest in Golden Harp and accordingly the Company's investment in Golden Harp, over which the Company continues to exercise significant influence, is accounted for using the equity method. The change in accounting for the Company's investment in Golden Harp and the corresponding public offering resulted in a reported gain on dilution of \$270,867.

- (c) During the period from March 1, 2008 to May 31, 2008, Golden Harp issued a total of 150,000 common shares pursuant to the exercise of 50,000 warrants at \$0.25 per share for proceeds of \$12,500 and 100,000 common shares with a fair value of \$25,000 in connection with a property option payment. These issuances resulted in the Company's ownership in Golden Harp decreasing from 40.78% to 40.53% and a reported gain on dilution of \$389.
- (d) During the period prior to February 29, 2008, Golden Harp's net loss of \$310,155 (2007: \$76,070) resulted in non-controlling interest of \$109,640 (2007: \$26,380) representing the portion owned by outside interests of approximately 35%.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**8. INVESTMENT IN GOLDEN HARP (continued)**

Details of the investment in Golden Harp are as follows:

Balance, May 31, 2007	\$ 2,357,388
Share of net loss	(271,813)
Dilution gain	294,973
<hr/>	
Balance, May 31, 2008	\$ 2,380,548
Share of net loss	(89,121)
<hr/>	
Balance, May 31, 2009	\$ 2,291,427

Based upon year-end TSX.V closing market prices of \$0.12 (2008 - \$0.29) per share, this investment had a quoted market value of \$1,200,000 (2008 - \$2,900,000) at May 31, 2009. The Company's management believes there is no indication the decline in quoted market value is other than temporary as of May 31, 2009.

**9. SHARE CAPITAL**

The authorized share capital of the Company consists of unlimited common shares without par value.

	Number of shares	Amount \$
Issued as at May 31, 2007	66,036,641	16,202,681
Issued during fiscal 2008 for:		
Finders' fees	103,000	11,330
Mineral property option payments	400,000	58,000
<hr/>		
Issued as at May 31, 2008	66,539,641	16,272,011
Issued during fiscal 2009 for:		
Mineral property option payments	400,000	8,000
<hr/>		
Issued as at May 31, 2009	66,939,641	16,280,011

For the year ended May 31, 2009:

The Company issued 400,000 common shares pursuant to mineral property acquisition option agreements at a fair value ranging from \$0.01 to \$0.03 per share for a total fair value of \$8,000. Refer to Notes 7 (b) and (h).

For the year ended May 31, 2008:

Pursuant to the mineral property option agreements, the Company issued 503,000 shares at fair values ranging from \$0.11 to \$0.16 per share for a total fair value of \$69,330. Included in the total are 103,000 shares valued at \$11,330 issued as finders fees for securing the optionee of the Turn River property.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**10. STOCK OPTIONS****(a) Stock option plan and stock options issued**

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Share Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the "Discounted Market Price" of the Company's stock on the grant date. The maximum discount allowed varies with share price, with a maximum of 25% and a minimum price of \$0.10. Options have a maximum expiry period of up to ten years from the grant date. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date.

Pursuant to the stock option plan, options granted in respect of investor relations activities are subject to vesting in stages over one year from the grant date with a maximum of one-quarter of the options vesting in any three month period. Vesting restrictions may also be applied to other options grants, at the discretion of the directors.

The following table summarizes the continuity of the Company's stock options.

	Number of shares	Weighted Average Exercise Price \$
Outstanding, May 31, 2007	4,250,000	0.44
Granted	3,350,000	0.15
Cancelled/expired	(3,750,000)	0.45
Outstanding, May 31, 2008	3,850,000	0.18
Cancelled/expired	(750,000)	0.30
Outstanding, May 31, 2009	3,100,000	0.16

At May 31, 2009, the following share purchase options were outstanding:

Number of Options	Exercise Price \$	Expiry Date
1,550,000	0.16	September 11, 2009
1,300,000	0.15	March 3, 2010
250,000	0.15	May 1, 2010
3,100,000		

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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## 10. STOCK OPTIONS (continued)

(a) Stock option plan and stock options issued (continued)

Additional information regarding options outstanding as at May 31, 2009 is as follows:

Exercise Price \$	Options outstanding			Options exercisable	
	Outstanding #	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price \$	Exercisable #	Weighted Average Exercise Price \$
0.15	1,550,000	0.39	0.15	1,550,000	0.15
0.16	1,550,000	0.14	0.16	1,550,000	0.16
	3,100,000	0.53	0.16	3,100,000	0.16

No new options were issued during the year. The weighted average grant date fair value of options granted during the 2008 was \$0.04 (2007 – \$0.13) per option.

The fair value for stock options vesting and granted was estimated using the Black-Scholes option pricing model assuming no expected dividends and using the following weighted average assumptions:

	2009	2008
Risk free interest rate	–	3.45%
Expected life (in years)	–	2
Expected volatility	–	81%
Dividend yield	–	–

(b) Stock-based compensation

Total stock-based compensation expense recognized for stock options vesting during the year was \$4,884 (2008 – \$147,919). Stock-based compensation of \$Nil (2008 - \$9,312) was capitalized to mineral properties for options granted and \$4,884 (2008 - \$138,607) was charged to operations for options vesting and granted to directors, officers and consultants of the Company.

## 11. SHARE PURCHASE WARRANTS

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of shares	Weighted average exercise price \$
Balance, May 31, 2007	9,975,763	0.34
Expired	(9,975,763)	0.34
Balance, May 31, 2008	–	–
Issued	–	–
Balance, May 31, 2009	–	–

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**12. CONTRIBUTED SURPLUS**

The following table summarizes the continuity of the Company's contributed surplus:

	Amount \$
Balance, May 31, 2007	646,661
Fair value of stock options granted	147,919
Balance, May 31, 2008	794,580
Fair value of stock options vesting	4,884
Balance, May 31, 2009	799,464

**13. RELATED PARTY TRANSACTIONS**

(a) Transactions during the period:

	Year Ended May 31,	
	2009 \$	2008 \$
Management fees charged by directors and a company controlled by a director	95,000	159,000
Property supervision fees paid to a company controlled by a director	25,000	60,000
Finders fee paid to a relative of the President charged to mineral interests (Note 7(g))	–	11,330
Crew House option to a relative of the President written off	10,000	–
Rent payment by (reimbursement received from) a company with common officers and directors (included in office and miscellaneous)	7,976	(22,318)
Mineral property acquisition and exploration costs paid to a relative of the President	–	80,184
Legal fees paid to a company owned by a director of Golden Harp.	–	51,029
Included in loss from equity investment are payments made to directors, officers and a company controlled by a director	–	22,712
	137,976	361,937

The Company incurred certain charges from a company controlled by the President. These charges have been recorded as exploration expenses and general and administration expenses as follows:

Amounts capitalized as mineral properties	–	332,233
Amounts charged to general and administration expenses	–	34,957
	–	367,190

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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## 13. RELATED PARTY TRANSACTIONS (continued)

(b) Balances:

	Year Ended May 31,	
	2009	2008
	\$	\$
<hr/>		
<b>Due from related parties:</b>		
Amount due from directors	–	9,065
Amount due from a company with common officers and director for reimbursement of shared office costs and other expenditures.	–	7,566
Amount due from an equity investment company for reimbursement of shared expenditures.	–	6,072
<b>Due from related parties</b>	<b>–</b>	<b>22,703</b>

	Year Ended May 31,	
	2009	2008
	\$	\$
<hr/>		
<b>Due to related parties:</b>		
Amount due to the President of the Company	9,132	–
Amount due to a company controlled by the President of the Company for management fees accrued	70,000	–
Amount due to a company with common officers and director for reimbursement of shared office costs and other expenditures.	48,704	–
<b>Due to related parties</b>	<b>127,836</b>	<b>–</b>

All of the above amounts due to or from the Company, are unsecured, non-interest bearing and due or payable on demand.

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008**(Expressed in Canadian Dollars)

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**14. INCOME TAXES**

The following table reconciles the amount of income tax recoverable on application of the statutory Canadian federal and provincial income tax rates:

	2009	2008
Canadian statutory income tax rate	30.59%	35.06%
	- \$ -	- \$ -
Income tax recoverable at statutory rate	199,644	344,787
Effect on income taxes due to:		
Stock-based compensation	(1,494)	(51,860)
Net non-deductible expenses	(325)	(7,700)
Investment tax credit	4,779	156,109
Investment in Golden Harp	(27,259)	151,770
Expiry of non capital loss	(34,403)	(22,741)
Loss of tax pools due to deconsolidation	-	(9,741)
Change in enacted rates	143,357	66,281
Valuation allowance	(284,299)	(290,905)
Income tax recoverable	-	336,000

The tax effects of temporary differences that give rise to significant portions of the future tax liability are as follows:

	2009	2008
	- \$ -	- \$ -
Non-capital losses carried forward	741,673	700,269
Resource pools	(683,541)	(784,211)
Property and equipment	59,662	18,586
Investment tax credit	207,146	176,427
Share issuance costs	23,121	63,554
Investment in Golden Harp	227,143	116,280
Total future income tax asset (liability)	575,204	290,905
Valuation allowance	(575,204)	(290,905)
Net future income tax asset (liability)	-	-

The Company has approximately \$2,854,000 of losses for tax purposes which may be used to reduce income taxes of future years and will expire as follows:

	- \$ -
2010	315,000
2014	289,000
2015	281,000
2027	608,000
2028	866,000
2029	495,000
	<u>2,854,000</u>

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**INTERNATIONAL KRL RESOURCES CORP.****(An Exploration Stage Company)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****FOR THE YEARS ENDED MAY 31, 2009 AND 2008****(Expressed in Canadian Dollars)**

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**14. INCOME TAXES (continued)**

At May 31, 2009, the Company had cumulative Canadian Exploration Expenses of \$2,494,000 which are deductible at a rate of 100% each year against future years' resource property income and have no expiry date.

At May 31, 2009, the Company had cumulative Canadian Development Expenses of \$373,194 which are deductible at a rate of 30% each year against future years' resource property income and have no expiry date.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

**15. SEGMENT INFORMATION**

The Company's operations are limited to a single industry segment being the acquisition, exploration and development of mineral properties. The mineral properties are located in the Canadian Provinces of British Columbia, Ontario, Saskatchewan and the Yukon Territory.

**16. COMMITMENTS**

(a) The Company is committed to aggregate premises lease payments of \$86,623, consisting of \$39,980 for the fiscal years 2010 through 2011 and \$6,663 for 2012.

**17. SUBSEQUENT EVENTS**

(a) The Company issued 3,300,000 non-flow-through units through a non-brokered private placement at a price of \$0.015 per unit for total proceeds of \$49,500. Each non-flow-through-unit consists of one non-flow-through common share and one non-flow-through share purchase warrant. Each warrant is exercisable for a period of 60 months at a price of \$0.05 per year for the first year, and at \$0.10 per share for the balance of the term of the warrant. The proceeds from the offering will be used for general working capital purposes.

(b) The Company and Logan Resources Ltd. decided to terminate the Joint Venture agreement described in Note 5.

(c) The Company sold the Airborne Magnetometer and Spectrometer for net proceeds of \$85,500. The Company received a 10% non refundable deposit against purchase. The further payment of 50% will be on or before September 30, 2009 which will allow shipment of all the equipment to the original supplier for upgrade and testing. The final payment of 40% will be on or before October 31, 2009 prior to shipment of the equipment to the purchaser.

(d) Certain creditors of the Company assigned debt owed by the Company, in the amount of \$153,078, to a related party in order to obtain settlement.

## **CORPORATE OFFICE**

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## **REGISTRAR & TRANSFER AGENT**

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Canada V6C 3B9

## **AUDITOR**

Manning Elliott LLP Chartered Accountants  
11<sup>th</sup> Floor, 1050 West Pender Street  
Vancouver, British Columbia  
Canada V6E 3S7

## **BOARD OF DIRECTORS**

Seamus Young  
Vancouver, British Columbia

Clifford Frame  
Toronto, Ontario

Shaun Maskerine  
Vancouver, British Columbia

## **OFFICERS**

Seamus Young  
President and CEO

Abdul Allibhai  
CFO

## **TRADING SYMBOL**

TSX.V: IRK

CUSIP: 45972T

## **CAPITALIZATION** As at September 12, 2009

Issued and outstanding	70,239,641
Outstanding stock options	1,550,000
Outstanding warrants	3,300,000
Fully diluted	75,089,641

