



**Consolidated Financial Statements**  
*July 31, 2008 and 2007*

*To the Shareholders of:*

**Cascadia International Resources Inc.**

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of the consolidated financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Meyers Norris Penny LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.



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Jim Evaskevich

## Auditors' Report

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To the Shareholders of Cascadia International Resources Inc:

We have audited the consolidated balance sheets of Cascadia International Resources Inc. as at July 31, 2008 and 2007, and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Meyer Norris Penny LLP*

Calgary, Alberta  
September 24, 2008

Chartered Accountants

**Cascadia International Resources Inc.**  
**Consolidated Balance Sheets**  
*As at July 31*

	2008	2007
<b>Assets</b>		
<b>Current</b>		
Cash	728,888	172,095
Accounts receivable	110,962	108,408
Prepaid expenses	4,333	4,467
	<b>844,183</b>	284,970
<b>Property and equipment</b> (Note 4)	<b>12,672</b>	17,884
<b>Mineral properties</b> (Note 5)	<b>3,126,340</b>	5,520,119
<b>Investments</b> (Note 6)	<b>395,750</b>	–
	<b>4,378,945</b>	5,822,973
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	149,491	406,799
<b>Future income tax liability</b> (Note 7)	<b>156,372</b>	672,065
	<b>305,863</b>	1,078,864
<b>Shareholders' Equity</b>		
Share capital (Note 8)	10,234,037	10,005,209
Warrants (Note 9)	221,140	115,410
Contributed surplus (Note 10)	1,610,893	1,168,873
Deficit	(7,992,988)	(6,545,383)
	<b>4,073,082</b>	4,744,109
	<b>4,378,945</b>	5,822,973

Contingency (Note 14)

Approved on behalf of the Board:

\_\_\_\_\_  
*“signed”* Director  
 Jim Evaskevich

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*“signed”* Director  
 Gordon Bowerman

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

**Cascadia International Resources Inc.**  
**Consolidated Statements of Net Loss, Comprehensive Loss and Deficit**  
*For the years ended July 31*

	<i>2008</i>	<i>2007</i>
<b>Interest income</b>	<b>35,024</b>	<b>19,352</b>
<b>Expenses</b>		
Bank charges	1,946	580
Depreciation	5,212	2,291
Foreign exchange	2,008	–
General corporate	55,968	39,906
Interest	5,186	17,712
Investor and shareholder relations	57,168	78,759
Legal fees	60,104	276,928
Professional fees	494,666	174,709
Stock-based compensation ( <i>Note 8</i> )	327,840	51,486
Transfer agent and regulatory fees	18,265	15,572
Travel and promotion	29,474	7,095
Write-down of mineral properties ( <i>Notes 5(d) and (e)</i> )	357,229	2,144,776
Unrealized loss on investments ( <i>Note 6</i> )	922,438	–
Overhead recoveries	(46,479)	–
	<b>2,291,025</b>	<b>2,809,814</b>
<b>Loss from operations before income taxes</b>	<b>(2,256,001)</b>	<b>(2,790,462)</b>
<b>Income tax reduction</b> ( <i>Note 7</i> )	<b>808,396</b>	<b>1,390,540</b>
<b>Net loss and comprehensive loss</b>	<b>(1,447,605)</b>	<b>(1,399,922)</b>
<b>Deficit, beginning of year</b>	<b>(6,545,383)</b>	<b>(5,145,461)</b>
<b>Deficit, end of year</b>	<b>(7,992,988)</b>	<b>(6,545,383)</b>
<b>Loss per share – basic and dilutive</b> ( <i>Note 8</i> )	<b>(0.03)</b>	<b>(0.03)</b>

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

**Cascadia International Resources Inc.**  
**Consolidated Statements of Cash Flows**  
*For the years ended July 31*

	<i>2008</i>	<i>2007</i>
<hr/>		
<b>Cash provided by (used for) the following activities</b>		
<b>Operating</b>		
Net loss	(1,447,605)	(1,399,922)
Add back (deduct) non-cash items:		
Depreciation	5,212	2,291
Stock-based compensation	327,840	51,486
Write-down of mining properties	357,229	2,144,776
Unrealized loss on investments	922,438	-
Income tax recovery	(808,396)	(1,332,626)
	<hr/>	<hr/>
	(643,282)	(533,995)
Change in non-cash working capital <i>(Note 11)</i>	167,286	(283,637)
	<hr/>	<hr/>
	(475,996)	(817,632)
<b>Financing</b>		
Issue of shares, net of share issue costs	723,816	420,588
<b>Investing</b>		
Purchase of property and equipment	-	(13,152)
Purchase of, and expenditures on, mineral properties	(1,264,013)	(779,842)
Proceeds from disposition of mineral properties	2,000,000	-
Proceeds from land claims	-	120,194
Change in non-cash working capital <i>(Note 11)</i>	(427,014)	436,205
	<hr/>	<hr/>
	308,973	(236,595)
<b>Increase (decrease) in cash</b>	556,793	(633,639)
<b>Cash, beginning of year</b>	172,095	805,734
<b>Cash, end of year</b>	728,888	172,095
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<b>Supplemental cash flow information</b>		
Interest paid	-	17,712
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*The accompanying notes are an integral part of these consolidated financial statements.*

# Cascadia International Resources Inc.

## Notes to the Consolidated Financial Statements

July 31, 2008 and 2007

### 1. Incorporation, nature and continuance of operations

Cascadia International Resources Inc. (the "Company") was incorporated under the laws of the Province of British Columbia as Craven Resources Inc. on July 18, 1983. On March 29, 2004, the Company was continued from British Columbia and registered under the laws of Alberta and changed its name to Cascadia International Resources Inc. on April 7, 1997. In March 2008, the Company incorporated a 99.99% owned subsidiary, Cascadia Peru S.A.C. ("Cascadia Peru"). The Company is in the process of acquiring, exploring and developing its mineral properties in Canada and Peru.

The Company is in the process of exploring mineral properties and has not yet determined whether these properties contain deposits that are economically recoverable. The Company's ability to continue operations and meet its commitments as they become payable, including the development of the properties, securing and maintaining title and financing exploration and development of the properties, is dependent upon obtaining necessary financing through public and private share offerings.

These consolidated financial statements include the accounts and results of the Company and Cascadia Peru after the elimination of intercompany transactions and balances. These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. These consolidated financial statements do not include any adjustments that would be necessary should the Company be unable to obtain sufficient financing and consequently be unable to continue as a going concern.

### 2. Significant accounting policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and accompanying notes. Actual results could differ from these estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment with reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

#### *Property and equipment*

Property and equipment are initially recorded at cost. Depreciation is provided using methods and rates intended to amortize the cost of assets over their estimated useful lives.

	<b>Method</b>	<b>Rate</b>
Computer equipment	Declining balance	30%
Office equipment	Declining balance	20%

#### *Mineral properties*

The cost of resource properties and their related exploration costs are deferred until the properties are placed into production, sold or abandoned. These costs will be amortized on a unit-of-production basis following the commencement of production or written off if the properties are sold or abandoned. If the properties are considered to be impaired in value, an appropriate charge will be made at that time. Costs include the cash consideration and the fair market value of shares and options issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. Mineral tax credits are recorded as a reduction of the cost of mineral properties. Any adjustment arising from reassessment by the taxation authorities will be recognized in the period in which the adjustment occurs.

The recorded cost of mineral claims and deferred exploration costs represents costs incurred and are not intended to reflect present or future values. The ultimate recovery of such capitalized costs is dependent upon the discovery and development of economic ore reserves or the sale of mineral rights.

**2. Significant accounting policies** *(continued)*

***Investments***

Investments are recorded at fair value on the date acquired or received. At each balance sheet date, investments are marked-to-market with changes in fair value recognized in earnings.

***Asset retirement obligations***

The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the long-lived assets. The Company also records a corresponding asset which is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying the obligation (asset retirement cost).

***Long-lived assets***

Long-lived assets consist of property and equipment and mineral properties. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use wherever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. Impairment losses are recognized where undiscounted future cash flows from its use and disposal are less than the assets carrying amount. Impairment loss is measured as the amount by which the asset carrying value exceeds fair value. Discounted cash flows are used to measure fair value of long lived assets. Any impairment is included in loss for the year.

***Flow-through shares***

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through equity instruments as a reduction of share capital and an increase in future income tax liabilities when the renouncement documents are filed with taxation authorities.

***Per share amounts***

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year. Diluted earnings per share are calculated based on the treasury stock method which assumes that any proceeds obtained on the exercise of options and warrants would be used to repurchase common shares at the average price during the period. The effect of anti-dilutive options and warrants are excluded in the calculation of diluted earnings per share.

***Future income taxes***

The Company follows the asset and liability method to account for income taxes. The asset and liability method requires that income taxes reflect the future tax consequences of temporary differences between the carrying amounts of assets or liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference based on enacted rates that are expected to be in effect when the underlying items of income and expenses are expected to be realized. The benefit of future income tax assets, including unused tax losses, are recognized subject to a valuation allowance to the extent that it is more likely than not that the benefit of future income tax assets will ultimately be realized.

***Measurement uncertainty***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the determination of impairment of mineral exploration costs, reclamation obligations and the eligibility of qualifying flow-through expenditures. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

**2. Significant accounting policies** *(continued)*

***Stock-based compensation***

Stock-based compensation expense is based on the estimated fair value of options granted at the time of the grant. The fair value is recognized in current earnings as stock-based compensation expense with a corresponding increase to contributed surplus over the vesting period of the options. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options expire, previously recognized compensation expense associated with such stock options is not reversed. In the event that unvested options are cancelled, previously recognized compensation expense associated with such stock options is reversed.

***Joint venture activities***

Substantially all of the Company's mineral exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

**3. Changes in accounting policies**

On August 1, 2007, the Company adopted the new or revised Canadian accounting standards for inventories, accounting changes, financial instruments—recognition and measurement, financial instruments—presentation and disclosures, and comprehensive income. Prior periods have not been restated.

***Accounting changes***

Voluntary changes in accounting policies are permitted only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impracticable to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and change in accounting estimates are applied prospectively by including the effect of the change in earnings.

***Financial instruments – recognition and measurement***

This new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method whereby the amount recognized varies over the life of the financial instrument based on the principal outstanding. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income and reclassified to earnings when derecognized or impaired. There were no changes to the measurement of existing financial assets and liabilities at the date of adoption.

The Company has classified its financial assets and liabilities as follows:

<u>Held-for-trading</u>	<u>Loans and receivables</u>	<u>Other liabilities</u>
Cash	Accounts receivable	Accounts payable and accrued liabilities
Investments		

***Comprehensive income***

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale. The Company has reported a consolidated statement of comprehensive loss combined with the consolidated statement of loss and deficit. When related amounts are recorded in accordance with this new standard, a new category for accumulated other comprehensive income will be presented in the shareholders' equity section of the consolidated balance sheet.

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**3. Changes in accounting policies (continued)**

***Derivative instruments***

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at fair value. Changes in the fair values of derivative instruments are recognized in net loss with the exception of derivatives designated as cash flow hedges. The Company did not identify any derivatives which require separate recognition and measurement.

***Pending accounting pronouncements***

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

i) *Capital Disclosures and Financial Instruments – Disclosures and Presentation*

Three new accounting standards have been issued by the CICA: Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosure and Section 3863 Financial Instruments – Presentation. These new standards will be effective for the Company’s fiscal year commencing August 1, 2008.

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

The new Sections 3862 and 3863 replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

ii) *International Financial Reporting Standards (“IFRS”)*

In 2005, the Accounting Standards Board of Canada (“AcSB”) announced that accounting standards in Canada are to converge with IFRS. The AcSB has indicated that Canadian entities will need to begin reporting under IFRS by the first quarter of 2011 with appropriate comparative data from the prior year. Under IFRS, the primary audience is capital markets and as a result, there is significantly more disclosure required, specifically for quarterly reporting. Further, while IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed.

iii) *Goodwill and intangible assets*

In January 2008, Section 3064 Goodwill and Intangible Assets was issued to replace Section 3062 Goodwill and Other Intangible Assets and Section 3450 Research and Development Costs. This standard aligns Canadian GAAP with IFRS and will be effective on October 1, 2008.

**4. Property and equipment**

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2008 Net Book Value</i>	<i>2007 Net Book Value</i>
Computer equipment	<b>20,428</b>	<b>8,990</b>	<b>11,438</b>	16,340
Office equipment	<b>3,350</b>	<b>2,116</b>	<b>1,234</b>	1,544
	<b>23,778</b>	<b>11,106</b>	<b>12,672</b>	17,884

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**5. Mineral properties**

	<i>Cost</i>	<i>Accumulated Depreciation</i>	<i>2008 Net Book Value</i>	<i>2007 Net Book Value</i>
<b>Ontario Properties</b>				
Norton Lake (a)	2,250,824	–	2,250,824	1,969,368
Midway (b)	156,387	–	156,387	137,250
Awkward	56,157	–	56,157	–
<b>British Columbia Properties</b>				
Goat Mountain (c)	569,535	–	569,535	29,213
<b>Other Properties</b>				
Baker Lake, Nunavut (d)	342,899	–	342,899	77,693
Baker Lake Write-down (d)	(342,899)	–	(342,899)	
Raglan (e)	–	–	–	3,306,595
<b>International Properties</b>				
Peru Prospects (f)	93,437	–	93,437	–
	<b>3,126,340</b>	<b>–</b>	<b>3,126,340</b>	<b>5,520,119</b>

During 2008, mineral property expenditures and acquisitions totaled \$1,281,638 (2007 - \$794,842) of which \$1,264,013 (2007 - \$779,842) was acquired with cash and \$17,625 (2007 - \$15,000) was acquired through the issuance of common shares (Notes 5(c) and (d)). In addition, the Company received \$11,593 of proceeds pursuant to an option agreement on the Midway property (Note 5(b)) and \$3,306,595 of proceeds from the disposition of the Raglan properties (Note 5(e)). In 2007, the Company received \$120,194 of proceeds in respect of certain land claims and related work credits for the Raglan properties.

*a) Norton Lake Property, Thunder Bay, Ontario, Canada*

In October 2003, the Company optioned a 164 and 152 claim unit group in the Norton Lake area near Thunder Bay, Ontario from East West Resource Corporation and Canadian Golden Dragon Resources Ltd. (the “optionees”) for a total of \$125,000 in option payments to be made on or before November 1, 2011 and a commitment to incur a minimum of \$150,000 on drilling within 12 months of the agreement. Under the terms of the option agreement, the Company may earn the following interests in both claims groups:

- i.* 51% by spending \$1.5 million by November 1, 2010;
- ii.* 60% by completing a feasibility study to the standards of the Toronto Stock Exchange by November 1, 2011;
- iii.* 70% by financing the property to production.

The Company has satisfied the \$125,000 of option payments and incurred the \$1.5 million expenditure requirement to earn a 51% interest in the property. In addition, the Company and the optionees executed a joint venture agreement to manage future exploration.

*b) Midway Project, Thunder Bay, Ontario, Canada*

The Company owns 100% of the Midway Project area. An airborne EM survey was flown in early 2005, over the entire property which traced a number of basement conductors and the westward extent of conductors that occur on the adjoining Havoc claim group. These conductors form the primary uranium exploration targets that will determine future lease acquisitions.

In May 2008, the Company optioned the Midway Project to East West Resource Corporation (“East West”). Under the terms of the option agreement, East West may earn a 50% interest through the following:

- i.* Incurring \$175,000 of expenditures by February 8, 2009; and
- ii.* The issuance of 100,000 common shares and 100,000 warrants of East West to the Company upon approval by the TSX Venture Exchange.

**5. Mineral properties (continued)**

*b) Midway Project, Thunder Bay, Ontario, Canada (continued)*

The Company received the East West common shares and warrants on June 3, 2008. The warrants are exercisable at \$0.15 per share until June 3, 2009. The Company credited a total of \$11,593 of option proceeds against the net book value of the Midway Project based on the \$0.09 per share market value of East West shares on the date of issuance and the estimated \$2,593 fair value of East West warrants using the Black-Scholes fair value pricing model. The Black-Scholes fair value pricing model was based on an expected East West volatility of 111%, a risk-free rate of 2.83% and a warrant life of 1 year.

*c) Goat Mountain Project, British Columbia, Canada*

In July 2007, the Company signed an option agreement for a molybdenum property comprised of approximately 10,000 acres in southern British Columbia. Under the terms of the option agreement the Company will earn a 100% interest, subject to a 2% net smelter return royalty, in the property through the following:

- i.* A commitment to spend \$500,000 by December 31, 2009;
- ii.* Cash payments totaling \$100,000 by January 31, 2009; and
- iii.* The issuance of 300,000 common shares of the Company by January 31, 2009

To date the Company has incurred all of the committed expenditures, paid \$50,000 in cash option payments and issued 150,000 common shares, of which 75,000 common shares were issued in October 2007 and 75,000 were issued in January 2008 in respect of (iii). These shares were valued at a total of \$17,625 based on the market price of the Company's shares on the dates of issuance (Note 8). The Company may also acquire a 1% net smelter return royalty at any time for \$1,000,000.

*d) Baker Lake Project, Nunavut, Canada*

In May 2007, the Company signed an option agreement with Tanqueray Resources Ltd. ("Tanqueray") for a property comprised of 22 claims (22,365 ha) located 75 km west of Baker Lake, Nunavut. Under the agreement, the Company was to earn a 50% interest in the Baker Lake Claims over a two year term for a cash payment of \$50,000 paid in April 2007, the issue of 100,000 common shares of the Company in July 2007 valued at \$15,000 based on the market price of the Company's shares on the date of issuance, and an additional 200,000 common shares of the Company on or before March 31, 2008. In addition, the Company was committed to incur a minimum \$200,000 of exploration expenditures by March 31, 2008 and to complete a drill program to a minimum depth of 1,000 metres by March 31, 2009.

In November 2007, the Company suspended exploration on Baker Lake Property and terminated the option agreement with Tanqueray, and as a result, all associated expenditures incurred on these properties to January 31, 2008, totaling \$342,899 were written off and included in the reported amount of write-down of mineral properties in the consolidated statement of net loss and comprehensive loss.

*e) Raglan, Ungava Bay Properties in Quebec, Canada*

In July 2007, the Company recorded a \$2,144,776 write-down on the Raglan Properties based on their pending sale. In August 2007, the Company closed the disposition of all of its mineral properties in the Raglan area to Goldbrook Ventures Inc. ("Goldbrook"). As consideration for the disposition, the Company received \$2 million of cash, 2 million common shares of Goldbrook, 2 million common share purchase warrants to acquire 2 million common shares of Goldbrook at \$0.35 per share until August 2012 and a 0.5% net smelter return on certain of the Raglan properties. The total value of consideration received is estimated at \$3,306,595 based on the \$0.33 per share market value Goldbrook common shares on the date of closing and the estimated \$646,595 fair value of Goldbrook warrants using the Black-Scholes fair value pricing model. The Black-Scholes fair value pricing model was based on an expected Goldbrook volatility of 205%, a risk-free rate of 4.31% and a warrant life of 5 years.

At the date of disposition, the net book value of the properties exceeded the total proceeds resulting in a \$14,330 loss on disposition which has been included in the reported amount of write-down of mineral properties in the consolidated statement of net loss and comprehensive loss.

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**5. Mineral properties (continued)**

*f) Peru Prospects*

In May 2008, the Company entered into a strategic alliance with Peru-based Quippu Exploraciones S.A.C. to jointly explore for base metal opportunities in Peru. In July 2008, an 800 hectare (“ha”) base-metal property was staked in southern Peru.

**6. Investments**

	<i>2008</i>	<i>2007</i>
East West Resource Corporation ( <i>Note 5(b)</i> ) – 100,000 common shares and 100,000 common share purchase warrants	<b>11,036</b>	–
Goldbrook Ventures Inc. ( <i>Note 5(e)</i> ) – 2 million common shares and 2 million common share purchase warrants	<b>384,714</b>	–
	<b>395,750</b>	–

As a consequence of adopting new financial instruments standards as described in note 3, the difference of \$922,438 between the estimated fair values recorded on the date of the mineral property disposition and receipt of option proceeds and the July 31, 2008 fair values has been recognized as an unrealized loss on investment in the consolidated statement of net loss and comprehensive loss.

**7. Income taxes**

	<i>2008</i>	<i>2007</i>
<i>Future income tax assets (liabilities)</i>		
Mineral properties	<b>(761,605)</b>	(1,391,235)
Property and equipment	<b>(1,830)</b>	1,710
Investments	<b>115,446</b>	–
Non-capital loss carry forwards	<b>478,364</b>	913,271
Share issuance costs	<b>13,253</b>	27,056
Valuation allowance	–	(222,867)
Future income tax liability	<b>(156,372)</b>	(672,065)

The future income tax reduction differs from the amount computed by applying the combined federal and provincial tax rates to the loss before taxes. The difference results from the following:

	<i>2008</i>	<i>2007</i>
Loss before taxes	<b>(2,256,001)</b>	(2,790,462)
Expected tax recovery at 30.59% (2007 – 32.95%)	<b>690,111</b>	919,457
Rate reconciling items:		
Stock-based compensation	<b>(100,286)</b>	(16,965)
Non-deductible items	<b>(12,016)</b>	–
Resource allowance	–	(7,568)
Expired losses	–	(45,803)
Rate differential and other	<b>7,720</b>	(129,098)
Change in valuation allowance	<b>222,867</b>	612,603
Future income tax reduction	<b>808,396</b>	1,332,626
Current provincial income tax recovery	–	57,914
	<b>808,396</b>	1,390,540

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**7. Income taxes (continued)**

The Company has the following estimated tax pools available for deduction against future taxable income:

	<b>2008</b>	<b>2007</b>
Canadian development expense	<b>60,550</b>	86,500
Canadian exploration expense	–	173,900
Foreign exploration and development expense	<b>134,000</b>	134,000
Mining exploration depletion base	<b>17,650</b>	17,650
Undepreciated capital cost	<b>5,350</b>	23,800
Share issuance costs	<b>53,000</b>	93,300
Non-capital losses, expiring between 2010 and 2027	<b>2,015,200</b>	3,220,900

**8. Share capital**

**Authorized**

Unlimited number of common shares, without nominal or par value  
 Unlimited number of non-voting common shares, without nominal or par value  
 Unlimited number of preferred shares, without nominal or par value

**Issued**

<b>Common shares</b>	<i>Number</i>	<i>Value</i>
<i>Balance, July 31, 2006</i>	41,932,121	9,676,502
Flow-through share private placement (a)	3,750,000	334,590
Mineral property (Note 5(d))	100,000	15,000
Share issue costs, net of \$8,529 future income tax	–	(20,883)
<i>Balance, July 31, 2007</i>	45,782,121	10,005,209
Flow-through private placement (b)	3,750,000	528,860
Exercised warrants (c)	20,000	4,230
Mineral property (Note 5(c))	150,000	17,625
Tax effect of flow-through shares (d)	–	(300,000)
Share issues costs, net of \$7,297 of future income tax	–	(21,887)
<b>Balance, July 31, 2008</b>	<b>49,702,121</b>	<b>10,234,037</b>

(a) On March 30, 2007 the Company completed a private placement of 3,750,000 units at a price of \$0.12 per unit for gross proceeds of \$450,000. Each unit consists of one common share issued on a “flow-through” basis under the Income Tax Act (Canada) and one-half common share purchase warrant. Each whole share purchase warrant entitled the holder to acquire one additional common share at a price of \$0.15 per share until December 2007. At the time of the private placement, \$115,410 was ascribed to the warrants based on the Black-Scholes fair value pricing model and \$334,590 was ascribed to common shares.

As at July 31, 2008, the Company had incurred all of the qualifying flow-through expenditures.

(b) In October and November, 2007 the Company completed a non-brokered private placement for the issuance of 3,750,000 units at a price of \$0.20 per unit for gross proceeds of \$750,000. Each unit consists of one common share issued on a “flow-through” basis under the Income Tax Act (Canada) and one-half common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.25 per share until December 31, 2008. At the time of the private placement, \$221,140 was ascribed to the warrants based on the Black-Scholes fair value pricing model and \$528,860 was ascribed to common shares.

As at July 31, 2008, the Company had incurred approximately \$570,725 qualifying flow-through expenditures and has until December 31, 2008 to incur the remaining \$179,275.

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**8. Share capital (continued)**

- (c) In November 2007, 20,000 warrants were exercised for cash proceeds of \$3,000. In addition to cash proceeds, the related \$1,230 fair value of the exercised warrants has been included in the amount for common shares.
- (d) The \$300,000 tax effect of the \$450,000 flow-through share proceeds raised in March 2007 and the \$750,000 flow-through share proceeds raised in October and November 2007 was recorded in February 2008 when the tax benefits were filed with the tax authorities and renounced to investors with an effective date of December 31, 2007.

**Stock options**

The Company has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of the Company. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company.

In March 2007, the Company granted 2,200,000 stock options exercisable at \$0.10 per share. In April 2007, the Company granted 375,000 stock options exercisable at \$0.155 per share. These options vest over two years with not more than one-half vesting in any twelve month period. The total fair value of these options for the purposes of recording stock-based compensation was estimated to be \$261,440 based on the Black-Scholes fair value pricing model, of which \$51,486 was recorded in 2007 and \$130,720 was recorded in 2008.

In April and July 2008, the Company granted 250,000 options and 1,875,000 options, respectively. The options are exercisable at \$0.10 per share, vest immediately and expire five years from the date of grant. The fair value of each option grant was estimated at \$14,450 and \$182,670, respectively, using the Black-Scholes pricing model. As the options vest immediately, the entire fair value was recorded as stock-based compensation expense on the date of grant.

The following table is a continuity of the Company's stock options:

	<i>Number of Options</i>	<i>Exercise Price Range</i>	<i>Weighted Average Exercise Price</i>	<i>Year of Expiry</i>
<i>Balance, July 31, 2006</i>	3,616,038	\$0.25 - \$0.59	\$ 0.39	2008 - 2010
Granted	2,575,000	\$0.10 - \$0.155	0.11	2012
Cancelled	(1,626,500)	\$0.25 - \$0.59	(0.49)	2008 - 2010
<i>Balance, July 31, 2007</i>	4,564,538	\$0.10 - \$0.30	\$0.19	2008 - 2012
Granted	2,125,000	\$0.10	0.10	2013
Expired	(1,739,538)	\$0.30	(0.30)	2008
<b><i>Balance, July 31, 2008</i></b>	<b>4,950,000</b>	<b>\$0.10 - \$0.30</b>	<b>\$0.11</b>	<b>2008 - 2013</b>

Information on stock options outstanding as at July 31, 2008 is as follows:

<i>Exercise Price</i>	<i>Number of Options</i>	<i>Weighted Average Exercise Price</i>	<i>Weighted Contractual Life Remaining (Years)</i>	<i>Number Exercisable</i>
0.10	4,325,000	\$ 0.10	4.2	3,225,000
0.155	375,000	0.155	3.7	187,500
0.25	250,000	0.25	2.1	250,000
	<b>4,950,000</b>	<b>\$ 0.11</b>	<b>4.1</b>	<b>3,662,500</b>

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**8. Share capital (continued)**

***Black-Scholes fair value pricing model***

The fair value of warrants and options was estimated at the date of issue or grant using the Black-Scholes option pricing model based on the following weighted average assumptions:

	<b>2008</b>	<b>2007</b>
Risk free interest rate	<b>3.70%</b>	3.97%
Expected volatility	<b>214%</b>	182%
Expected life	<b>2.1 years</b>	2.0 years

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's stock options.

***Per share amounts***

Basic loss per share is calculated using the weighted average number of shares outstanding for the period. For purposes of the calculation, the weighted average number of shares outstanding was 49,095,396 (2007 – 43,198,011). Diluted per common share amounts have not been presented as any effect of options and warrants is anti-dilutive.

**9. Warrants**

	<i>Number of Warrants</i>	<i>Weighted Average Exercise Price</i>	<i>Value</i>	<i>Year of Expiry</i>
<i>Balance, July 31, 2006</i>	4,797,250	\$ 0.47	\$ –	2006
Issued (Note 8(a))	1,875,000	0.15	115,410	2007
Cancelled	(4,797,250)	(0.47)	–	2006
<i>Balance, July 31, 2007</i>	1,875,000	0.15	115,410	2007
Issued (Note 8(b))	1,875,000	0.25	221,140	2008
Exercised (Note 8(c))	(20,000)	(0.15)	(1,230)	2007
Expired	(1,855,000)	(0.15)	(114,180)	2007
<b><i>Balance, July 31, 2008</i></b>	<b>1,875,000</b>	<b>\$ 0.25</b>	<b>\$ 221,140</b>	<b>2008</b>

As at July 31, 2008, warrants outstanding have a weighted average life remaining of 0.4 years.

**10. Contributed surplus**

	<b>2008</b>	<b>2007</b>
Balance, beginning of year	<b>1,168,873</b>	1,117,387
Stock-based compensation (Note 8)	<b>327,840</b>	51,486
Warrants expired (Note 9)	<b>114,180</b>	–
Balance, end of year	<b>1,610,893</b>	1,168,873

**11. Change in non-cash working capital**

	<b>2008</b>	<b>2007</b>
Accounts receivable	<b>(2,554)</b>	(97,545)
Prepaid expenses	<b>134</b>	(4,467)
Accounts payable and accrued liabilities	<b>(257,308)</b>	254,580
	<b>(259,728)</b>	152,568

**Cascadia International Resources Inc.**  
**Notes to the Consolidated Financial Statements**

*July 31, 2008 and 2007*

**11. Change in non-cash working capital (continued)**

The change in non-cash working capital has been allocated to the following activities:

	<i>2008</i>	<i>2007</i>
Operating	<b>167,286</b>	<b>(283,637)</b>
Investing	<b>(427,014)</b>	<b>436,205</b>
	<b>(259,728)</b>	<b>152,568</b>

**12. Related party transactions**

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties:

The Company was charged \$18,000 (2007 – \$15,500) for rent and office services by a company related through a common officer and director, of which \$4,500 (2007 – \$8,960) is included in accounts payable and accrued liabilities at year end.

The Company was charged \$594,500 (2007 – \$170,500) by officers and directors for management and geological consulting fees, of which \$168,800 (2007 – \$33,700) were capitalized to mineral properties. As at July 31, 2008, accounts payable and accrued liabilities included \$25,322 (2007 – nil) in relation to these charges.

**13. Financial instruments**

The Company, as part of its operations, carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, credit or currency risks arising from these financial instruments.

***Fair value of financial instruments***

The fair value of cash, accounts receivable, accounts payable and accruals approximates their carrying value due to the short-term maturities of these financial instruments. Investments are marked-to-market each balance sheet date.

***Credit risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. The majority of the Company's accounts receivable are in respect of joint venture operations subject to normal industry risks and Goods and Services Tax.

***Interest rate risk***

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. As the Company does not hold any variable rate debt or investments, it is not exposed to interest rate risk.

**14. Contingency**

In March 2007, the Company commenced appeal proceedings on various arbitration rulings relating to the Raglan properties (*Note 5(e)*), however, the Court's decision to hear the appeal remains outstanding. As the likely outcome of an appeal, should it occur, cannot be determined no further provision has been made in these financial statements.