Management's Discussion & Analysis

For the three months ended October 31, 2009

The following discussion and analysis of the operations, results, and financial position of the Company for the Quarter ended October 31, 2009 should be read in conjunction with the October 31, 2009 financial statements and the July 31, 2009 Audited Financial Statements and the related Notes. The effective date of this report is December 18, 2009. All amounts are expressed in Canadian dollars unless otherwise noted.

OVERVIEW

Discovery-Corp Enterprises Inc. (the "Company") was incorporated under the laws of British Columbia on May 6, 1986. The Company is an exploration stage company engaged in the exploration for base and precious metals. The Company holds an undivided 50% interest in the mineral rights associated with Rock Creek Ranch located in Humboldt County, Nevada, USA and a 100% interest in seven mineral claims and two Crown-granted mineral claims covering approximately 91 hectares located in the Kamloops Mining Division in southern British Columbia, Canada referred to as the Galaxy Property.

The Galaxy Property is situated in the north-eastern portion of the Iron Mask batholith, seven kilometres southeast of the past-producing Afton mine and four kilometres northwest of the former Ajax mine. Previous drilling on the property outlined a fault-bounded zone of copper-gold porphyry-style mineralization, known as the Galaxy zone. The zone measures approximately 345 meters in length by 120 meters in width, and has a maximum depth of about 120 meters. Mineralization is truncated at depth by a low-angle west-southwest dipping fault.

The Company has incurred significant losses since inception and has an accumulated deficit of $5,120,177 (2009 - $5,097,831). The recoverability of amounts shown for resource property interests and the Company's continued viability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and upon future profitable production from or proceeds from the disposition of its interests. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due. These factors raise substantial doubt as to the Company's ability to continue as a going-concern.

The current uncertain global market conditions have significantly reduced the Company's ability to finance operations. There are no assurances that the Company will be successful in achieving these goals.

FORWARD LOOKING STATEMENTS

The Management Discussion and Analysis is based on a review of the Company's operations, financial position and plans for the future based on facts and circumstances as of October 31, 2009. Except for historical information or statements of fact relating to the Company, certain information contained herein constitutes forward looking statements. Forward looking statements are based on the opinions, plans and estimates of management at the date the statements are made and are subject to a variety of risks, uncertainties and other factors that could cause the actual results to differ materially from those projected by such statements. The primary risk factors affecting the Company are discussed further under the heading "Risk Factors' below. The Company undertakes no obligation to update forwarding looking statements if circumstances or management's estimates, plans or opinions should change.

The reader is cautioned not to place undue reliance on forwarding looking statements.

SELECTED ANNUAL INFORMATION

The following are highlights of financial data on the Company for the most recently completed three financial years:

Expressed in Canadian $

	2009	2008	2007
Loss before other items	(280,790)	(515,419)	(513,742)
Net (loss) income	(267,256)	(492,980)	(496,190)
Loss (income) per share	(0.01)	(0.02)	(0.02)
Total assets	325,640	451,365	786,410
Total liabilities	17,984	16,215	18,410
Working capital (deficiency)	283,740	411,234	746,084

DEVELOPMENTS DURING THE THREE MONYHS ENDED OCTOBER 31, 2009

The Company completed the Galaxy work program on budget and on time. The on going program of using drill results to build a model of Galaxy is designed to assess the potential for mineralization on the property beyond the limits of the known Galaxy zone. Results are encouraging. Two areas with geochemical and geophysical signatures of similar character to that at the Galaxy zone were identified. Both of these areas are untested by previous drilling.

Two early 1960's drill holes reportedly tested this zone of mineralization; however results from this historic drilling are unavailable. Further work is required to test the significance of this area of mineralization.

During the year ended July 31, 2008, a survey of historic drill collars and the property boundary discovered historic survey plans showing the position of the former Bill Nye claim. Reference is made in the 1913 BC Minister of Mines Annual Report to copper mineralization on the Bill Nye claim, to the northwest of the Galaxy zone. This supports the concept of a possible continuation of the Galaxy zone mineralization to the northwest of the property.

Several old pits with copper mineralization were discovered in this area during the 2006 and 2007 exploration program, however until now there was no certainty that these workings were in fact the "lost" Bill Nye showing. The historic survey plans have confirmed this, and further confirmed that the Bill Nye showings are within the boundaries of the current Galaxy property.

The Company obtained a digital database compiled in 1996 by the former operator on the Galaxy property. The database includes most of the historic drill holes (approximately 130 drill holes). This data, together with the historical survey plans has advanced the project. The Company is converting the data into digital format and creating a series of cross sections to assist with the interpretation of the data to model the Galaxy deposit.

Management will continue investigating new exploration opportunities identified as having favorable potential to enhance the Company's resource property interests.

OPERATION RESULTS FOR THE 1st QUARTER ENDED OCTOBER 31, 2009 COMPARED TO 1st QUARTER ENDED OCTOBER 31, 2008

Net loss for the 1st Quarter ended October 31, 2009 was $22,346 a decreased loss of $26,452 when compared to the 1st Quarter loss of $48,798. The Loss Before Other Items for the Three Month Period ended October 31, 2009 was $57,830 an increase of $6,308 when compared to the Three Month Period ended October 31, 2008 Loss Before Other Items loss of $51,522.

SUMMARY OF QUARTERLY RESULTS

	2009				2008			
Quarter Ended	Oct. 31 Q1	Jul. 31 Q4	Apr. 30 Q3	Jan. 31 Q2	Oct. 31 Q1	Jul. 31 Q4	Apr. 30 Q3	Jan. 31 Q2
Income (Loss) Before Other Items	(57,830)	(66,942)	(60,614)	(49,789)	(51,522)	(72,500)	(70,406)	(81,665)
Basic Loss Per Share	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Net Income (Loss)	(22,346)	(48,798)	(31,977)	(48,135)	(151,880)	(267,783)	(67,440)	(77,617)
Basic Loss Per Share	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.01)	(0.00)	(0.00)

Expressed in Canadian dollars

RISK FACTORS

The reader is cautioned that the following description of risks and uncertainties is not all-inclusive as it pertains only to conditions currently known to management. There can be no guarantee, or assurance, that other factors will or will not adversely affect the Company.

Risks Inherent in the Exploration and Development Business

Exploration and development involve a high degree of risk and few properties are ultimately developed into producing mines. There is no assurance that the Company's future exploration and development activities will result in any discoveries of commercial bodies of ore. Whether an ore body will be commercially viable depends on a number of factors including the particular attributes of the deposit such as size, grade and proximity to infrastructure, as well as mineral prices and government regulations, including regulations relating to prices, taxes, royalties, land tenure, 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 a mineral deposit being unprofitable. Availability of skilled people, equipment and infrastructure (including roads, posts, power supply) can constrain the timely development of a mineral deposit. Even after the commencement of mining operations such operations may be subject to risks and hazards, including environmental hazards, industrial accidents, unusual or unexpected geological formations, ground controls problems and flooding. The occurrence of any of the foregoing could result in damage to or destruction of mineral properties and production facilities, personal injuries, environmental damage, delays or interruption of production, increases in production costs, monetary losses, legal liability and adverse governmental action. Insurance coverage against certain risks, including certain liabilities for environmental pollution, may not be available to the Company or to other companies within the industry. In addition, insurance coverage may not continue to be available at economically feasible premiums, or at all. Any such event could have a material adverse effect on the Company.

Competition for Mining Properties

The mining industry in which the Company is engaged is in general, highly competitive. Competitors include well-capitalized mining companies, independent mining companies and other companies having financial and other resources far greater than those of the Company. The Company competes with other mining companies in connection with the acquisition of mineral properties. In general, properties with a higher grade of recoverable mineral with economically viable deposits afford the owners a competitive advantage in that the cost of production of the final mineral product is lower. Thus, a degree of competition exists between those engaged in the mining industry to acquire the most valuable properties. As a result, the Company may eventually be unable to acquire attractive mining properties.

Financing and Market price

Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations. Financing through the issuance of common shares is affected by certain market conditions including the price of metals. The market price of metals is highly speculative and volatile. Instability in the market price may affect investor interest in mining stocks. If the metal prices substantially decline, this may adversely affect the Company's ability to raise sufficient capital to fund operations including exploration. The current uncertain global market conditions have significantly reduced the Company's ability to finance operations.

Seasonality

Currently our exploration has been focused on the Galaxy Property in British Columbia. The property lies within an area that is semi-arid, with hot summers, little rainfall and with temperatures typically exceeding 30º C during summer months. Winters are relatively mild with little snowfall and with average temperatures just below freezing. Short "cold-snaps" where temperatures drop to -20º C are common. Although winter may last from November to April, exploration is possible year-round. In the summer months access to the property may be limited if there are access restrictions imposed to monitor the risks of forest fires.

SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Prebble Resources USA, Inc. (a Nevada corporation). All significant inter-company balances and transactions have been eliminated.

(b) Interest Income

Interest income derived from cash is recognized on an accrual basis as earned at the stated rate of interest.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Resource Property Interests

The Company is in the exploration stage and capitalizes all acquisition costs related to its resource property interests until such time as the properties are put into commercial production, sold or abandoned. Under this method, the amounts shown as resource property interests represent acquisition costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If a property is put into commercial production, the acquisition costs relating to that property will be depleted based upon the proven reserves available. If a property is sold or abandoned, the costs relating to the property will be charged to operations.

The Company expenses all exploration expenditures in the period incurred.

The carrying values of resource property interests are reviewed by management on a property-by-property basis at each financial statement date to determine if they have become impaired. If impairment is determined to have occurred, the resource property interests will be written down to its fair value. The ultimate recoverability of the amounts capitalized for the resource property interests is dependent upon the delineation of economically recoverable ore reserves, the ability to obtain the necessary financing to complete their development and the ability to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects are based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

(d) Asset Retirement Obligations

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. At present, the Company has determined that it has no material AROs to record in the financial statements.

(e) Mining Exploration Tax Credits ("METC")

The Company recognizes METC receivable amounts from the government and records those amounts as a recovery in the period in which recoverability can be established and the amount quantified.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Stock-Based Compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus. For directors and employees the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(g) Flow-Through Common Shares

Under the terms of Canadian flow-through share legislation, pursuant to the Canadian *Income Tax Act*, the tax attributes of qualifying expenditures are renounced to the subscribers. The tax impact to the Company of the renouncement is recorded on the date the renunciation is filed with taxation authorities, through a decrease in share capital and the recognition of a future tax liability.

(h) Equity Units

Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

(i) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP 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 environmental obligations, the recoverability of resource property interests, valuation allowance for future tax assets, determination of the variables used in the calculation of stock-based compensation and accrued liabilities. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Loss Per Share

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

(k) Future Income Taxes

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assumed. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

(l) Financial Instruments

All financial instruments are classified as one of the following: held-to-maturity, loans and receivables, held-for-trading, available-for-sale or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) and reported in shareholders' equity. Any financial instrument may be designated as held-for-trading upon initial recognition.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments and amortized using the effective interest method.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Comprehensive Income

Comprehensive income is the overall change in the net assets of the Company for a period, other than changes attributable to transactions with shareholders. It is made up of net income and other comprehensive income. Other comprehensive income consists of gains and losses affecting shareholders' equity that under Canadian GAAP are excluded from net income for that period. The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

(n) Changes in Accounting Policies

Going-Concern

The amendments to Section 1400, "General Standards of Financial Statement Disclosure" were in connection with the requirements to assess and disclose an entity's ability to continue as a going concern (note 1). The Company's accounting policies were already in accordance with the requirements of the amended section and there was no effect on the Company's financial statement disclosure.

Capital Disclosures

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 4.

Financial Instruments

Section 3862, "Financial Instruments – Disclosures", and Section 3863, "Financial Instruments – Presentation", replace 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.

SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The change will be effective for the Company for interim and annual financial statements commencing August 1, 2011. The interim and annual financial statements for the year ended July 31, 2011 will require restatement for comparison purposes. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations", Section 1601, "Consolidations", and Section 1602, "Non-Controlling Interests". These sections replace the former Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

FINANCIAL INSTRUMENTS

The Company has designated its cash and marketable securities as held-for-trading; reclamation bonds as held-to-maturity; and accounts payable and accrued liabilities as other financial liabilities.

(a) Fair Value

The carrying values of cash and accounts payable and accrued liabilities approximated their fair values due to the short-term maturity of those financial instruments. The fair value of marketable securities approximated its quoted market price as disclosed in note 5.

FINANCIAL INSTRUMENTS (continued)

(b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The Company has minimal credit risk on its financial assets due to cash being placed with major financial institutions.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet its commitments. The Company's approach to managing liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company manages its liquidity risk by forecasting cash flows required for operations and anticipated investing and financing activities.

At October 31, 2009, the Company's cash totaled $194,386 (2009 - $215,026) and accounts payable excluding accrued liabilities totaled $5,320 (2009 - $1,984). Accounts payable and accrued liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary current assets and current liabilities. Included in cash is $157,696 held in a savings account bearing 1.05% interest per annum.

(ii) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign exchange risk. The Company is exposed to significant other price risk with respect to its marketable securities. Assuming all other variables remain constant, a 50% decrease or increase in the market price of the Company's marketable securities would result in a $60,000 decrease or increase respectively in the Company's net and comprehensive income or loss.

CAPITAL MANAGEMENT

The Company defines its capital as all components of shareholders' equity. Capital requirements are driven by the Company's exploration activities on its mineral interests and overhead expenses. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget all exploration projects and overhead to manage costs, commitments and exploration activities.

There have been no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

RESOURCE PROPERTIES - Mineral Interests

The Company holds an undivided 100% interest in seven mineral claims and two Crown-granted mineral claims covering approximately 91 hectares in the Kamloops Mining Division of British Columbia, Canada, known as the Galaxy Property.

By an agreement dated April 8, 1987 and March 6, 1987, the Company acquired an undivided 50% interest in the mineral rights associated with Rock Creek Ranch located in Humboldt County, Nevada, USA. Consideration was $120,000 (US $100,000) and 1.25% net smelter returns. The Company has written the property off for accounting purposes by a charge to operations in the year ended July 31, 2006, but it retains its interest for viable projects in the future.

The Company is in the exploration stage and capitalizes all acquisition costs related to its resource properties until the properties are put into commercial production, sold, or abandoned. Under this method, the amounts shown as resource properties represent costs incurred to date less amounts amortized and/or written off, and do not necessarily represent present or future values.

If a property is put into commercial production, the acquisition costs relating to that property will be depleted based upon the proven reserves available. If a property is sold or abandoned, the costs relating to the property will be charged to operations.

The Carrying values of resource properties are reviewed by management on a property-by-property basis at each financial statement date to determine if they have become impaired. If impairment is determined to have occurred, the resource property will be written down to its fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the ability to obtain the necessary financing to complete their development and the ability to realize profitable production or proceeds from the disposition thereof. Management's estimates of recoverability of the Company's investment in various projects are based on current conditions. However, it is possible that changes could occur in the near term, which could adversely affect management's estimates and may result in future write-downs of capitalized property carrying values.

Reclamation Bonds

The reclamation bonds are comprised of a cash deposit plus term deposits held in a financial institution as security for reclamation obligations pursuant to the *Mines Act* and Health, Safety and Reclamation Code for Mines in British Columbia. The term deposits bear interest at .2% per annum and mature September 22, 2010.

Exploration Expenditures

The Company incurred $20,000 in exploration expenses in the Three Month Period ended October 31, 2009 and $20,612 in the year ended July 31, 2009.

Expense	October 31, 2009	July 31, 2009
Geochemical		
Geological Consulting	20,000	20,465
Geophysical and Magnetometer		
Government fees and misc.		147
	20,000	**20,612**

Derivatives – Mineral Properties

The Company retains and/or has obligations relating to certain carried interest rights and net smelter royalties that value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral interests to which they relate are not sufficiently developed to reasonably determine value.

INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, and losses carried forward. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in operations in the period in which the change is enacted or substantially assumed. The amount of future income tax assets is limited to the amount of the benefit that is more likely than not to be realized.

MARKETABLE SECURITIES

The Company holds 500,000 common shares in Abacus Mining and Exploration Corporation ("Abacus"), which were acquired in 2004. The fair value of the shares is based on the quoted market price on the TSX Venture Exchange.

	October 31, 2009		July 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Abacus 500,000 common shares (2009 – 500,000)	$ 120,000	$ 120,000	$ 85,000	$ 85,000

Pursuant to the change in accounting policy (note 2(l)), the carrying value of marketable securities was increased by $163,000 on August 1, 2007 to bring the carrying amount to fair value, with a corresponding adjustment to deficit in the consolidated statements of operations and deficit.

RELATED PARTY TRANSACTIONS

There are no contracts with directors or officers of the Company that provide for compensation and transactions are measured at the exchange amount of consideration established with related parties. During fiscal 2009 transactions with related parties were:

(a) During the Three Month Period ended October 31, 2009 the Company paid consulting fees of $18,000 (2009 - $21,000) to a company owned by the CFO for financial reporting, investor and shareholder communications, market surveillance, developing marketing materials and bringing the Company to the attention of financial advisors and the investing community, preparing, planning, organizing and supervising the Company's exploration activities, investigating, identifying and conducting negotiations on favourable exploration opportunities, arranging equity financings; and supervising the Company's day-to-day operations including administrative and corporate matters.

INTERIM REPORTING

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a basis consistent with that followed in the most recent audited annual consolidated financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with Canadian GAAP have been condensed or omitted and therefore these unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto for the fiscal year ended July 31, 2009. These interim financial statements have not been reviewed by an auditor. In the opinion of the Company's management, all adjustments considered necessary for a fair presentation of these unaudited interim consolidated financial statements have been included and all such adjustments are of a normal recurring nature. Operating results for the three month period ended October 31, 2009 are not necessarily indicative of the results that can be expected for the fiscal year ending July 31, 2010.

OPERATION RESULTS FOR THE THREE MONTHS ENDED OCTOBER 31, 2009 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2008

The review of results of should be read in conjunction with the Audited Financial Statements of the Company for the fiscal year ended July 31, 2009.

The net loss for the Three Month Period ended October 31, 2009 was $22,346 or $(0.00) per share compared to a net loss for the Three Month Period ended October 31, 2008 of $151,880 or $(0.01) per share. The main factor that contributed to this decreased loss of $129,534 was the fair value of the marketable securities.

Operating expenses for the Three Month Period ended October 31, 2009 were $57,830 compared to the October 31, 2008 Quarter Loss Before Other Items of $51,522. General and administrative expenses for the Three Month Period ended October 31, 2009 were $37,830 compared to $51,457 in the Three Month Period ended October 31, 2008. Investor relations decreased from $13,800 in 2008 to $2,498 in 2009 and Management consulting fees decreased by $3,000. Travel increased from $1,621 in 2008 to $4,728 in 2009.

LIQUIDITY AND WORKING CAPITAL

Cash flow

Cash used in operating activities was $57,346 for the three months ended October 31, 2009 compared to $49,380 for the three months ended October 31, 2008. Interest income provided cash for operating activities of $484 compared to $2,142 provided in 2008. Financing activities for the three months ended October 31, 2009 provided net cash of $45,000 compared to $100,500 from financing activities during the three months ended October 31, 2008. Financing activities for the year ended July 31, 2009 and the three months ended October 31, 2009 included:

(i) On October 28, 2008, the Company issued 1,270,200 non-flow-through units at $0.05 per unit and 889,800 flow-through units at $0.05 per unit pursuant to a private placement for cash proceeds of $108,000. Each non-flow-through unit consists of one non-flow-through common share and one warrant, and each flow-through unit consists of one flow-through common share and one warrant. Each warrant enables the holder to purchase one additional non-flow-through common share at an exercise price of $0.10 per share, expiring June 30, 2009. A $7,500 finder's fee was paid in cash.

(ii) On February 9, 2009, the Company issued 5,000,000 common shares at $0.01 per share pursuant to a private placement for cash proceeds of $50,000. No finder's fee paid.

(iii) On September 23, 2009, the Company issued 2,250,000 common shares at $0.02 per unit pursuant to a private placement for cash proceeds of $45,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one share at $.05 per share, expiring September 22, 2010. No finder's fee paid.

At this time the Company has no operating revenues. Historically, the Company has raised funds through equity financing and the exercise of options and warrants to fund its operations. Financing through the issuance of common shares is affected by certain market conditions including the price of metals. The market price of metals is highly speculative and volatile. Instability in the market price may affect investor interest in mining stocks. If the metal prices substantially decline, this may adversely affect the Company's ability to raise sufficient capital to fund operations including exploration. The current uncertain global market conditions have significantly reduced the Company's ability to finance operations.

Working Capital

The Company has working capital of $306,394 at October 31, 2009 compared to working capital of $283,740 at July 31, 2009. The working capital includes $194,386 cash, $3,328 in receivables and marketable securities of $120,000. The marketable securities consist of 500,000 common shares in the capital of Abacus Mining and Exploration Corp., a public company trading on the TSX Venture Exchange. The market value of the Abacus securities at July 31, 2009 was $85,000. The Company believes the working capital is sufficient to meet its on-going obligations and general operating expenses for the 2010 fiscal year.

SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares without par value. The Company issued 7,160,000 shares during the year ended July 31, 2009. The Company issued 2,250,000 shares during the three months ended October 31, 2009. There are 36,472,962 common shares issued and outstanding at October 31, 2009.

Flow-Through Common Shares

During the year ended July 31, 2006, the Company issued 2,000,000 flow-through shares for proceeds of $120,000. During the year ended July 31, 2008, as a result of the renunciation to investors, $22,439 (2007 - $17,552) was recorded as a reduction of share capital and a corresponding increase in future income tax liability. The Company subsequently reduced the future income tax liability by offsetting it against an equal amount of future income tax assets.

On October 28, 2008, the Company issued 889,800 flow-through units at $0.05 per unit pursuant to a private placement for cash proceeds of $44,490. During the year ended July 31, 2009, as a result of the renunciation to investors, $13,534 (2008 - $22,439) was recorded as a reduction of share capital and a corresponding increase in future income tax liability. The Company reduced the future income tax liability by offsetting it against an equal amount of future income tax assets.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined in Canadian income tax legislation. The flow-through share gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances, which have not been spent as at October 31, 2009 and are held by the Company for such expenditures. As at October 31, 2009, the amount of flow-through proceeds remaining to be expended is $4,490. (As at December 18, 2009 this amount has been spent).

Stock-Based Compensation

The Company established a stock option plan under which it may grant stock options totaling in aggregate up to 10% of the Company's total number of shares issued and outstanding on a non-diluted basis. The stock option plan provides for the granting of stock options to employees and persons providing investor-relation or consulting services up to a limit of 5%, 2% and 2%, respectively, of the Company's total number of issued and outstanding shares per year. The stock options are fully vested on the date of grant, except for options granted to persons providing investor relation services, which vest over a 12 month period. The option price must be greater or equal to the discounted market price on the grant date and the option expiry date cannot exceed five years after the grant date.

The Company applies the fair value method using the Black-Scholes option pricing model in accounting for options granted. There are no outstanding options. In 2008, 450,000 options were granted, of which 393,750 vested, which resulted in a charge to operations totaling $19,569 in the year July 31, 2008 with a further $2,796 charged to operations in the year ending July 31, 2009 when the remaining options issued during the year ended July 31, 2008 vested. Of the $19,569 charged to operations in 2008, and the $2,796 charged to operations in 2009, $ nil attributes to directors and officers $2,796 (2008 - $19,569), attributes to investor relations).

SHARE CAPITAL

Stock-Based Compensation (continued)

The fair value of each option granted is calculated using the following weighted average assumptions:

	October 31, 2009	July 31, 2009
Expected life (years)	N/A	N/A
Interest rate	N/A	N/A
Volatility	N/A	N/A
Dividend yield	N/A	N/A
Forfeiture rate	N/A	N/A

The following summarizes the Company's stock options as at October 31, 2009 and July 31, 2009 and changes during the periods:

	October 31, 2009		July 31, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	450,000	$ 0.10	2,450,000	$ 0.10
Granted	-	-	-	-
Expired	(450,000)	$ 0.10	(2,000,000)	$ 0.10
Outstanding, end of period	-	-	450,000	$ 0.10
Exercisable	-	-	450,000	$ 0.10

A summary of all stock options outstanding is as follows:

	October 31, 2009			July 31, 2009		
Expiry Date	Stock Price at Grant	Exercise Price	Number of Options	Stock Price at Grant	Exercise Price	Number of Options
All Expired	$ -	$ -	-	-	-	-
Total	$ -	$ -	-	-	-	-
Weighted average life of options outstanding			0 years			0 years

Warrants

Details of the Company's warrants as at October 31, 2009 and July 31, 2009 and the changes during the periods are as follows:

Expiry Dates	Exercise Price	Balance July 31, 2008	Issued	Exercised	Expired	Balance July 31, 2009
June 30, 2009	$ 0.10	-	2,160,000	-	(2,160,000)	-
Total		-	2,160,000	-	(2,160,000)	-
Weighted average exercise price		$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.10

Expiry Dates	Exercise Price	Balance July 31, 2009	Issued	Exercised	Expired	Balance October 31, 2009
September 22, 2010	$ 0.05	-	2,250,000	-	-	2,250,000
Total		-	2,250,000	-	-	2,250,000

CONTINGENCY

On September 6, 2007, a claim was filed in BC Supreme Court, claiming damages, court order interest and costs against the Company. The Plaintiff alleges that the Company failed to deliver shares and warrants in a timely manner, thus denying the Plaintiff the opportunity to trade the shares in the open market. The Company denies all allegations against it and believes the Plaintiff's allegations are without merit. The Company is vigorously defending the claim. Any amounts potentially recoverable by the Plaintiff, whether through trial or settlement, are currently not ascertainable.

OUTLOOK

Exploration on the Galaxy is planned to continue throughout the 2010 fiscal year. Operating expenses for the remaining fiscal year are expected to be funded by cash on hand and/or the issuance of shares including the exercise of warrants and options. Financing through the issuance of common shares is affected by certain market conditions including the price of metals. The market price of metals is highly speculative and volatile. Instability in the market price may affect investor interest in mining stocks. If the metal prices substantially decline, this may adversely affect the Company's ability to raise sufficient capital to fund operations including exploration. The current uncertain global market conditions have significantly reduced the Company's ability to finance operations.

OTHER

Additional information relating to the Company is available on SEDAR at www.sedar.com.