

Consolidated Financial Statements

Aldershot Resources Ltd.

(an exploration stage company)

(Expressed in Canadian dollars)

January 31, 2010 and 2009

AUDITORS' REPORT

(Attached PDF to be inserted here)

Aldershot Resources Ltd.
(an exploration stage company)

CONSOLIDATED BALANCE SHEETS

[See Note 1 - Nature of Operations and Going Concern Uncertainty]

As at January 31

	2010	2009
	\$	\$
ASSETS		
Current		
Cash and cash equivalents <i>[note 3]</i>	187,521	213,749
Restricted cash <i>[note 5]</i>	12,284	12,284
Accounts receivable	1,705	6,891
Prepaid expenses and deposits	7,469	13,382
	208,979	246,306
Equipment <i>[note 4]</i>	48,819	72,015
Resource properties <i>[note 5]</i>	—	—
	257,798	318,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	60,057	113,903
Due to related parties <i>[note 8(b)]</i>	2,804	1,068
	62,861	114,971
Shareholders' equity		
Capital stock <i>[note 6]</i>	12,231,269	12,165,937
Contributed surplus <i>[note 6]</i>	5,721,376	5,240,378
Deficit	(17,757,708)	(17,202,965)
	194,937	203,350
	257,798	318,321

Subsequent events *[note 12]*

See accompanying notes

On behalf of the Board:

“Jeremy Caddy”
Director

“Philip G. Crabb”
Director

Aldershot Resources Ltd.
(an exploration stage company)

**CONSOLIDATED STATEMENTS OF OPERATIONS,
COMPREHENSIVE LOSS AND DEFICIT**

Years ended January 31

	2010	2009
	\$	\$
EXPENSES		
Exploration (recoveries) costs <i>[notes 5 and 8(a)]</i>	(84,438)	(555,460)
Amortization <i>[note 4]</i>	24,046	57,603
Consulting fees <i>[note 8(a)]</i>	58,070	93,150
Insurance	12,093	39,316
Interest and bank charges	2,698	50,833
Investor relations	18,978	10,420
Office and miscellaneous	3,578	2,172
Professional fees	42,101	84,344
Property investigation costs	—	2,277
Regulatory and trust company fees	28,123	21,404
Rent <i>[note 8(a)]</i>	20,774	46,065
Salaries and benefits administration	130,584	194,908
Stock-based compensation <i>[note 6]</i>	74,436	—
Telephone	4,139	7,704
Travel	24,604	18,761
Loss before other items	(359,786)	(73,497)
Other items		
Equipment rentals <i>[note 8(a)]</i>	13,682	—
Foreign exchange gain (loss)	145	8,427
Gain on sale of equipment <i>[note 8(a)]</i>	—	21,764
Interest income	2,090	16,050
Write-down of resource properties' costs	—	(2,377,045)
	15,917	(2,330,804)
Net loss and comprehensive loss for the year	(343,869)	(2,404,301)
Deficit, beginning of year	(17,202,965)	(14,798,664)
Modification of warrant terms <i>[note 6]</i>	(210,874)	—
Deficit, end of year	(17,757,708)	(17,202,965)
Basic and diluted loss per share	(0.01)	(0.04)
Weighted average number of shares outstanding	71,131,662	65,184,538
<i>See accompanying notes</i>		

Aldershot Resources Ltd.
(an exploration stage company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended January 31

	2010	2009
	\$	\$
OPERATING ACTIVITIES		
Net loss for the year	(343,869)	(2,404,301)
Items not affecting cash:		
Amortization	24,046	57,603
Accretion included in interest and bank charges	—	44,735
Stock-based compensation	74,436	—
Gain on sale of equipment	—	(21,764)
Write-down of resource properties' acquisition costs	—	2,369,382
Changes in non-cash working capital items:		
Accounts receivable	5,186	17,002
Prepaid expenses and deposits	5,913	36,084
Accounts payable and accrued liabilities	(53,846)	(264,110)
Cash (used in) operating activities	(288,134)	(165,369)
INVESTING ACTIVITIES		
Acquisition of equipment	(850)	(1,135)
Proceeds on sale of equipment	—	90,547
Restricted cash	—	(2,102)
Cash provided by (used in) investing activities	(850)	87,310
FINANCING ACTIVITIES		
Due from related parties	1,736	6,868
Share issue costs	(4,770)	—
Proceeds from issuance of share capital	265,790	—
Cash provided by financing activities	262,756	6,868
Decrease in cash during the year	(26,228)	(71,191)
Cash and cash equivalents, beginning of year	213,749	284,940
Cash and cash equivalents, end of year	187,521	213,749
Supplemental information		
Cash paid during the year for interest	2,698	5,891
Resource properties acquired by the issuance of share capital	—	12,000
Settlement of accounts payable and accrued liabilities through the performance of services	—	10,116
Settlement of accounts payable and accrued liabilities through the sale of equipment	—	40,000

See accompanying notes

Aldershot Resources Ltd.
(an exploration stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Aldershot Resources Ltd. (the “Company”) commenced operations on October 4, 1996 and is engaged in the acquisition and exploration of resource properties. The Company is in the exploration stage and has not yet determined whether its properties contain enough mineral reserves such that their recovery would be economically viable.

The Company has incurred losses since inception and as at January 31, 2010, the Company had an accumulated deficit of \$17,757,708. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue as a going concern is in substantial doubt and is dependent upon the continued support from its directors, the ability to continue to raise adequate financing or achieving profitable operations in the future, the outcome of which cannot be predicted at this time. Management is seeking financing and business opportunities, including joint venture or merger opportunities or acquisition of properties to continue operations. Financing options available to the Company include public equity financings and loans. These consolidated financial statements do not reflect any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS

a) Adoption of new accounting policies

Business Combinations – Section 1582

In January 2009, the Canadian Institute of Chartered Accountants (“CICA”) issued Handbook Section 1582, *Business Combinations*, which provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, *Business Combinations* and replace the existing Handbook Section 1581, *Business Combinations*. The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Handbook Section 1601, *Consolidated Financial Statements* and Handbook Section 1602, *Non-controlling Interests*. This new accounting policy had no impact on the Company’s consolidated financial statements.

Aldershot Resources Ltd.
(an exploration stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

a) Adoption of new accounting policies (cont'd)

Consolidated Financial Statements – Section 1601

In January 2009, the CICA also issued Handbook Section 1601, *Consolidated Financial Statements*, which established standards for the preparation of consolidated financial statements and, along with Section 1602, will replace the existing Handbook Section 1600, *Consolidated Financial Statements*. The new standard is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also be required to early adopt Handbook Section 1582, *Business Combinations* and Handbook Section 1602, *Non-Controlling Interests*. This new accounting policy had no impact on the Company's consolidated financial statements.

b) New Canadian accounting standards International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board confirmed that the use of IFRS will be required effective January 1, 2011 for public companies in Canada (i.e., IFRS will replace Canadian generally accepted accounting principles for public companies). The official changeover date will apply for interim and financial statements relating to fiscal years beginning on or after January 1, 2011.

The Company has determined that the key elements of this IFRS changeover on the Company will be in the areas of accounting for resource properties' acquisition and exploration costs, impairment of long-lived assets, accounting for reclamation costs, accounting for share capital including stock options and warrant valuations and general IFRS disclosure requirements. The Company is currently assessing the specific impact on the Company's financial reporting and developing an implementation timetable.

Aldershot Resources Ltd.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

c) Significant accounting policies

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, all of which are inactive: Aldershot Resources Zambia Limited (previously Kariba Uranium Limited), O'Higgins Minerals Ltd. and 0795134 BC Ltd. All significant intercompany transactions and balances have been eliminated.

Use of estimates

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and all highly liquid investments that are readily convertible into cash with maturity dates not to exceed 90 days from the date of issuance.

Restricted cash

Cash is considered to be restricted as it is subject to rights of a government agency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

c) Significant accounting policies (cont'd)

Exploration and development costs

Exploration costs are charged to operations as incurred. When it has been established that a mineral deposit is commercially mineable and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs subsequently incurred to develop the mine on the property prior to the start of the mining operations are capitalized. Any option payments received that relate to exploration costs are recorded as a recovery of such costs.

Resource properties

Resource property acquisition costs are capitalized until the viability of the mineral interest is determined. Depletion of costs capitalized on projects put into commercial production will be recorded using the unit-of-production method based upon estimated proven and probable reserves.

The capitalized amounts may be written down if future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of the Company reviews the carrying value of each resource property interest periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, reductions in the carrying value of each property would be recorded to the extent the carrying value of the investment exceeds the estimated future net cash flows.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is provided for over the estimated useful lives of the assets at the following annual rates:

Computer equipment	45% declining-balance basis
Furniture and fixtures	20% declining-balance basis
Mining and resource equipment	30% declining-balance basis

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

c) Significant accounting policies (cont'd)

Long-lived assets

Long-lived assets are tested for impairment whenever events or changes in circumstances indicate the related carrying amounts may not be recoverable. Impairment is considered to exist if total estimated future cash flows or probability-weighted cash flows on an undiscounted basis are less than the carrying amount of the assets, including resource properties and equipment. An impairment loss is measured and recorded based on discounted estimated future cash flows or the application of an expected present value technique to estimate fair value in the absence of a market price.

Asset retirement obligations

Future obligations to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value as at the time in which they are incurred or the event occurs giving rise to such an obligation. The liability is increased (accreted) over time through periodic charges to earnings. The corresponding asset retirement cost is capitalized as part of the asset's carrying value, and is amortized over the asset's estimated useful life. The amount of the liability will be subject to re-measurement at each reporting period.

The Company, where possible, has estimated asset retirement obligations based on current best practice. These estimates, made by management, are subject to change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised. There are currently no asset retirement obligations.

Stock-based compensation

The Company accounts for all stock options using the fair value method. Under this method, the fair value of the stock options at the date of grant is recognized as a charge to stock-based compensation expense and is amortized over the vesting period with the offsetting credit to contributed surplus. Fair value is determined using an option pricing model.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

c) Significant accounting policies (cont'd)

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary assets and liabilities are translated using historical rates. Revenue and expense items are translated at exchange rates prevailing at the time of the transaction. Foreign exchange gains and losses are included in the determination of net loss for the year.

Income taxes

Income taxes are accounted for under the liability method of accounting for income taxes. Under the liability method, future tax liabilities and assets are recognized for the estimated future tax consequences attributable to differences between the amounts reported in the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted income tax rates expected to apply when the asset is realized or the liability settled. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized. Tax credits are recorded when received and are shown as a recovery against the related exploration costs.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments with the loss per share calculated using the weighted average number of shares outstanding during the year. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For loss per share information the dilutive effect is the same as the basic amount, as the Company's net loss from operations causes the dilutive securities outstanding to be anti-dilutive.

Aldershot Resources Ltd.
(an exploration stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION AND NEW STANDARDS (cont'd)

c) Significant accounting policies (cont'd)

Financial instruments

The Company accounts for its financial instruments in accordance with CICA *Section 3855 Financial Instruments—Recognition and Measurement*. This standard requires that all financial instruments be classified as one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale assets or other financial liabilities. All financial assets and liabilities (including derivatives) are measured at fair value on initial recognition except for those classified as loans and receivables, held-to-maturity and other financial liabilities, which are measured at amortized cost using an effective interest rate method. Transaction costs are included in the carrying value of financial instruments.

Subsequent measurements and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income or loss and available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income or loss until the investment is derecognized or impaired at which time the amounts would be recorded in net income or loss.

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(an exploration stage company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

3. CASH AND CASH EQUIVALENTS

	2010	2009
	\$	\$
Cash	46,521	38,749
Cash equivalents	141,000	175,000
	187,521	213,749

As at January 31, 2010, the Company had cash of AUD \$23,551 (2009 – AUD \$20,041) and cash equivalents of AUD \$Nil (2009 – AUD \$Nil) in Australian dollars (“AUD”) which is included in the above amounts.

4. EQUIPMENT

	Accumulated Cost	Net Book Amortization	Value
	\$	\$	\$
2010			
Computer equipment	45,950	35,811	10,139
Furniture and fixtures	9,946	7,268	2,678
Mining and resource equipment	104,631	68,629	36,002
	160,527	111,708	48,819
2009			
Computer equipment	45,100	27,865	17,235
Furniture and fixtures	9,946	6,598	3,348
Mining and resource equipment	104,631	53,199	51,432
	159,677	87,662	72,015

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. RESOURCE PROPERTIES

The Company has successfully partnered with other joint venturers to continue work on its resource properties at minimal cost to the Company. There is no carrying value of the Company's resource properties. The current status of the Company's resource properties is as follows:

Australia

The Company has licences in the Northern Territory and in Western Australia. These licences are granted by the local government and are subject to various mining regulations and reporting in order to maintain them in good standing which the Company has complied with.

i) Northern Territory

During the year ended January 31, 2010, the Company partnered with Royal Resources Limited ("Royal"), a related company that has a director in common with the Company, granting Royal the option to acquire a 60% interest in certain of the Company's licences in the Northern Territory. Under the terms of the agreement, Royal paid the Company \$83,937 (AUD \$100,000) and must spend at least AUD \$900,000 (Canadian dollars "CAD" \$765,000, at date of agreement) of exploration expenditures on the properties over a three year period. Once the required level of expenditures are made by Royal, the Company must pay its pro-rata share of costs to retain its 40% ownership of the property. The Company also retains a 2% net smelter royalty ("NSR") on the Mt. Thomas licence in the Northern Territory which it sold last year.

ii) Western Australia—Turee Creek

During the year ended January 31, 2009, the Company entered into an agreement with Cameco Australia Pty Ltd. ("Cameco") granting Cameco the option to acquire a 70% interest in the Turee Creek licence. Under the terms of the agreement, Cameco paid the Company \$197,474 and must spend at least AUD \$2,500,000 (CAD \$2,125,000, at date of agreement) of exploration expenditures on the property over a four year period. Once the required level of expenditures are made by Cameco, the Company must pay its pro-rata share of costs to retain its 30% ownership of the property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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5. RESOURCE PROPERTIES (cont'd)

iii) Western Australia—Yuinmery

The Company maintains a licence in this area. All rents have been paid and reports submitted as required to maintain the licence in good standing.

The Company has a total of \$12,284 (January 31, 2009 - \$12,284) in guarantees for two properties in Australia regarding performance under two separate exploration licences. These funds are held as term deposits and are restricted from general operation business funds.

Kariba Project, Republic of Zambia, Africa

The Company has been granted two prospecting licences; one which is located in the southern part of the Republic of Zambia and on the northern shores of Lake Kariba covering approximately 500 square kilometers and the other further south and adjacent to this licence which covers an area of approximately 250 square kilometers. During the year ended January 31, 2010, the Company entered into an agreement with African Energy Resources Zambia Ltd. (“African Energy”) granting African Energy the option to acquire an initial 51% interest in these two licences in Zambia. Under the terms of the agreement, African Energy must spend at least AUD \$500,000 (CAD \$425,000) of exploration expenditures on the properties over a three year period. African Energy can increase its ownership to 70% through the completion of a Prefeasibility Study on an inferred resource. Once the required level of expenditures are made by African Energy, the Company must pay its pro-rata share of costs to retain its 49% ownership of the property.

Quebec, Canada

During the year ended January 31, 2009, the Company exited Quebec and returned all of its resource properties to the vendors pursuant to property option agreements. During the year ended January 31, 2010, the Company received \$63,088 related to exploration tax credits from its Quebec properties and this amount has been recorded as a recovery of exploration expenses. No further tax credits are expected since the Company no longer operates in that province.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

5. RESOURCE PROPERTIES (cont'd)

The following is a summary of exploration costs incurred by the Company related to its resource properties, and charged to operations.

2010	CANADA		AUSTRALIA		ZAMBIA		TOTAL
	Quebec \$	Northern Territory \$	Yuimery \$	Turee Creek \$	Lake Kariba \$	TOTAL \$	
Equipment rental	—	158	—	98	—	256	
Field crew labour	—	1,332	424	—	43	1,799	
Geological consulting	1,403	18,114	7,151	1,991	18,321	46,980	
Geophysical and airborne surveying	—	—	—	—	—	—	
Lab tests and assays	—	615	—	—	—	615	
Maintenance, licence and staking fees	—	3,019	8,653	—	—	11,672	
Maps and reproduction	—	—	—	—	—	—	
Materials and field supplies	—	—	—	—	—	—	
Meals and lodging	—	—	524	—	—	524	
Telephone and communication	—	348	—	31	52	431	
Travel and transport	—	89	—	221	—	310	
	1,403	23,675	16,752	2,341	18,416	62,587	
Recovery of exploration costs							
Tax credits	(63,088)	—	—	—	—	(63,088)	
Option payments	—	(83,937)	—	—	—	(83,937)	
	(63,088)	(83,937)	—	—	—	(147,025)	
Total exploration costs for the year	(61,685)	(60,262)	16,752	2,341	18,416	(84,438)	

Aldershot Resources Ltd.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

5. RESOURCE PROPERTIES (cont'd)

2009	CANADA		AUSTRALIA		ZAMBIA		TOTAL \$
	Quebec \$	British Columbia \$	Northern Territory \$	Yuinmery \$	Turee Creek \$	Lake Kariba \$	
Equipment rental	6,450	—	3,020	164	168	—	9,802
Field crew labour	(6,063)	—	10,597	254	654	405	5,847
Geological consulting	114,587	—	141,810	11,484	17,228	67,710	352,819
Geophysical and airborne surveying	—	—	2,474	—	34,172	—	36,646
Lab tests and assays	—	—	58	133	5	—	196
Maintenance, licence and staking fees	5,131	—	20,563	(441)	7,626	9,933	42,812
Maps and reproduction	5,450	—	—	—	—	—	5,450
Materials and field supplies	3,377	—	1,439	—	—	—	4,816
Meals and lodging	—	—	12,461	—	—	—	12,461
Telephone and communication	—	—	2,666	1,222	1,248	4	5,140
Travel and transport	373	—	1,153	210	8	—	1,744
	129,305	—	196,241	13,026	61,109	78,052	477,733
Recovery of exploration costs							
Tax credits	(443,955)	(154,856)	—	—	—	—	(598,811)
Option payments/other recoveries	(10,727)	(15,437)	(136,764)	—	(197,474)	(73,980)	(434,382)
	(454,682)	(170,293)	(136,764)	—	(197,474)	(73,980)	(1,033,193)
Total exploration costs for the year	(325,377)	(170,293)	59,477	13,026	(136,365)	4,072	(555,460)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

6. CAPITAL STOCK

Authorized
10,000,000 Series “A” cumulative, redeemable,
convertible preferred shares with a par value of \$1
Issued: nil [2009 - nil]
500,000,000 common shares without par value

Common shares

	Number of Shares #	Capital Stock \$	Contributed Surplus \$
Issued:			
Balance as at January 31, 2008	65,083,308	12,153,937	5,195,643
Shares issued pursuant to property agreements	150,000	12,000	—
Valuation of warrants pursuant to debenture financing [ii]	—	—	44,735
Balance as at January 31, 2009	65,233,308	12,165,937	5,240,378
Private placement [i]	8,859,667	265,790	—
Valuation of warrants pursuant to private placement [i]	—	(195,688)	195,688
Share issue costs [i]	—	(4,770)	—
Stock-based compensation	—	—	74,436
Modification of warrant terms	—	—	210,874
Balance as at January 31, 2010	74,092,975	12,231,269	5,721,376

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 2010 and 2009

6. CAPITAL STOCK (cont'd)

During the year ended January 31, 2010, the Company:

- i] Completed an 8,859,667 unit non-brokered private placement at \$0.03 per unit for gross proceeds of \$265,790. Each unit consists of one common share and one share purchase warrant exercisable for two years until June 2, 2011. The warrants are exercisable at \$0.05 per share during the first year and \$0.10 per share during the second year. The Company has valued the warrants issued in connection with this private placement using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 0.464%; volatility 167.9%; dividend yield 0% and approximate expected lives of 2 years. The resultant value of \$195,688 attributable to the warrants has been reclassified from share capital and charged to contributed surplus. A finder's fee of \$4,770 was paid in conjunction with this private placement and was charged to share issue costs.

During the year ended January 31, 2009, the Company:

- i] Issued 150,000 common shares valued at \$12,000 pursuant to resource property agreements. The shares were valued with reference to the market price of the Company's shares on the date when the obligation to issue the shares arose.
- ii] Entered into a debenture financing agreement with a company who provided short-term financing of \$97,020 (AUD \$100,000) which, along with all accrued interest, was repaid during the year. The debenture and any accrued interest owing was convertible into common shares of the Company at the lender's option at \$0.06 per share until the debenture was repaid. In accordance with generally accepted accounting principles, the fair value of the conversion option was calculated using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate 3.01%; volatility 79.25%; dividend yield 0% and approximate expected life of 1/2 year. The resultant value of \$44,735 has been charged to interest and bank charges and contributed surplus. This conversion feature expired unexercised when the debenture was repaid.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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6. CAPITAL STOCK (cont'd)

Stock options

The Company, in accordance with the policies of the TSX Venture Exchange (“TSX-V”), may grant options to directors, employees and consultants to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company’s stock at the date of grant less an applicable discount (if applicable) in accordance with the TSX-V policies. The options can be granted for a maximum term of 5 years and generally vest immediately, except for options granted to personnel performing investor relations activities, which vest over a period of one year in accordance with the TSX-V policies.

A summary of the continuity of the Company’s stock options is as follows:

	<u>2010</u>		<u>2009</u>	
	<u>Number of Common Shares Issuable</u>	<u>Weighted Average Exercise Price \$</u>	<u>Number of Common Shares Issuable</u>	<u>Weighted Average Exercise Price \$</u>
Options outstanding, beginning of the year	4,210,000	0.26	6,280,000	0.30
Granted	2,300,000	0.10	—	—
Expired	(950,000)	0.21	(2,070,000)	0.39
Options outstanding, end of the year	5,560,000	0.10	4,210,000	0.26
Options exercisable	5,560,000	0.10	4,210,000	0.26

During the year ended January 31, 2010, the company obtained shareholder and regulatory approval to reprice all of its outstanding stock options to \$0.10 per share, retaining the original expiry dates. In addition, the Company granted 2,300,000 stock options to its directors, employees and consultants, which are exercisable at \$0.10 per share and expire in 2014.

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6. CAPITAL STOCK (cont'd)

Stock options (cont'd)

The weighted average remaining life of the outstanding options is 2.68 years (2009 – 1.87 years). These stock options expire in various amounts from April 2010 to September 2014.

The fair value of each stock option granted as well as the incremental fair value of the repriced stock options has been estimated as of the date of grant using the *Black-Scholes Option Pricing Model* with the following assumptions:

	2010	2009
Risk-free interest rate	2.57%	—
Approximate expected life of options	5 years	—
Volatility	194%	—
Dividend yield	0%	—

Warrants

A summary of the continuity of the Company's warrants is as follows:

	2010		2009	
	Number of Common Shares Issuable	Weighted Average Exercise Price \$	Number of Common Shares Issuable	Weighted Average Exercise Price \$
Warrants outstanding, beginning of the year	18,518,519	0.42	23,624,819	0.41
Granted	8,859,667	0.075	—	—
Expired	—	—	(5,106,300)	0.35
Warrants outstanding, end of the year	27,378,186	0.31	18,518,519	0.42

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6. CAPITAL STOCK (cont'd)

Warrants (cont'd)

During the year ended January 31, 2010, the company obtained regulatory approval to modify the original terms of previous warrants totalling 18,518,519 by extending their expiry date for two years to April 26, 2011. In addition, the Company announced its intention to reprice the exercise price of these warrants from their original price of \$0.42 to \$0.10 per share. The Company has calculated the incremental fair value of the warrants using the *Black-Scholes Option Pricing Model* with the following assumptions: risk-free interest rate – 0.98%; expected life – 2 years; expected volatility – 167.9% and dividend yield of 0%. The resultant incremental value of \$210,874 due to the modification of these warrants has been recorded as a charge to the deficit and a corresponding increase to contributed surplus.

Subsequent to the year-end the Company received warrant holder and regulatory approval to change the exercise price of these warrants from their original price of \$0.42 per share to \$0.10 per share [note 12].

7. INCOME TAXES

A reconciliation of current taxes at statutory rates with the reported taxes is as follows based on an income tax rate of 29.88% [2009 – 30.87%]:

	2010	2009
	\$	\$
Loss before income taxes	(343,869)	(2,404,301)
Current income taxes (recovery)	(102,748)	(742,232)
Permanent differences	5,337	9,034
Income tax rate changes	149,908	80,999
Change in valuation allowance	(89,873)	581,111
Other	37,376	71,088
Total current income taxes (recovery)	—	—

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7. INCOME TAXES (cont'd)

The tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities are as follows:

	2010	2009
	\$	\$
Future income tax assets:		
Non-capital losses	1,099,345	1,056,382
Resource property expenditures	2,353,085	2,452,759
Other	92,150	125,312
	3,544,580	3,634,453
Valuation allowance	(3,544,580)	(3,634,453)
Net future income tax asset (liability)	—	—

The Company has incurred total operating losses of approximately \$4,397,000 which, if unutilized will expire as follows: 2011 - \$252,000 and thereafter in various years from 2015 to 2030 - \$4,145,000. The Company has operating losses carryforward of approximately \$2,400,000 (AUD \$2,565,000) which do not expire. A future income tax asset has not been recognized for these losses.

Subject to certain restrictions, the Company also had resource exploration expenditures available to reduce taxable income of future years of approximately \$9,412,000. Future tax benefits which may arise as a result of these losses and resource deductions have not been recognized in these financial statements, as their realization is not judged likely to occur.

As the Company carries on activities in Australia and Zambia in addition to Canada, the Company may become subject to tax in these other jurisdictions in the future.

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8. RELATED PARTY TRANSACTIONS

[a] Related party transactions with directors and officers or companies controlled by them during the years ended January 31 are as follows:

	2010	2009
	\$	\$
Exploration costs--Australia	9,909	—
Consulting fees	10,000	17,500
Rent	14,492	16,368
Equipment rental income	13,682	—
Proceeds received from the sale of equipment	—	89,527
Gain on sale of equipment	—	13,559

During the year ended January 31, 2010, the Company entered into an agreement with Royal Resources Limited (“Royal”), a related company that has a director in common with the Company, granting Royal the option to acquire a 60% interest in the remaining licences in the Northern Territory of Australia [note 5].

Related party transactions are in the normal course of operations, occurring on terms and conditions that are similar to those of transactions with unrelated parties and, therefore, are measured at the exchange amount.

[b] The balances due from (to) related parties are non-interest bearing and have no fixed repayment terms.

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9. SEGMENTED INFORMATION

All of the Company's operations are in the resource properties exploration industry with its principal business activity in the acquisition and development of resource properties. The Company conducts its resource properties exploration activities in Canada, Australia and Zambia.

	Assets	Exploration Costs (Recoveries)
	\$	\$
January 31, 2010		
Canada	177,062	(61,685)
Australia	80,736	(41,169)
Zambia	—	18,416
	257,798	(84,438)

	Assets	Exploration Costs (Recoveries)
	\$	\$
January 31, 2009		
Canada	223,875	(495,670)
Australia	94,446	(63,862)
Zambia	—	4,072
	318,321	(555,460)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. CAPITAL DISCLOSURE

The Company manages its capital to ensure that it will be able to continue as a going concern with the objective of maximizing the return to stakeholders through the optimization of the issuance of debt and equity instruments. The capital structure of the Company consists of equity attributable to common shareholders comprised of share capital, contributed surplus, stock options and share purchase warrants.

In order to facilitate the management of capital, the Company manages its operating expenses and property exploration expenditures. The Company manages its exploration projects by entering into joint venture agreements with other parties to enable work to continue on the property and to share the risk of exploration. The Company may issue new equity as the need arises and the ability to do so presents itself. When the Company has excess cash, its investment policy is to hold cash in interest-bearing accounts at high credit quality financial institutions to minimize risk and maximize liquidity. In order to maximize ongoing operations, the Company does not pay dividends. The Company expects to continue to raise funds from its shareholders to continue to meet its capital management objectives.

The Company's overall strategy remains unchanged from the prior year. The Company is not subject to any externally imposed capital requirements.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

In conjunction with its accounting policies, the Company classified its financial instruments into the related categories. Cash and cash equivalents, restricted cash and deposits are classified as held-for-trading; accounts receivable are classified as loans and receivables and accounts payable and amounts due to/from related parties are classified as other financial liabilities. The carrying value of cash and cash equivalents, restricted cash, accounts receivable, deposits, accounts payable and amounts due to related parties approximates their fair value because of the short-term nature of these instruments.

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The Company is subject to currency risk as it conducts operations in jurisdictions other than Canada, primarily being exposed to changes in the Canadian dollar compared to the Australian dollar. The Company has not hedged its exposure to currency fluctuations, but does manage its cash resources to complement the denomination of the expenditures required.

The Company is exposed to currency risk through the following CAD equivalent of financial assets and liabilities denominated in currencies other than Canadian dollars, i.e., the AUD (Australian dollar):

	2010	2009
	\$	\$
Cash and cash equivalents	23,551	15,862
Restricted cash	12,284	12,284
Accounts receivable	741	—
Accounts payable and accrued liabilities	(22,845)	(57,204)
<u>Due (to) from related parties</u>	(2,804)	(1,068)
	10,927	(30,126)

Based on the above net exposures at January 31, 2010, a 10% depreciation or appreciation in the AUD dollar against the CAD dollar would result in a \$1,093 (2009 – \$3,013) increase or decrease in the Company's net loss.

The Company is subject to interest rate risk as it invests excess cash not immediately required for operations, in short-term investments. This risk is minimal as the Company does not have significant amounts of excess cash to invest and its investments are in instruments with short-term maturities. As well, the Company borrows funds periodically and the interest rate negotiated will affect the related interest cost on any financing completed. The Company mitigates this risk by offering non-cash options to purchase common shares of the Company in conjunction with any financing undertaken. This financing is not readily available to the Company since it is in the exploration stage and is not generating significant cash flows from its operations, so the financings occur infrequently, and therefore the interest rate risk is minimal.

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11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The Company is not subject to significant credit risk as its receivables are due from government agencies, so the risk is minimal.

The Company is subject to liquidity risk in that the Company may not be able to meet its financial obligations as they come due. The Company manages this risk through the management of its capital structure as outlined in *note 10*.

12. SUBSEQUENT EVENTS

Subsequent to January 31, 2010, the Company:

- [a] Received warrant holder and regulatory approval to reprice the exercise price of 18,518,519 warrants from \$0.42 per share to \$0.10 per share, expiring on April 26, 2011. The resultant incremental value of \$182,659 due to the modification of these warrants will be recorded as a charge to the deficit and a corresponding increase to contributed surplus [*note 6*].
- [b] Entered into an agreement with Strategic Minerals Corporation whereby the Company may acquire a 70% interest in a mining licence, focusing on iron ore mineralization, in South Australia by spending approximately \$237,500 (AUD \$250,000) in exploration expenditures over a two year period.
- [c] Closed a non-brokered private placement totalling \$300,000 through the issuance of 6,000,000 Units at \$0.05 per Unit, each Unit representing one common share and one common share purchase warrant exercisable for five years at \$0.10 per share.