



INSPIRATION MINING CORPORATION

**Consolidated Financial Statements
(Expressed in Canadian Dollars)**

(Audited)

September 30, 2008 and 2007

AUDITORS' REPORT

To the Shareholders of
Inspiration Mining Corporation

We have audited the consolidated balance sheets of Inspiration Mining Corporation as at September 30, 2008 and 2007 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, cash flows and schedule of mineral properties for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 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.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

December 5, 2008



**INSPIRATION MINING CORPORATION
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN CANADIAN DOLLARS)
AS AT SEPTEMBER 30**

	2008	2007
ASSETS		
Current assets		
Cash	\$ 814,896	\$ 596,015
Short-term investments (Note 5)	30,010,844	37,799,282
Receivables (Note 6)	780,998	190,704
Prepaid expenses	<u>118,636</u>	<u>30,950</u>
	31,725,374	38,616,951
Note receivable (Note 7)	153,021	-
Reclamation bond (Note 6)	-	5,285
Mineral property held for sale (Note 8)	638,156	633,235
Mineral properties (Schedule and Note 9)	<u>16,029,330</u>	<u>8,183,918</u>
	<u>\$ 48,545,881</u>	<u>\$ 47,439,389</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,140,080	\$ 334,062
Due to related parties (Note 13)	<u>7,949</u>	<u>4,500</u>
	1,148,029	338,562
Future income tax liability (Note 16)	<u>5,269,390</u>	<u>-</u>
	<u>6,417,419</u>	<u>338,562</u>
Shareholders' equity		
Share capital (Note 10)	43,798,759	48,786,057
Contributed surplus	21,783,103	13,132,713
Deficit	<u>(23,453,400)</u>	<u>(14,817,943)</u>
	<u>42,128,462</u>	<u>47,100,827</u>
	<u>\$ 48,545,881</u>	<u>\$ 47,439,389</u>
Nature and continuance of operations (Note 1)		
Commitments (Note 17)		
Contingencies (Note 18)		
Subsequent events (Note 19)		
On behalf of the Board:		
"D. Randall Miller"	Director	
"James E. Davis"	Director	



INSPIRATION MINING CORPORATION
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30

	2008	2007
GENERAL AND ADMINISTRATIVE EXPENSES		
Amortization	\$ -	\$ 1,546
Directors' and management stock-based compensation (Note 11)	3,556,829	4,578,903
Investor relations (Note 11)	628,264	2,168,620
Management fees	280,000	175,000
Office and miscellaneous	50,310	15,354
Professional fees (Note 11)	5,667,434	1,089,287
Rent and telephone	64,015	43,976
Shareholders information	52,164	116,792
Transfer agent and filing fees	96,481	273,808
Travel and related	<u>95,634</u>	<u>161,754</u>
	<u>(10,491,131)</u>	<u>(8,625,040)</u>
OTHER ITEMS		
Foreign exchange gain (loss)	(2,802)	13,591
Interest income	1,433,731	548,852
Flow-through share tax expense (Note 16)	<u>(454,665)</u>	<u>-</u>
	<u>976,264</u>	<u>562,443</u>
Loss before income taxes	<u>(9,514,867)</u>	<u>(8,062,597)</u>
Future income tax recovery	<u>879,410</u>	<u>-</u>
Net loss and comprehensive loss for the year	<u>\$ (8,635,457)</u>	<u>\$ (8,062,597)</u>
Basic and diluted loss per common share	<u>\$ (0.13)</u>	<u>\$ (0.14)</u>
Weighted average number of common shares outstanding	<u>67,665,856</u>	<u>56,795,662</u>



INSPIRATION MINING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Amount	Contributed Surplus
SHARE CAPITAL AND CONTRIBUTED SURPLUS			
Authorized			
Unlimited common shares, without par value			
Issued and outstanding			
Balance, September 30, 2006	47,217,108	\$ 10,526,643	\$ 1,621,630
Shares issued for private placements	10,800,250	33,583,863	5,278,837
Shares issued for finder's fees	218,775	313,685	207,746
Exercise of stock options	1,172,500	743,817	(321,267)
Exercise of warrants	7,480,887	6,491,649	(1,143,094)
Stock-based compensation	-	-	7,488,861
Share issue costs	-	(2,873,600)	-
Balance, September 30, 2007	66,889,520	48,786,057	13,132,713
Exercise of stock options	640,000	421,077	(175,677)
Exercise of warrants	395,750	740,425	(141,900)
Stock-based compensation	-	-	8,967,967
Flow-through tax effect (Note 10)	-	(6,148,800)	-
Balance, September 30, 2008	67,925,270	\$ 43,798,759	\$ 21,783,103
DEFICIT			
Balance, September 30, 2006		\$ (6,755,346)	
Loss for the year		(8,062,597)	
Balance, September 30, 2007		(14,817,943)	
Loss for the year		(8,635,457)	
Balance, September 30, 2008		\$(23,453,400)	
TOTAL SHAREHOLDERS' EQUITY		\$ 42,128,462	



INSPIRATION MINING CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30

	2008	2007
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Loss for the year	\$ (8,635,457)	\$ (8,062,597)
Items not affecting cash		
Amortization	-	1,546
Stock-based compensation (Note 11)	8,967,967	7,488,861
Fees paid with shares	-	20,000
Interest income	(9,085)	(450,495)
Future income tax recovery	(879,410)	-
Changes in non-cash working capital items:		
Increase in receivables	(590,294)	(142,479)
Increase in prepaid expenses	(87,686)	(30,950)
Increase (decrease) in accounts payable and accrued liabilities	497,933	(134,927)
Increase (decrease) in due to related parties	<u>3,449</u>	<u>(18,246)</u>
Net cash used in operating activities	<u>(732,583)</u>	<u>(1,329,287)</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Issuance of common shares	843,925	44,613,806
Share issuance costs	<u>-</u>	<u>(2,352,170)</u>
Net cash provided by financing activities	<u>843,925</u>	<u>42,261,636</u>
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Purchase of short-term investments	-	(37,349,072)
Redemption of short-term investments	7,799,787	-
Mineral property held for sale	(4,921)	-
Mineral properties	(7,537,327)	(5,310,597)
Note receivable	<u>(150,000)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>107,539</u>	<u>(42,659,669)</u>
Net change in cash during the year	218,881	(1,727,320)
Cash, beginning of year	<u>596,015</u>	<u>2,323,335</u>
Cash, end of year	<u>\$ 814,896</u>	<u>\$ 596,015</u>
Cash consists of:		
Cash	\$ 691,653	\$ 474,987
Cash held in trust	<u>123,243</u>	<u>121,028</u>
	<u>\$ 814,896</u>	<u>\$ 596,015</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Supplemental disclosures with respect to cash flows (Note 15)		



INSPIRATION MINING CORPORATION
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30

	2008	2007	Cumulative from date of inception of project
Barton Syndicate Dry Fork Property, Utah, USA			
Balance, beginning of year	\$ <u>240,378</u>	\$ <u>226,059</u>	\$ <u>-</u>
Acquisition costs	-	4,342	213,613
Consulting	7,745	9,977	34,510
Claims	<u>4,106</u>	<u>-</u>	<u>4,106</u>
Total expenditures during the year	<u>11,851</u>	<u>14,319</u>	<u>252,229</u>
Balance, end of year	\$ <u>252,229</u>	\$ <u>240,378</u>	\$ <u>252,229</u>
Langmuir Property, Ontario, Canada			
Balance, beginning of year	\$ <u>7,795,312</u>	\$ <u>2,650,274</u>	\$ <u>-</u>
Acquisition costs	-	2,016,578	3,689,593
Assays and recording	568,758	131,194	741,351
Core cutting and maintenance	652,733	221,721	932,161
Drilling	4,597,749	2,123,037	7,285,199
Environmental assessment	-	12,463	19,963
Equipment rental	133,872	5,089	146,147
Geological and geophysical	363,834	148,753	533,100
Mapping and surveying	369,574	175,242	584,612
Rent and related charges	119,809	33,124	152,933
Travel	17,520	33,020	50,540
Miscellaneous charges	11,653	12,576	34,184
Advance	(30,000)	30,000	-
Program management	<u>78,161</u>	<u>202,241</u>	<u>509,192</u>
Total expenditures during the year	<u>6,883,663</u>	<u>5,145,038</u>	<u>14,678,975</u>
Balance, end of year	\$ <u>14,678,975</u>	\$ <u>7,795,312</u>	\$ <u>14,678,975</u>



INSPIRATION MINING CORPORATION
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES (CONTINUED)
(EXPRESSED IN CANADIAN DOLLARS)

	2008	2007	Cumulative from date of inception of project
Cleaver Property, Ontario, Canada			
Balance, beginning of year	\$ 98,000	\$ -	\$ -
Acquisition costs	150,000	38,000	188,000
Core cutting and maintenance	209,235	-	209,235
Drilling	316,384	-	316,384
Mapping and surveying	169,135	-	169,135
Travel	3,423	-	3,423
Advance	<u>50,000</u>	<u>60,000</u>	<u>110,000</u>
Total expenditures during the year	<u>898,177</u>	<u>98,000</u>	<u>996,177</u>
Balance, end of year	<u>\$ 996,177</u>	<u>\$ 98,000</u>	<u>\$ 996,177</u>
Douglas Property, Ontario, Canada			
Balance, beginning of year	\$ 50,228	\$ -	\$ -
Acquisition costs	30,000	10,000	40,000
Assays and recording	2,025	-	2,025
Core cutting and maintenance	3,109	21,420	24,529
Miscellaneous charges	1,045	-	1,045
Mapping and surveying	<u>15,542</u>	<u>18,808</u>	<u>34,350</u>
Total expenditures during the year	<u>51,721</u>	<u>50,228</u>	<u>101,949</u>
Balance, end of year	<u>\$ 101,949</u>	<u>\$ 50,228</u>	<u>\$ 101,949</u>
Total	<u>\$ 16,029,330</u>	<u>\$ 8,183,918</u>	<u>\$ 16,029,330</u>



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

1. NATURE AND CONTINUANCE OF OPERATIONS

Inspiration Mining Corporation (the "Company") was incorporated under the laws of British Columbia on November 15, 1972. Since October 1, 2005, the Company has been engaged in the acquisition, exploration, evaluation and development of mineral resource properties in Canada and the United States.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The Company has not yet established whether its mineral properties contain reserves that are economically recoverable. The recovery of amounts capitalized for mineral properties and related deferred costs in the consolidated balance sheet is dependant upon the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of the properties and upon future profitable production or proceeds from their disposition. Changes in future conditions could require material write-downs of the carrying values of mineral property.

Although the Company has taken steps to verify title to the property on which it is conducting exploration and in which it is acquiring an interest, in accordance with industry standards for the current stage of exploration of such property, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, aboriginal claims, and noncompliance with regulatory requirements.

The Company believes it has adequate funds available to meet its corporate and administrative obligations for the coming year.

	2008	2007
Working capital	\$ 30,577,345	\$ 38,278,389
Deficit	\$(23,453,400)	\$(14,817,943)

Principles of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries Metal Mines Inc. ("Metal"), an Ontario company and Inspiration Mining-Utah, Inc. ("Inspiration Utah"), a United States company. All inter-company transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance 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 amount of revenues and expenses during the year. Actual results could differ from these estimates. Significant accounts that require estimates as the basis for determining the stated amounts include mineral properties, stock-based compensation and valuation of warrants in private placements.

Cash

Cash is comprised of cash on hand and cash held in trust.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

Short-term investments

Short-term investments are liquid investments with a maturity greater than three months but less than one year and are recorded at fair market value.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization was provided for annually on computer equipment at 3 years straight-line method. The computer equipment has been fully amortized in fiscal 2007 and has no net book value.

Mineral properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as expense over the vesting period of the stock options. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

Loss per share

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 loss 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 year.

Basic loss per common share is calculated using the weighted-average number of common shares outstanding during the year and does not include outstanding options and warrants. Dilutive loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

Future income taxes

Future income taxes are calculated using the asset and liability method whereby 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 bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it to be more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Flow-through common shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences. When flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, are recognized as a recovery of income taxes in the statement of operations.

Financial Instruments, Comprehensive Income and Hedges

In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 3855, "Financial Instruments – Recognition and Measurement", 1530, "Comprehensive Income", 3861, "Financial Instruments - Presentation and Disclosure" and 3865, "Hedges". These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2006 on a prospective basis; accordingly, comparative amounts for prior periods have not been restated. The Company has adopted these new standards effective October 1, 2006.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

Financial Instruments, Comprehensive Income and Hedges (Continued)

Financial instruments - recognition and measurement

Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. This Section requires that:

- All financial assets be measured at fair value on initial recognition and certain financial assets to be measured at fair value subsequent to initial recognition;
- All financial liabilities be measured at fair value if they are classified as held for trading purposes. Other financial liabilities are measured at amortized cost using the effective interest method; and
- All derivative financial instruments be measured at fair value on the balance sheet, even when they are part of an effective hedging relationship.

Comprehensive income (loss)

Section 1530 introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses, such as: changes in the currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available-for-sale investments; and the effective portion of gains or losses on derivatives designated as cash flow hedges or hedges of the net investment in self-sustaining foreign operations.

Hedges

Section 3865 provides alternative treatments to Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. It replaces and expands on Accounting Guideline 13 "Hedging Relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how hedge accounting is applied and what disclosures are necessary when it is applied.

Under adoption of these new standards, the Company designated its cash, short-term investments and reclamation bond as held-for-trading, which are measured at fair value. Receivables and note receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities, which are measured at amortized cost.

The Company did not have any hedging during this year.

Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

2. BASIS OF PRESENTATION AND ACCOUNTING POLICIES (Continued)

Changes in Accounting policies

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued three new accounting standards: Capital Disclosures (Handbook Section 1535), Financial Instruments – Disclosures (Handbook Section 3862), and Financial Instruments – Presentation (Handbook Section 3863). These new standards became effective for the Company on October 1, 2007.

Capital Disclosures

Handbook 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 Company has included disclosures recommended by the new Handbook section in Note 3 to these consolidated financial statements.

Financial Instruments

Handbook Sections 3862 and 3863 replace Handbook 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. The Company has included disclosures recommended by the new Handbook section in Note 4 to these consolidated financial statements.

Future Accounting Changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with international financial reporting standards ("IFRS") for Canadian enterprises with public accountability ("PAEs"). The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Goodwill and Intangible Assets

Section 3064, Goodwill and intangible assets, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and expenses during the pre-operating period. As a result of the withdrawal of EIC 27, the Company will no longer be able to defer costs and revenues incurred prior to commercial production at new operations.

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



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

3. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage, as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate available or committed financial resources to complete such acquisitions.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2008. Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements.

4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company's credit risk is primarily attributable to cash, short-term investments, receivables and note receivable. The Company has no significant concentration of credit risk arising from operations. Cash and short-term investments are held with reputable financial institutions, from which management believes the risk of loss to be remote. Receivables mainly consist of goods and services tax due from the Federal Government of Canada and receivable from the sale of mineral property, which consists of special warrants and recovery of explorations costs. Note receivable is due from an unrelated party. Management believes that the credit risk concentration with respect to receivables and note receivable is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2008, the Company had cash and short-term investments balance of \$30,825,740 (2007 - \$38,395,297) to settle current liabilities of \$1,148,029 (2007 - \$338,562). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

The Company is committed to spending approximately \$9,240,000 in flow-through expenditures by December 31, 2008. If the Company does not spend these funds in compliance with the government of Canada flow-through regulations, it may be subject to penalties and interest.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

4. FINANCIAL RISK FACTORS (Continued)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity analysis

The Company has, for accounting purpose, designated its cash and short term investments as held-for-trading, which are measured at fair value. Receivables and note receivable are classified for accounting purpose as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and due to related parties are classified for accounting purpose as other financial liabilities, which are measured at amortized cost.

As at September 30, 2008, the carrying and fair value amounts of the Company's financial instruments are the same.



INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

4. FINANCIAL RISK FACTORS (Continued)

Sensitivity analysis (Continued)

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be affected by interest rate risk, foreign currency risk and price risk. In particular, interest rate risk is remote as the interest rates on the Company's short-term investments are fixed with an interest rate range between 1.7% to 2% with maturity dates greater than three months. The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk. Commodity price risk could affect the Company. In particular, the Company's future profitability and viability of development depends upon world market of precious metals. As of September 30, 2008, the Company was not a producing entity. As a result, commodity price risk could affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. The Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

5. SHORT-TERM INVESTMENTS

Short-term investments are treasury bills and government investment certificates with maturity dates of more than 90 days and less than 12 months. As of September 30, 2008, the related interest receivable for Treasury bills is \$6,634 (2007 - \$450,210) and is recorded in short-term investments.

6. RECEIVABLES

Amounts presented as receivables comprise the following:

	September 30,	
	2008	2007
Goods and services taxes receivable	\$ 634,142	\$ 190,704
Recovery of exploration expenditures	144,110	-
Other receivables	<u>2,746</u>	<u>-</u>
	<u>\$ 780,998</u>	<u>\$ 190,704</u>

7. NOTE RECEIVABLE

During the year ended September 30, 2008, the Company advanced a note of \$150,000 to an individual. The note bears interest at 5% per annum and is due on May 6, 2011. The note can be repaid anytime with accrued interest within the three year term without any penalties.

The balance at September 30, 2008 includes accrued interest of \$3,021 (2007 - \$nil).



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8. MINERAL PROPERTY HELD FOR SALE

Mineral property held for sale refers to the Jasper claims that the Company intends to sell during the year and is summarized as follows:

	2008	2007
Balance, beginning of year	\$ 633,235	\$ -
Mineral property reclassified as held for sale	-	633,235
Expenditures incurred during the year	<u>4,921</u>	<u>-</u>
Balance, end of year	<u>\$ 638,156</u>	<u>\$ 633,235</u>

Jasper Claims, British Columbia, Canada

In May, 1996, the Company acquired a 100% interest in certain mineral claim units on west-central Vancouver Island, BC. A \$5,000 reclamation bond was purchased with the government of British Columbia as security deposit for future drilling on the property. As of September 30, 2008, \$387 accrued interest has been recorded. As a result of the proposed sale outlined below, the reclamation bond with accrued interest is reclassified to short-term investments during the year ended September 30, 2008.

Pursuant to a purchase agreement dated December 1, 2007 but effective as at July 30, 2007, the Company agreed to sell the Jasper Property for its costs of \$638,156 to Nitinat Minerals Corporation ("Nitinat") in exchange for 13,367,904 special warrants ("Special Warrants"). Each Special Warrant entitles the holder to acquire (subject to adjustment), for no further consideration, one common share in the capital of Nitinat (the "Nitinat Common Shares") at any time on or before the date (the "Expiry Date") which is the earlier of:

- i) the sixth business day after the date that a receipt (the "Prospectus Receipt") is issued by the last of the securities regulatory authorities of Ontario, Alberta and British Columbia for a (final) prospectus of the Purchaser qualifying the distribution of the Nitinat Common Shares to be issued upon exercise of the Special Warrants; and
- ii) May 1, 2009.

Any Special Warrants not exercised prior to 5:00 p.m. (Toronto time) on the Expiry Date shall be deemed to have been exercised immediately prior thereto, without any further action on the part of the holder.

The Company proposes, subject to the prior approval of the Toronto Stock Exchange (the "TSX") and the receipt of the Prospectus Receipt, to distribute up to 100% of the Nitinat Common Shares on a pro rata basis to all of the Company's shareholders.

As of September 30, 2008, the Company incurred a total of \$144,110 in exploration costs on behalf of Nitinat which is fully recoverable. (Note 6)



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9. MINERAL PROPERTIES

Title to mining properties

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership to all of the mineral claims in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. The claims may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

(a) Barton Syndicate Dry Fork Property, Utah, USA

The Company entered into a lease and option agreement on August 16, 2004 which was amended on July 20, 2006, with the Barton Syndicate Trust ("Barton Trust") to purchase a 100% interest in a group of mining claims in the Salt Lake and Tooele Counties of Utah, USA. The Company agreed to:

i) Pay annual lease payments of:

August 16, 2009 – August 15, 2011	US\$	5,000
August 16, 2011 – August 15, 2014		10,000
August 16, 2014 – August 15, 2019		15,000
August 16, 2019 – August 15, 2024		20,000
August 16, 2024 – August 15, 2029		25,000

ii) Issue 200,000 common shares of the Company (issued) with a value of \$50,000.

iii) Incur a minimum of \$600,000 in exploration expenditures within the first four years the Company is able to gain access to the property. The Company currently has authorization from the land owners to take whatever action the Company deems necessary to confirm the historic right-of-way surface access from the east to the property, the exact location of which is currently unclear as being through an actively mined area, or, at the discretion of the Company, to acquire or establish alternative access. The commencement of the exploration expenditures starts on May 1, of the first year following the date the Company has obtained the right to access the property. All costs incurred by the Company to obtain access and the first requirement of \$100,000 of exploration expenditures (of which the Company paid US\$10,000 and issued 150,000 common shares with a value of \$19,688) will be deducted from the first accumulated total requirement of \$200,000.

iv) The mineral claims are subject to a 5% net smelter return ("NSR") royalty. The NSR is to be calculated after deducting the costs of mining, concentrating and refining. The Company can at any time during the lease purchase the mining claims for US\$10,000,000 less any royalty payments made during the term of the lease.



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9. MINERAL PROPERTIES (Continued)

(b) Langmuir Property, Ontario, Canada

The Company acquired a 100% interest in certain mineral claims located in the Langmuir Township, Porcupine Mining Division of Ontario. The Company acquired these claims by an issuance of 16,800,000 common shares with a value of \$840,000 and assumed debt of \$131,084, of which \$103,280 was due to related parties of the Company. There is no requirement by the Company to carry out an exploration program except to keep the claims in good standing. The mineral claims are subject to a 3% NSR royalty (of which 1/3 is owned by a private company controlled by the president and director of the Company). The Company has the right to purchase 2/3 of the 3% NSR royalty at any time for a total of US\$2,000,000.

In September, 2005, the Company entered into an agreement to purchase a 100% interest in 7 claims located in the Langmuir Township, Porcupine Mining Division of Ontario. The Company paid a total of \$19,000, which consisted of a cash payment of \$5,000 and an issue of 50,000 common shares with a value of \$14,000.

These mineral claims are subject to a 1% NSR royalty.

On January 3, 2006, the Company commenced litigation proceedings against Sea Emerald Development Company ("Sea Emerald"). Sea Emerald was the previous owner of the mining claims comprising the Langmuir Project. The basis of this litigation was to bar Sea Emerald from its renewed attempts to disrupt the Company's business affairs by challenging the transaction by which it sold those Mining Claims to Metal Mines, Inc. ("Metal Mines"), which is a wholly owned subsidiary of the Company. This litigation was precipitated by written notice seeking to challenge the validity of past transactions between Sea Emerald and Metal Mines.

In April 2006, the Company reached a settlement with respect to the litigation proceedings. The result of the settlement is the reconfirmation of Metal Mines' full and complete ownership of the Langmuir Mining Claims and the release of all disputes between and among all parties.

The Company agreed to the following terms of settlement which have all been satisfied:

- i) Paid \$182,500.
- ii) Paid \$282,500 as follows; \$50,000 July 17, 2006, \$50,000 October 17, 2006, \$50,000 January 17, 2007, \$50,000 April 17, 2007, \$50,000 July 17, 2007 and \$32,500 October 17, 2007.
- iii) Paid \$150,000 as follows; \$50,000 April 30, 2006, \$25,000 July 17, 2006, \$25,000 October 11, 2006, \$25,000 January 17, 2007 and \$25,000 April 30, 2007.
- iv) Pay advance royalties of US\$50,000 commencing April 30, 2006 (paid) and each year thereafter. The advance royalty payments will be deducted against any royalties due if the property is put in commercial production or if the royalty is purchased by the Company.

Total costs associated with the legal dispute amounted to \$70,391 (2007 - \$70,391).

After settlement, the Company purchased 2/3 of the 3% NSR royalty for a total of \$1,960,053 (US\$2,000,000 less two annual advances, each in the amount of US\$50,000).



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9. MINERAL PROPERTIES (Continued)

(c) Cleaver Property, Ontario, Canada

On June 13, 2007, the Company entered into an option agreement to acquire certain rights and mineral claims located in the Porcupine Mining Division in the Province of Ontario. The vendor has agreed to grant an exclusive option to the Company to acquire a 100% interest in the mineral claims. The Company agreed to:

- i) Pay the sum of \$38,000 on the date of execution of the option agreement (paid); \$60,000 by December 13, 2007 (paid), \$90,000 by June 13, 2008 (paid), \$150,000 by June 13, 2009 and \$300,000 by June 13, 2010; and
- ii) Expend on exploration and development of the mineral claims the following amounts: \$200,000 by December 31, 2007 (incurred), \$300,000 by June 13, 2008 (incurred); \$400,000 by June 13, 2009 and \$500,000 by June 13, 2010.

In the event that the option is fully exercised, the Company shall thereupon own a 100% undivided interest in the mineral claims, free and clear of all liens and encumbrances, subject only to a 3% NSR in favour of the vendor.

The Company shall have the option to purchase 2% of the 3% NSR for the sum of \$2,000,000 expiring June 13, 2017.

(d) Douglas Property, Ontario, Canada

On August 1, 2007, the Company entered into an option agreement to acquire certain rights and mineral claims located in the Porcupine Mining Division in the Province of Ontario. The vendor has agreed to grant an exclusive option to the Company to acquire a 100% interest in the mineral claims and any additional claim acquired by the vendor. The Company agreed to:

- i) Pay the sum of \$10,000 on the date of execution of the option agreement (paid); \$30,000 by August 1, 2008 (paid), \$50,000 by August 1, 2009 and \$75,000 by August 1, 2010; and
- ii) Expend on exploration and development of the mineral claims the following amounts: \$20,000 by August 1, 2008 (incurred), \$50,000 by August 1, 2009; \$100,000 by August 1, 2010; and
- iii) Pay the sum of \$5,000 on the date that is 30 days from the date that the vendor acquires any additional claim and registers same with the appropriate government authorities.

In the event that the vendor does not acquire the additional claim, the Company shall continue to have the right to acquire a 100% undivided interest in and to the mineral claims free and clear of all liens and encumbrances provided that the payments listed above are made by the Company, subject only to a 3% NSR in favour of the vendor.

The Company shall have the option to purchase 2% of the 3% NSR for the sum of \$1,000,000 expiring August 1, 2027.



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10. SHARE CAPITAL

(a) Authorized

Unlimited common shares, without par value

(b) Issued and outstanding

During the year ended September 30, 2008:

The Company issued 640,000 common shares for gross proceeds of \$245,400 pursuant to the exercise of stock options. Accordingly, \$175,677 was transferred from contributed surplus to share capital.

The Company issued 395,750 common shares for gross proceeds of \$598,525 pursuant to the exercise of warrants. Accordingly, \$141,900 was transferred from contributed surplus to share capital.

The Company filed renunciation documents with the tax authorities in Canada pertaining to the flow-through shares it had issued in July 2007. As a result of this renunciation, share capital decreased and future income tax liability increased by \$6,148,800.

During the year ended September 30, 2007:

The Company completed the following private placements:

- i) On October 12, 2006, the Company issued an aggregate of 3,250,250 units at a price of \$0.80 per unit for gross proceeds of \$2,600,200. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.10 per common share until October 12, 2007. For the value of the units, \$1,914,800 was allocated to share capital and \$685,400 was allocated to contributed surplus for the warrants.

In connection with the private placement, the Company paid finders' fees comprising of a cash payment of \$120,000, the issuance of 63,150 common shares at a value of \$0.80 per share for a total value of \$50,520 and the issuance of 126,300 common share purchase warrants. Each common share purchase warrant entitles the holder thereof to purchase one common share at an exercise price of \$1.10 per common share until October 12, 2007. For the value of the common share purchase warrants, \$42,942 was allocated to contributed surplus for the warrants.

- ii) On May 8, 2007, the Company completed a private placement of 2,250,000 units at a price of \$2.75 per unit for total gross proceeds of \$6,187,500. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder thereof to purchase one common share at a price of \$3.50 per common share until May 8, 2008. Effective May 8, 2008, the term of the warrants was extended to May 8, 2009. For the value of the units, \$3,804,787 was allocated to share capital and \$2,382,713 was allocated to contributed surplus for the warrants.

In connection with the private placement, the Company paid a finder's fee of \$190,781 and issued 155,625 units having the same terms and conditions as the private placement units. For the value of the units, \$263,165 was allocated to share capital and \$164,804 was allocated to contributed surplus for the warrants.



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10. SHARE CAPITAL (Continued)

(b) Issued and outstanding (Continued)

iii) On July 5, 2007, the Company completed a private placement raising total proceeds of \$30,075,000. The Company sold 3,000,000 flow-through common shares at \$6.00 per flow-through share, 1,865,000 brokered units and 435,000 non-brokered units (collectively the "Units") at \$5.25 per unit. Each Unit consists of one common share and one-half of one common share purchase warrant (a "Warrant"). Each whole Warrant will entitle the holder to acquire one additional common share (a "Warrant Share") of the Company at an exercise price of \$6.50 per common share until January 9, 2009. For the value of the units, \$27,864,276 was allocated to share capital and \$2,210,724 was allocated to contributed surplus for the warrants.

Dundee Securities Corporation ("Dundee") acted as agent on the offering and received a cash fee equal to 5% of the gross proceeds raised in the offering of the flow-through shares and brokered units. In addition, the Company paid Dundee an administration fee of 2.5% of the gross proceeds realized by the Company in respect of the sale of the 435,000 non-brokered units. In addition, the Company paid a consultant fee equal to 1% of the gross proceeds raised in the offering, and to two parties a finders fee equal to 2.5% of the gross proceeds raised from the sale of the 435,000 non-brokered units. Total amounts paid amounted to \$1,804,500.

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants.

	<u>Warrants</u>
Risk-free interest rate	4.20%
Expected life of warrants	1 year
Annualized volatility	101.47%
Dividend yield	0%

The Company issued 1,072,500 common shares for gross proceeds of \$402,550 pursuant to the exercise of stock options. Also the Company issued 100,000 common shares for settlement of debt of \$20,000 pursuant to the exercise of stock options. Accordingly, \$321,267 was transferred from contributed surplus to share capital.

The Company issued 7,480,887 common shares for gross proceeds of \$5,348,555 pursuant to the exercise of warrants. Accordingly, \$1,143,094 was transferred from contributed surplus to share capital.



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11. STOCK OPTIONS

The Company has an incentive stock option plan in place with the TSX under which it is authorized to grant options to executive officers, directors, employees and consultants. The Company has implemented a fixed plan, whereby it may not exceed a total of 12,892,500 common shares under the plan. Options granted under the plan will have a term not to exceed 10 years and are granted at an option price which shall not be less than the closing market price one trading day prior to the grant date. The options vest as determined by the board of directors.

	Number of Stock Options	Weighted Average Exercise Price \$
Balance, September 30, 2006	4,550,000	0.28
Granted	3,575,000	4.08
Exercised	(1,172,500)	(0.36)
Cancelled	(675,000)	(0.28)
Balance, September 30, 2007	6,277,500	2.43
Granted	7,197,764	2.16
Exercised	(640,000)	0.38
Cancelled	(2,575,000)	5.03
Balance, September 30, 2008	10,260,264	1.71
Options vested, September 30, 2008	5,997,257	1.51
Options vested, September 30, 2007	3,773,913	1.01



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11. STOCK OPTIONS (Continued)

Stock options outstanding at September 30, 2008 are as follows:

Number of Stock Options	Exercise Price (\$)	Expiry Date
110,000	0.81	November 24, 2008 (subsequently expired)
250,000	0.20	August 31, 2009
1,100,000	0.20	June 19, 2010
850,000	0.35	March 8, 2011
40,000	1.08	May 16, 2011
1,412,500	2.00	March 8, 2012
1,588,014	3.87	October 9, 2012 (subsequently cancelled)
509,750	2.22	January 25, 2013
900,000	1.90	February 28, 2013
1,600,000	1.43	March 24, 2013
400,000	2.28	April 21, 2013
1,500,000	1.25	July 4, 2013
10,260,264		

The total stock-based compensation calculated under the fair value method was \$13,756,708 (2007 - \$12,404,400). The Company expensed \$12,783,059 (2007 - \$7,488,861) and previous options that were granted and not vested were cancelled \$3,815,092 (2007 - \$Nil) in the statements of loss and comprehensive loss which was recorded as follows:

	2008	2007
Directors' and management stock-based compensation	\$ 3,556,829	\$ 4,578,903
Investor relations	140,531	1,943,760
Professional fees	5,270,607	966,198
	\$ 8,967,967	\$ 7,488,861

The weighted average fair value of options granted during fiscal 2008 is \$1.91 (2007 - \$3.47)



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11. STOCK OPTIONS (Continued)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted.

	2008	2007
Risk-free interest rate	3.53%	4.06%
Expected life of options	5.0 years	4.8 years
Annualized volatility	121.75%	120.15%
Dividend rate	0.00%	0.00%

12. WARRANTS

The following table reflects the continuity of warrants for the years ended 2008 and 2007:

	Number of Warrants	Weighted Average Exercise Price \$
Balance, September 30, 2006	4,399,482	0.43
Granted	6,932,175	2.83
Exercised	(7,480,887)	0.68
Expired	(395)	0.41
Balance, September 30, 2007	3,850,375	4.19
Exercised	(395,750)	1.51
Balance, September 30, 2008	3,454,625	4.50

Warrants outstanding at September 30, 2008 are as follows:

Fair Value (\$)	Number of Warrants	Exercise Price (\$)	Expiry Date
2,440,560	2,304,625	3.50	May 8, 2009 (1)
2,210,724	1,150,000	6.50	January 5, 2009
4,651,284	3,454,625		

(1) Expiry date of warrants has been extended to May 8, 2009.



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13. RELATED PARTY TRANSACTIONS

Amounts due to related parties are for services rendered and expenses incurred on behalf of the Company and are non-interest bearing, unsecured and have no fixed terms of repayment.

The Company entered into the following transactions with related parties:

- Paid or accrued management fees of \$280,000 (2007 - \$175,000) and rent of \$nil (2007 - \$13,500) to a company controlled by the president and director of the Company. The president and director of the Company was also reimbursed for out-of-pocket expenses. As at September 30, 2008, the amount due to the related party was \$nil (2007 - \$4,500).
- Paid or accrued consulting fees of \$88,527 (2007 - \$19,700) to a director of the Company. As at September 30, 2008, the amount due to the director was \$7,949 (2007 - \$nil).

These transactions with related parties were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

14. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition, exploration and development of mineral properties located in Canada and United States as outlined in the consolidated schedule of mineral properties.

15. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the year ended September 30, 2008 were as follows:

- a) The Company allocated \$175,677 for stock options exercised during the year to share capital from contributed surplus.
- b) The Company allocated \$141,900 for warrants exercised during the year to share capital from contributed surplus.
- c) The Company reclassified \$5,285 from reclamation bond to short-term investments.
- d) Included in mineral property costs is \$472,520 which related to accounts payable and accrued liabilities.
- e) The Company recorded a future income tax liability of \$6,148,800 which results from the renunciation pursuant to the flow-through agreements.



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15. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (Continued)

The significant non-cash transactions during the year ended September 30, 2007 were as follows:

- a) The Company issued 218,775 common shares with a value of \$521,431 pursuant to a finder's fee for a private placement that occurred during the year.
- b) The Company allocated \$321,267 for stock options exercised during the year to share capital from contributed surplus.
- c) The Company allocated \$1,143,094 for warrants exercised during the year to share capital from contributed surplus. In addition, the Company allocated \$5,486,583 to contributed surplus from share capital being the fair value of warrants attached to the private placements.
- d) 100,000 stock options were exercised at \$0.20 per share for a debt settlement of \$20,000.
- e) Included in mineral property costs is \$164,435 which related to accounts payable and accrued liabilities.
- f) The Company reclassified \$633,235 from mineral properties to mineral property held for sale.

16. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates with the reported taxes (recovery) is as follows:

	2008	2007
Loss before income taxes	<u>\$ (8,635,457)</u>	<u>\$ (8,062,597)</u>
Expected income tax recovery at statutory rates	(2,949,872)	(2,791,271)
Non-tax deductible items	2,764,999	2,703,300
Deductible items	(226,053)	(231,230)
(Recognized) unrecognized benefit of non-capital losses	<u>(468,484)</u>	<u>319,201</u>
Total income tax recovery	<u>\$ (879,410)</u>	<u>\$ -</u>



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16. INCOME TAXES (Continued)

The significant components of the Company's future income tax liabilities are as follows:

	2008	2007
Future income tax assets:		
Equipment	\$ 1,110	\$ -
Share issue costs	503,320	827,000
Non-capital loss carried forward	1,192,851	910,000
Investment tax credit	159,852	-
Mineral properties	<u>-</u>	<u>494,000</u>
Future income tax assets	1,857,133	2,231,000
Less: valuation allowance	<u>(1,408,288)</u>	<u>(2,231,000)</u>
Net future income tax assets	<u>448,845</u>	<u>-</u>
Future income tax liabilities:		
Mineral properties	(2,561,588)	-
Future income taxes on unexpended exploration expenditures renounced to shareholders	<u>(3,156,647)</u>	<u>-</u>
Net future income tax liabilities	<u>\$ (5,269,390)</u>	<u>\$ -</u>

The Company has non-capital losses for Canadian income tax purposes of approximately \$4,100,000, which can be carried forward to reduce taxable income in future years. Unless utilized, these losses will expire through 2028. The tax benefits of these non-capital losses and other tax assets have not been recognized in the consolidated financial statements except to the extent that they can be used to offset future income tax liabilities that existed at the fiscal year end.

During the year ended September 30, 2007, the Company issued 3,000,000 common shares on a flow-through basis for gross proceeds of \$18,000,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. During the year ended September 30, 2008, the Company renounced exploration expenditures of \$18,000,000 resulting in a charge to capital stock of \$6,148,800 with a related increase in future income tax liability. As of September 30, 2008, the Company has not incurred the required qualifying exploration expenditures, of which approximately \$9,240,000 is unexpended, and has recorded a flow-through share tax expense of an estimated amount of \$454,665 (2007 - \$Nil).

The Company is committed to incurring approximately \$9,240,000 in qualifying exploration expenditures in Canada by December 31, 2008. If the Company does not expend these funds in compliance with the government of Canada flow-through regulations, it will be subject to further penalties and interest.



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17. COMMITMENTS

Significant commitments at September 30, 2008 are as follows:

Management services agreement

The Company has entered into a management services agreement for a term of two years expiring on January 21, 2010, paying \$25,000 per month for the services of the President.

18. CONTINGENCIES

The Company is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have an adverse effect on the Company.

19. SUBSEQUENT EVENTS

Subsequent to September 30, 2008:

(a) The Company announced on October 27, 2008, that it has received regulatory approval from TSX to launch a normal course issuer bid (the "Bid"), pursuant to the terms set out in the notice of intention to make a normal course issuer bid (the "Notice") filed with the TSX. The Board of Directors of the Corporation believes that the current market price of the Corporation's common shares does not properly reflect the underlying value of the Corporation, and that, accordingly, the purchase of its common shares is appropriate and in the best interests of the Corporation and its stakeholders.

The Company has 67,925,270 common shares issued and outstanding as of October 22, 2008. The Notice provides that under the Bid, the Corporation may purchase up to 6,439,314 common shares, being 10% of the public float. The Notice further provides that, subject to the Corporation's ability to make "block" purchases through the facilities of the TSX in accordance with the TSX rules, the aggregate number of common shares that the Corporation may purchase during any trading day will not exceed 16,315 shares, being 25% of the average daily trading volume of the shares based on their trading volume on the TSX for the most recently completed six calendar months preceding the date of the Notice.

The Bid will begin on October 29, 2008 and will terminate on the earlier of October 28, 2009 or such date as the Corporation may complete its permitted purchases under the normal course issuer bid. The common shares will be acquired on the open market through the facilities of the TSX, at the discretion of management of the Corporation, and the purchase and payment for the common shares will be made in accordance with the requirements of the TSX and all other applicable laws. First Canada Capital Partners Inc. will conduct the normal course issuer bid on behalf of the Corporation. The price that the Corporation will pay for any common shares acquired will be the market price of the common shares at the time of acquisition. All common shares acquired by the Corporation under this Bid will be cancelled.



**INSPIRATION MINING CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(EXPRESSED IN CANADIAN DOLLARS)
YEARS ENDED SEPTEMBER 30, 2008 AND 2007**

19. SUBSEQUENT EVENTS (Continued)

To date, the Company cancelled 152,500 shares pursuant to the Bid.

b) The Company acquired two patented land claims located adjacent to the existing Langmuir claims pursuant to an asset purchase agreement dated November 21, 2008. As consideration for the land claims, the Company paid the vendors \$75,000 and issued 105,000 common shares.

The common shares are subject to a four-month hold period expiring March 25, 2009.

c) The Company acquired its interest in the mining claims through the acquisition of 1691063 Ontario Ltd. ("1691063"), a privately held company. These mining claims are located in Desrosiers Township, Ontario. The Company acquired these interests by payment of \$250,000 and issuance of 5,000,000 common shares in exchange for all of the outstanding and issued shares of 1691063.

