

SHANE RESOURCES LTD.

Suite 212 – 116 Research Drive

Saskatoon, SK

S7N 3R3

SHANE RESOURCES LTD.

Unaudited Condensed Interim Financial Statements

for the nine months ended September 30, 2011

SHANE RESOURCES LTD.

**UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
AS AT**

	September 30, 2011	December 31, 2010	January 1, 2010
ASSETS			
Current			
Cash and equivalents	\$ 52,027	\$ 115,970	\$ 276,533
Marketable securities (cost \$nil, \$29,017 and \$1,250 respectively)	-	3,255	31
Receivables	16,616	58,368	28,800
Prepaid expenses	4,200	15,144	17,165
	72,843	192,737	322,529
Property and equipment (Note 5)	-	-	1,862
Exploration and evaluation assets (Note 6)	435,100	435,100	435,100
	\$ 507,943	\$ 627,837	\$ 759,491
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$ 3,327	\$ 22,264	\$ 40,510
	3,327	22,264	40,510
SHAREHOLDERS' EQUITY			
Capital stock (Note 7)	6,670,238	6,670,238	6,670,238
Other equity reserve (Note 7)	502,503	502,503	360,680
Deficit	(6,668,125)	(6,567,168)	(6,311,937)
	504,616	605,573	718,981
	\$ 507,943	\$ 627,837	\$ 759,491

Going concern (Note 1)

Measurement uncertainty (Note 6)

The accompanying notes are an integral part of the financial statements.

Approved and authorized by the Board on November 28, 2011:

“KYLE KOZUSKA”

Director

“MICHAEL DER”

Director

SHANE RESOURCES LTD.

UNAUDITED CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Administration costs	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Bank charges	\$ 129	\$ 290	\$ 560	\$ 705
Depreciation	-	81	-	245
Filing fees	200	-	13,042	12,985
Insurance	3,882	3,750	11,644	11,250
Management and consulting fees	9,150	18,750	37,450	59,400
Office expense	2,310	3,565	8,766	5,901
Premises expense	2,150	1,150	8,450	7,450
Professional fees	17,630	369	28,021	1,957
Promotion	410	2,585	3,500	7,725
Share-based compensation	-	-	-	65,000
Telecommunications	690	583	1,699	1,589
Transfer agent	628	597	6,244	3,772
Travel and accommodation	1,226	265	2,214	726
Operating costs for the period	(38,405)	(31,985)	(121,590)	(178,705)
Interest income	-	-	-	24
Other income	7,000	19,500	21,000	58,500
Loss on marketable securities	(29)	(1,501)	(367)	(16,779)
Write down of property and equipment	-	-	-	(773)
Net loss and comprehensive loss for the period	(31,434)	(13,986)	(100,957)	(137,733)
Deficit, beginning of the period	(6,636,691)	(6,435,684)	(6,567,168)	(6,311,937)
Deficit, end of period	\$ (6,668,125)	\$ (6,449,670)	\$ (6,668,125)	\$ (6,449,670)
Loss per share - basic and diluted	\$ (0.001)	\$ (0.001)	\$ (0.004)	\$ (0.005)
Weighted average common shares	26,240,750	26,240,750	26,240,750	26,240,750

The accompanying notes are an integral part of the financial statements.

SHANE RESOURCES LTD.

**UNAUDITED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30,**

	For the nine months ended	
	September 30, 2011 (unaudited)	September 30, 2010 (unaudited)
Cash flows used in operating activities		
Net loss for the period	\$ (100,957)	\$ (137,733)
Items not involving cash:		
Depreciation	-	245
Share-based compensation	-	65,000
Unrealized loss on marketable securities	367	16,779
Write-down of property and equipment	-	773
Non-cash working capital item changes:		
Receivables	41,752	(9,309)
Prepaid expenses	10,944	(6,810)
Payables and accrued liabilities	(18,937)	(19,272)
	(66,831)	(90,327)
Cash flows provided by/(used in) investing activities		
Proceeds from sale of marketable securities	2,888	-
Purchase of marketable securities	-	(28,000)
	2,888	(28,000)
Decrease in cash and equivalents	(63,943)	(118,327)
Cash and equivalents, beginning of period	115,970	276,533
Cash and equivalents, end of period	\$ 52,027	\$ 158,206
Cash and equivalents comprised of:		
Cash	\$ 52,027	\$ 158,206

There were no non-cash transactions for the nine months ending September 30, 2011 and 2010.

There were no non-cash transactions for the years ended December 31, 2010 and 2009.

The accompanying notes are an integral part of the financial statements.

SHANE RESOURCES LTD.

**UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	Number of Shares	Share Capital	Other Equity Reserve	Accumulated Deficit	Total Equity
Balance December 31, 2009 and January 1, 2010	26,240,750	\$ 6,670,238	\$ 360,680	\$ (6,311,937)	\$ 718,981
Loss for the period	-	-	-	(137,733)	(137,733)
Share-based compensation	-	-	65,000	-	65,000
Balance September 30, 2010	26,240,750	6,670,238	425,680	(6,449,670)	646,248
Loss for the period	-	-	-	(117,498)	(117,498)
Share-based compensation	-	-	76,823	-	76,823
Balance December 31, 2010	26,240,750	6,670,238	502,503	(6,567,168)	605,573
Loss for the period	-	-	-	(100,957)	(100,957)
Balance September 30, 2011	26,240,750	6,670,238	502,503	(6,668,125)	504,616

The accompanying notes are an integral part of the financial statements.

SHANE RESOURCES LTD.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

1. Going Concern

These condensed interim financial statements of Shane Resources Ltd. (the “Company”) have been prepared on a going-concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than normal course of business and at amounts which may differ from those shown in the financial statements.

The Company’s ability to continue as a going concern is contingent on its ability to obtain additional equity financing. However, the low price of the Company’s common shares makes it difficult to raise funds by private placements of shares.

The amounts shown as exploration and evaluation assets represent costs net of recoveries to date, less amounts written off, and do not represent present or future values. Recoverability of the amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and evaluation of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

2. Nature of Operations

Shane Resources Ltd. is a corporation continued under the laws of Saskatchewan and has its common shares listed on the TSX Venture Exchange.

The Company is in the process of exploring and evaluating its exploration and evaluation assets and has not determined whether these properties contain ore reserves which are economically recoverable.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production from the properties of proceeds from disposition.

Ownership in mineral interests 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 mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

To date, the Company has not earned significant revenues and is considered to be in the exploration stage.

3. Basis of Preparation

These condensed financial statements, including comparatives, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standards (“IAS”) 34 *Interim Financial Reporting*. The condensed financial statements have been

SHANE RESOURCES LTD.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

3. Basis of Preparation (cont'd...)

prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently in preparing an opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from GAAP to IFRS is explained in Note 10.

The preparation of these condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The recoverability of receivables which are included in the condensed interim statements of financial position.
- ii) The carrying value and the recoverability of exploration and evaluation assets, which are included in the condensed interim statements of financial position.
- iii) Estimates used in the calculation of share-based payments.
- iv) The valuation allowance applied to deferred tax assets.
- v) The estimated useful lives of equipment which are included in the statements of financial position and the related depreciation included in the statements of operations and comprehensive loss.

4. Significant Accounting Policies

Financial instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Financial instruments (cont'd...)

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of operations and comprehensive loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities: This category includes promissory notes, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Financial liabilities (cont'd...)

The Company has classified its cash and equivalents and marketable securities as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of the Company's receivables, accounts payable and accrued liabilities, approximate carrying value, which is the amount payable on the statement of financial position. The Company's other financial instruments, cash and equivalents, and marketable securities, under the fair value hierarchy are based on level one quoted prices in active markets for identical assets or liabilities.

See Note 9 for disclosures on risks associated with financial instruments.

Exploration and evaluation assets

Costs related to the acquisition, exploration and evaluation of exploration and evaluation assets are capitalized by property until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. Each of the Company's exploration and evaluation assets is considered to be a cash generating unit. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable over the estimated economic life of the property, or the property is abandoned, or management deems there to be an impairment in value, the property is written down to its net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation asset. If payments received exceed the capitalized cost of the exploration and evaluation asset, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets 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.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Future reclamation costs

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the rehabilitation provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the rehabilitation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

For the periods presented, the Company does not have any future reclamation costs.

Property and equipment

Property and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at the following annual rates:

Computer and office equipment	30%
Exploration equipment	20%

Property and equipment that is withdrawn from use, or have no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Assets measured at historical cost less accumulated depreciation and impairment losses. Depreciation is charged on the declining balance basis over the useful lives of these assets. Residual values and useful economic lives are reviewed at least annually, and adjusted if appropriate, at each reporting date.

Subsequent expenditures relating to an item of property and equipment are capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditures are recognized as repairs and maintenance.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Cash and equivalents

Cash and equivalents are comprised of cash on deposit and highly liquid short-term interest bearing variable rate investments with an original maturity of three months or less, which are readily convertible into a known amount of cash.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Flow-through shares

Canadian Income Tax legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. The Company accounts for flow-through shares whereby the premium paid for the flow through shares in excess of the market value of the shares without flow-through features at the time of issue is credit to other liabilities and included income at the same time the qualifying expenditures are made.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined to be the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting periods, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

4. Significant Accounting Policies (cont'd...)

Foreign exchange (cont'd...)

Exchange gains and losses arising on translation are included in the statement of operations and comprehensive loss.

Comprehensive Loss

Comprehensive loss reflects net loss and other comprehensive loss for the period. Other comprehensive loss includes changes in unrealized foreign currency translation amounts arising from self-sustaining foreign operations, unrealized gains and losses on available-for-sale assets and changes in the fair value of derivatives designated as cash flow hedges to the extent they are effective.

New Standards and Interpretations not yet adopted:

Effective January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications categories: amortized cost and fair value. There is not expected to be a significant impact on the Company upon the implementation of this standard.

5. Property and equipment

Property and equipment consists of the following:

	Cost	Write-down	Accumulated Depreciation	Net book value September 30, 2011, and December 31, 2010
Computer and office equipment	\$ 8,791	\$ 762	\$ 8,029	\$ -
Exploration equipment	2,454	619	1,835	-
	<u>\$ 11,245</u>	<u>\$ 1,381</u>	<u>\$ 9,864</u>	<u>\$ -</u>

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

5. Property and equipment (cont'd...)

	Cost	Write-down	Accumulated Depreciation	Net book value January 1, 2010
Computer and office equipment	\$ 8,791	\$ -	\$ 7,702	\$ 1,089
Exploration equipment	2,454	-	1,681	773
	<u>\$ 11,245</u>	<u>\$ -</u>	<u>\$ 9,383</u>	<u>\$ 1,862</u>

During the year ended December 31, 2010, the Company wrote off all of its property and equipment.

6. Exploration and evaluation assets

The Company has acquired certain exploration and evaluation assets, the costs of which are as follows:

	Brownell Lake	Munroe Lake	Pine East	Total
Balance January 1, 2010, December 31, 2010 and September 30, 2011	\$ 98,012	\$ 172	\$ 336,916	\$ 435,100

Cumulative Totals	Brownell Lake	Munroe Lake	Pine East	Total
Acquisition costs	\$ 39,202	\$ 172	\$ 78,149	\$ 117,523
Drilling	58,810	-	258,767	317,577
Balance September 30, 2011	98,012	172	336,916	435,100

A. Brownell Lake

The Company owns a 100% interest in 2 claims in the Brownell Lake area of Saskatchewan. The property hosts a long zone of Copper-zinc mineralization which has been explored by several companies.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

6. Exploration and evaluation assets (cont'd...)

B. Munroe Lake

The Company owns an 8% interest in the Munroe Lake area of Saskatchewan. The property was optioned to Wescan Gold Fields Inc., which deals with the Company on an arm's length basis, and which earned a 92% interest in the property by spending \$246,627 on the property in 2008. No exploration activities have been conducted on the property.

C. Pine East

The Company owns a minimum 49% interest in this property, known as "Pine East" and Claude Resources Inc. ("Claude") owns a minimum 30% interest in the property, with the remaining interest subject to the terms of an option agreement dated June 7, 1999 (as amended). To date the Company has conducted a prospecting, stripping and trenching program on the property and Claude has conducted drill programs on this property.

Measurement Uncertainty

The Company has not experienced any property specific adverse impact to date on its operations but has had difficulty in raising sufficient equity capital to effectively explore or develop the Company's mineral property interests.

One or more of the issues described, or other factors beyond management's control, in future periods could adversely affect the Company's operations and could result in future potential or total write downs of the Company's recorded exploration and evaluation assets of \$435,100 as at September 30, 2011. Such write-down amounts could be material.

7. Capital Stock and Other Equity Reserve

The Company did not issue any shares during the periods ending September 30, 2011, December 31, 2010 and January 1, 2010.

The authorized share capital of the Company is an unlimited number of common shares and unlimited number of preferred shares issuable in series. As at September 30, 2011, the Company had 26,240,750 common shares outstanding, of which 150,000 (2010 – 150,000) were held in escrow.

Stock Options

The Company has established a share-based compensation plan pursuant to which options to purchase common shares may be granted to certain officers, directors, and contractors of the Company as well as persons providing ongoing services to the Company. The aggregate number of shares issuable under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. Unless otherwise determined by the board of directors of the Company (the "Board"), the exercise price of options equals at least the closing price of the common shares on the day prior to the date of the grant. Stock options vest in accordance with the determination of the Board at the time of the grant and may be granted for up to a ten year term in accordance with TSX Venture Exchange policy.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

7. Capital Stock and Other Equity Reserve (cont'd...)

Stock Options (cont'd...)

A summary of the status of the Company incentive stock option plan as at September 30, 2011 is as follows:

	Number of Options	Weighted Average Exercise Price \$
Outstanding January 1, 2010	600,000	0.50
Granted	1,300,000	0.11
Cancelled	(150,000)	0.50
Outstanding December 31, 2010 and September 30, 2011	1,750,000	0.21
Exercisable, September 30, 2011	1,750,000	0.21

Number of Shares Under Option	Exercise Price \$	Expiry Date
150,000	0.25	December 18, 2012
150,000	0.50	December 18, 2012
150,000	0.75	December 18, 2012
1,300,000	0.11	January 15, 2020
1,750,000		

Options Granted

During the nine months ended September 30, 2011 the Company granted no options. (September 30, 2010 – 1,300,000) The weighted average value of options granted in the period was \$Nil (September 30, 2010 - \$0.05). The Company recorded \$Nil (September 30, 2010 - \$65,000) in share-based compensation expense on these options.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

7. Capital Stock and Other Equity Reserve (cont'd...)

Stock Options (cont'd...)

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

	September 30 2011	September 30 2010
Risk-free interest rate	N/A	3.37%
Expected life of options	N/A	10 years
Annualized volatility	N/A	215%
Expected forfeitures	N/A	0%
Dividend rate	N/A	0%

Warrants

The Company had no outstanding share purchase warrants as at September 30, 2011, December 31, 2010 and January 1, 2010.

8. Related Party Transactions

During the nine months ended September 30, 2011 the Company incurred charges from directors or companies sharing common directors as follows:

	2011	2010
Management and consulting fees	\$ 37,450	\$ 56,250
Office expenses	4,572	5,750
Premises expense	8,000	7,000
Professional fees	1,348	1,957
Share-based compensation	-	65,000
Travel	1,273	726
	<u>\$ 52,643</u>	<u>\$ 136,683</u>

During the period the Company received funds from companies sharing common directors as follows:

	2011	2010
Management and office administrative income	<u>\$21,000</u>	<u>\$58,500</u>

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

8. Related Party Transactions (cont'd...)

As at September 30, 2011, accounts payable and accrued liabilities includes \$nil (December 31, 2010 - \$2,678, January 1, 2010 - \$Nil) owing for professional fees to a limited liability partnership of which a director is an employee.

As at September 30, 2011 the receivables includes \$3,913 (December 31, 2010 - \$30,713, January 1, 2010 - \$10,238) due from United Uranium Corp. and \$11,263 (December 31, 2010 - \$27,300, January 1, 2010 \$17,064) from Star Uranium Corp; companies sharing common directors.

The amounts due to and from the related parties are non-interest bearing, with no fixed terms of repayment. The fair values of the amounts due to and from the related parties cannot be determined as there are no specific terms of repayment.

9. Financial and Capital Risk Management

The Company is exposed to varying degrees to a variety of financial instrument related risks:

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and equivalents are all held at large Canadian financial institution in interest bearing accounts. The Company has no investment in asset-backed commercial paper.

The Company's receivables consist mainly of receivables from related companies and GST/HST receivable due from the government of Canada. The Company does not believe it is exposed to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company endeavors to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligation.

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.

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9. Financial and Capital Risk Management (cont'd...)

Market risk (cont'd)

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of the short-term investments included in cash and cash equivalents is minimal because these investments roll over daily.

b) Foreign currency risk

As at September 30, 2011, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. As a result, the Company believes its currency risk to be minimal.

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 gold, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

Sensitivity Analysis

The carrying amount of cash and equivalents, receivables, and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. The Company does not have significant exposure to changing interest rates.

Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the exploration and evaluation of its exploration and evaluation assets, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its cash and equivalent balances.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and equivalents and investments.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2011 and 2010 (unaudited)

9. Financial and Capital Risk Management (cont'd...)

Capital management (cont'd)

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

10. First Time Adoption of IFRS

As stated in Note 3, these financial statements have been prepared in accordance with IFRS. The accounting policies in Note 4 have been applied in preparing the condensed financial statements for the year ended December 31, 2010, and the opening IFRS statements of financial position as at January 1, 2010 (the "Transition Date").

In preparing the opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position is set out below. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemption:

- a) to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of financial position as at January 1, 2010, September 30, 2010, and December 31, 2010.

There are also no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of operations and comprehensive loss or cash flows for the period ended September 30, 2010 or the year ended December 31, 2010.

11. Comparative Figures

Certain 2010 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2011.