ACME RESOURCES INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND MAY 31, 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Acme Resources Inc.:

We have audited the accompanying financial statements of Acme Resources Inc. which comprises of the balance sheet as at June 30, 2011, and the statements of operations and deficit, comprehensive loss and accumulated other comprehensive income and cash flows for the thirteen month period then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Acme Resources Inc. as at June 30, 2011 and the results of its operations, and its cash flow for the thirteen month period then ended, in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1 to the financial statements, which describe certain conditions that give rise to substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

Other Matter

The comparative figures for the year ended May 31, 2010 were audited by another firm of Chartered Accountants who expressed an opinion without reservation on September 21, 2010.

"DMCL"
DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
October 25, 2011

ACME RESOURCES INC.

BALANCE SHEETS

AS AT JUNE 30, 2011 AND MAY 31, 2010

	2011 **$**	**2010** **$**
ASSETS		
CURRENT ASSETS		
Cash	300,681	336,303
Marketable securities	3,925	6,280
Amounts receivable	877	10,538
Prepaid expenses and deposits	13,145	7,838
	318,628	360,959
Property and equipment (Note 5)	17,997	98,214
Investment in Golden Harp (Note 7)	1,300,000	1,500,000
Mineral properties (Note 6)	1,149,498	4,708,406
Assets held for sale (Note 4)	-	85,500
	2,786,123	6,753,079
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	21,859	67,754
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	17,134,569	17,134,569
Contributed surplus (Note 8)	954,400	860,264
Accumulated other comprehensive income	21,750	7,798
Deficit	(15,346,455)	(11,317,306)
	2,764,264	6,685,325
	2,786,123	6,753,079

NATURE OF OPERATIONS (Note 1)
COMMITMENTS (Note 11)

Approved on Behalf of the Board:

/s/ “Seamus Young”	*/s/ “Shaun Maskerine”*
Seamus Young, Director	Shaun Maskerine, Director

(The accompanying notes are an Integral part of these financial statements.)

ACME RESOURCES INC.

STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE THIRTEEN AND TWELVE MONTH PERIODS ENDED JUNE 30, 2011 AND MAY 31, 2010

	2011 THIRTEEN MONTHS $	2010 TWELVE MONTHS $
EXPENSES		
Amortization	5,217	6,124
Management fees (Note 9)	3,175	132,925
Office and miscellaneous	43,277	50,878
Professional fees	43,827	24,587
Salaries	27,276	50,411
Stock-based compensation (Note 8)	94,136	60,800
Transfer agent and filing fees	15,695	20,468
Travel and promotion	3,319	3,248
	235,922	349,441
LOSS BEFORE OTHER EXPENSES	(235,922)	(349,441)
OTHER EXPENSES		
Dilution loss on share issuance (Note 7)	-	(269)
Impairment loss on mineral properties (Note 6)	(3,566,420)	(922,097)
Loss from equity investment (Note 7)	(203,265)	(262,037)
Loss on disposal of marketable securities	-	(46,370)
Write-down of investment in Golden Harp (Note 7)	(13,042)	(541,274)
	(3,782,727)	(1,772,047)
LOSS FROM CONTINUING OPERATIONS	(4,018,649)	(2,121,488)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 4)	(10,500)	8,550
NET LOSS	(4,029,149)	(2,112,938)
DEFICIT, BEGINNING	(11,317,306)	(9,204,368)
DEFICIT, ENDING	(15,346,455)	(11,317,306)
LOSS PER SHARE - BASIC AND DILUTED:		
Continuing Operations	(0.37)	(0.38)
Discontinued Operations	(0.00)	-
	(0.37)	(0.38)
WEIGHTED AVERAGE SHARES OUTSTANDING	10,969,299	5,623,381

ACME RESOURCES INC.

STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER COMPREHENSIVE INCOME

FOR THE THIRTEEN AND TWELVE MONTH PERIODS ENDED JUNE 30, 2011 AND MAY 31, 2010

	2011 THIRTEEN MONTHS $	2010 TWELVE MONTHS $
NET LOSS	(4,029,149)	(2,112,938)
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale marketable securities	(2,355)	3,140
Reclassification adjustment for losses included in net loss upon sale of marketable securities	-	45,300
Proportionate share of Golden Harp's Unrealized gain on available for sale marketable securities, net of future income tax	38,438	12,153
Proportionate share of Golden Harp's reclassification adjustment for gains included in net loss upon sale of marketable securities	(22,131)	-
COMPREHENSIVE LOSS	(4,015,197)	(2,052,345)

	2011 THIRTEEN MONTHS $	2010 TWELVE MONTHS $
Balance, beginning	7,798	(52,795)
Unrealized gain (loss) on available for sale marketable securities	(2,355)	3,140
Reclassification adjustment for losses included in net loss upon sale of marketable securities	-	45,300
Proportionate share of Golden Harp's unrealized gain on available for sale marketable securities	38,438	12,153
Proportionate share of Golden Harp's reclassification adjustment for gains included in net loss upon sale of marketable securities	(22,131)	-
Balance, ending	21,750	7,798

ACME RESOURCES INC.

STATEMENTS OF CASH FLOWS

FOR THE THIRTEEN AND TWELVE MONTH PERIODS ENDED JUNE 30, 2011 AND MAY 31, 2010

	2011 THIRTEEN MONTHS $	**2010 TWELVE MONTHS $**
OPERATING ACTIVITIES		
Net loss	(4,029,149)	(2,112,938)
Items not involving cash		
Amortization	5,217	6,124
Impairment loss on mineral property	3,566,420	922,097
Loss on sale of marketable securities	–	46,370
Loss on discontinued joint venture	10,500	–
Stock-based compensation	94,136	60,800
Dilution loss on share issuances	–	269
Write down of equity investment	13,042	541,274
Loss from equity investment	203,265	262,037
	(136,569)	(273,967)
Changes in non-cash working capital items		
Amounts receivable	9,661	(8,124)
Prepaid expenses and deposits	(5,307)	15,358
Accounts payable and accrued liabilities	(45,895)	(108,799)
Due to related parties	–	(127,836)
NET CASH USED IN OPERATING ACTIVITIES	(178,110)	(503,368)
INVESTING ACTIVITIES		
Proceeds on sale of marketable securities		7,330
Proceeds on sale of property and equipment	75,000	–
Proceeds on sale of assets held for sale	75,000	–
Acquisition of and expenditures on mineral properties	(7,512)	(22,847)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	142,488	(15,517)
FINANCING ACTIVITIES		
Proceeds from issuance of shares	–	859,500
Share issuance costs	–	(10,942)
NET CASH PROVIDED BY FINANCING ACTIVITIES	–	848,558
INCREASE (DECREASE) IN CASH	(35,622)	329,673
CASH, BEGINNING	336,303	6,630
CASH, ENDING	300,681	336,303

SUPPLEMENTAL CASH FLOW INFORMATION (Note 13)

1. NATURE OF OPERATIONS AND CONTINUANCE OF BUSINESS

Acme Resources Inc. ("the Company") was incorporated in the Province of British Columbia and is engaged in the acquisition and exploration of mineral properties throughout Canada. The Company is in the exploration stage and there has been no determination whether properties held contain ore reserves which are economically recoverable. In the ordinary course of business, the Company sells or options its mineral property interests to third parties, accepting as consideration cash and/or securities of the acquiring party. The Company is a public company listed on the TSX Venture Exchange.

The recoverability of valuations assigned to mineral properties is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the properties, the ability to obtain necessary financing to complete development, and future profitable production or proceeds from disposition.

As at June 30, 2011 the Company has accumulated losses since inception of $15,346,455 which have been funded primarily by the issuance of equity. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These financial statements have been prepared on the going concern basis, which assumes that the Company will be able to continue as a going concern and realize its assets and discharge its liabilities in the normal course of business, and do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Management is of the opinion that sufficient working capital will be obtained from external financing to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

These financial statements of the Company are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in Canadian dollars. The year end of the Company has been changed during the year from May to June.

These financial statements include an equity interest in Golden Harp Resources Inc. ("Golden Harp"), a company listed on the TSX Venture Exchange. The Company's ownership interest in Golden Harp was 40.51% at June 30, 2011 (May 31, 2010 - 40.51%). The Company's ownership interest is accounted for using the equity method.

Certain of the prior year's figures have been reclassified to conform to the current year's presentation. Such reclassification is for presentation purpose only and has no effect on previously reported results.

(b) Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period reported. Significant areas requiring the use of management estimates relate to the impairment of mineral properties and equipment, valuation of assets held for sale, fair value measurements, future income taxes and stock-based compensation. Actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Marketable Securities

Marketable securities are recorded at fair market value with the corresponding unrealized gain or loss recorded in other comprehensive income until sold or considered impaired at which time it is recorded in net loss.

(d) Property and Equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the following annual rates and methods:

Computer equipment	30%	Declining balance
Computer software	50%	Declining balance
Office and field equipment	20%	Declining balance
Vehicle	30%	Declining balance
Field equipment – Airborne	4 years	Straight-line

In the year of acquisition, amortization is recorded at one-half the above rates.

(e) Investments

Investments in which the Company has a significant influence are accounted for by the equity method, whereby the Company records its proportionate share of the investee's income or loss. When the Company's equity investee issues its own shares to outside interests, a dilution gain or loss arises as a result of the difference between the Company's proportionate share of the proceeds and the carrying value of the underlying equity.

(f) Mineral Properties and Deferred Expenditures

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against future income of the project using the unit of production method over estimated recoverable ore reserves. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves and the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contains economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and does not necessarily reflect present or future values.

When options are granted on mineral properties or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

(g) Long-lived Assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Asset Retirement Obligations

The Company follows the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3110, with respect to asset retirement obligations. This standard required liability recognition for retirement obligations associated with the Company's resource properties. The standard required the Company to recognize the fair value of the liability for an asset retirement obligation in the period in which it is incurred and record a corresponding increase in the carrying value of the related long-lived asset. Fair value is estimated using the present value of the estimated future cash outflows. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statements of operations. The increase in the carrying value of the asset is amortized on the same basis as the resource properties. At June 30, 2011 and May 31, 2010, the Company did not have any asset retirement obligations.

(i) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. The effect on future taxes for a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(j) Flow-through Shares

The Company follows the recommendations of Emerging Issues Committee ("EIC") 146 with respect to flow-through shares. Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and the share capital is reduced.

If the Company has sufficient unrecognized tax losses or other future income tax assets to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these future income tax assets, a portion of such unrecognized losses is recorded as tax recovery up to the amount of the future income tax liability that would otherwise have been recognized on the renounced expenditures.

(k) Stock-based Compensation

The Company follows the recommendations in CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments", which provides standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. In accordance with these recommendations, stock options granted are recorded at their fair value over the vesting period as a compensation cost with a corresponding increase in contributed surplus. Agents' warrants issued in connection with common share placements are recorded as share issuance costs with a corresponding increase in contributed surplus. When the options and warrants are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based compensation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income (Loss) per Share

Basic income (loss) per share is computed using the weighted average number of common shares outstanding during the year. The treasury stock method is used for the calculation of diluted income (loss) per share. The existence of warrants and options affects the calculation of income (loss) per share on a fully diluted basis. As the effect of this dilution is to increase the reported income per share and reduce the reported loss per share and diluted loss per share excludes all potential common shares if their effect is anti-dilutive, basic and diluted loss are the same.

(m) Government Assistance

Mining exploration tax credits for certain exploration expenditures incurred in BC and Yukon Territory are treated as a reduction of the exploration and development costs of the respective mineral property.

(n) Financial Instruments

CICA Handbook Section 3862-“Financial Instruments-Disclosure” requires an entity to classify fair value measurements in accordance with an established hierarchy that prioritizes the inputs in valuation techniques used to measure fair value. The levels and inputs which may be used to measure fair value are as follows:

1. Level 1- fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
2. Level 2- fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
3. Level 3- applies to assets and liabilities for inputs that are not based on observable market data, which are unobservable inputs.

Financial instruments classified as level 1 – quoted prices in active markets include cash and marketable securities.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

The Company designates cash as held-for-trading, marketable securities as available-for-sale, amounts receivable as loans and receivables and accounts payable as other financial liabilities.

3. RECENT ACCOUNTING PRONOUNCEMENTS

(a) For interim and annual financial statements relating to fiscal years commencing on or after January 1, 2011, the Company will be required to adopt new CICA Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and section 1602 “Non-Controlling Interests”. Section 1582 replaces existing Section 1581 “Business Combinations”, and Section 1601 and 1602 together replace Section 1600 “Consolidated financial Statements”. The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 “Business Combinations” and International Accounting Standard (“IAS”) 27 “Consolidated and Separate Financial Statements” respectively. The impact of adopting these new standards has not yet been assessed.

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(b) In January 2006, the CICA's Accounting Standards Board ("AcSB") adopted the strategy of replacing Canadian GAAP with IFRS for Canadian enterprises with public accountability. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of June 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended June 30, 2011. The Company is currently evaluating the impact of the conversion on the Company's financial statements and is considering accounting policy choices available under IFRS.

Other accounting pronouncements issued with future effective dates are either not applicable or are not expected to be significant to the financial statements of the Company.

4. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

During fiscal 2008, the Company acquired a 50% interest in Airborne Magnetometer and Spectrometer equipment for use in the exploration of its mineral properties for $274,019. The other 50% was owned by Logan Resource Ltd., a company related by a common director, and the parties had an agreement that governed the use of the equipment. During fiscal 2009 the Company recorded an impairment loss of $154,267 which was recorded as a loss from discontinued operations. During fiscal 2009, the Company decided to sell the asset and wrote it down to its fair value of $ 85,500.

The Company's proportionate interest in the assets and liabilities of the joint venture as at June 30, 2011 and May 31, 2010 is:

	2011	**2010**
	$	$
Assets held for sale - field equipment – Airborne	–	85,500
Liabilities	–	–
Net assets	–	85,500

During fiscal 2009, the Company received a deposit on the sale of the equipment of $8,550. This purchaser did not honour the sales agreement and the non-refundable deposit of $8,550 was included in income. The Company found a new purchaser in January 2011 and sold its portion of the equipment for fair market value of $75,000.

The Company's proportionate share of the results of the Joint Venture for the periods ended June 30, 2011 and May 31, 2010 are as follows:

	2011	**2010**
	$	$
Loss on disposal of assets held for sale	(10,500)	–
Other income (loss)	–	8,550
Income (loss) on discontinued joint venture	(10,500)	8,550

5. PROPERTY AND EQUIPMENT

	Cost $	Accumulated Amortization $	2011 Net Carrying Value $	2010 Net Carrying Value $
Computer equipment	18,236	17,178	1,058	1,567
Computer software	2,327	2,302	25	55
Field equipment	41,972	28,014	13,958	17,818
Office equipment	13,964	11,008	2,956	3,774
Storage facility	-	-	-	75,000
	76,499	58,502	17,997	98,214

During fiscal 2011, the Company disposed of the storage facility for $75,000 (Note 4).

6. MINERAL PROPERTIES

	Acquisition Costs $	Exploration Expenditures/ (Impairment) $	Total 2011 $	Total 2010 $
Nor Property, Yukon [(a) below]				
Beginning of year	422,080	4,235,761	4,657,841	4,636,760
Incurred during the period	–	7,482	7,482	21,081
Impairment	-	(3,566,420)	(3,566,420)	-
End of year	422,080	676,823	1,098,903	4,657,841
Bear River Project, BC [(b) below]				
Beginning of year	10,389	29,426	39,815	38,565
Incurred during the period	–	–	–	1,250
End of year	10,389	29,426	39,815	39,815
Carswell Property, Saskatchewan[(c) below]				
Beginning of year	–	10,750	10,750	10,750
Incurred during the period	–	30	30	–
End of year	–	10,780	10,780	10,750
Wolf Property, Yukon [(e) below]				
Beginning of year	–	–	–	915,581
Incurred during the period	–	–	–	6,516
Impairment	–	–	–	(922,097)
End of period	–	–	–	–
Total	432,469	717,029	1,149,498	4,708,406

6. MINERAL PROPERTIES (continued)

The following table represents exploration expenditures incurred during fiscal 2011:

	Nor $	Bear River $	Carswell $	Total $
Geologist	6,493	–	–	6,493
Licenses and permits	150	–	–	150
Miscellaneous	839	–	30	869
	7,482	–	30	7,512

The following table represents exploration expenditures incurred during fiscal 2010:

	Nor $	Bear River $	Carswell $	Turn River $	Wolf $	Total $
Accommodation and meals	83	–	–	–	–	83
Geologist	20,654	–	–	–	497	21,151
Licenses and permits	–	1,250	–	–	–	1,250
Miscellaneous	344	–	–	–	19	363
	21,081	1,250	–	–	516	22,847

(a) Nor Property, Yukon Territory

The Nor Property consists of mineral claims in the Dawson Mining District, Yukon Territory.

Certain claims are subject to a 2% Net Smelter Royalty (“NSR”). The Company has the right to purchase 50% of the NSR royalty retained by the Optionor for a purchase price of $2,000,000 and the right of first refusal on the remaining 50%.

During fiscal 2011, the Company wrote down the carrying value of the Nor Property by $3,566,420 as management has no immediate exploration planned on this property.

(b) Bear River Property, British Columbia

The Bear River Property consists of mineral claims in the Skeena Mining Division, British Columbia. One of these claims is subject to a 3.5% NSR.

(c) Carswell Property, Saskatchewan

During October 2004, the Company staked a mineral claim in the Athabasca Basin, Saskatchewan.

Pursuant to an Option Agreement dated March 2, 2005, the Company granted an option to a third party to earn a 50% interest in the Carswell Property. To earn this interest the optionee paid $25,000 cash, issued 200,000 of its shares and incurred $100,000 in exploration expenditures. During fiscal 2009 the third party company met the terms of the option agreement and has a 50% interest in the property.

Pursuant to a Joint Venture Agreement dated July 24, 2008, the Company granted the third party a further 30% interest in the claim, resulting in the third party having a 80% undivided interest in the property, subject to the delivery by the third party of a bankable feasibility study. The Company will retain a carried interest until the feasibility study is delivered, at which time the Company will have the choice to take on a 20% participating interest in a new company to operate the production facility or take on a 2% gross overriding royalty for all uranium mineral products and a 2% net smelter returns royalty for all other metals.

The third party will return all the Company’s interest in any of the claims upon a decision by the third party to terminate work thereon.

6. MINERAL PROPERTIES (continued)

(d) Turn River, Yukon

The Turn River property was jointly owned by the Company and Logan Resources Ltd., a company related by a common director. The property was acquired in Fiscal 2007 and 2008 through staking in the Cassiar Plateau, Yukon Territory. All expenses were recovered.

During fiscal 2010 the Company and Logan Resources Ltd. decided not to do any further work on the property and to allow this property to lapse.

(e) Wolf, Yukon

During fiscal 2010, while the 2007 option agreement was still in good standing, the Company decided not to meet its obligations due on October 14, 2010. As such, the Company has recognized an impairment loss on the Wolf property of $922,097 during the year ended May 31, 2010.

7. INVESTMENT IN GOLDEN HARP

The Company recorded its investment in Golden Harp on a fully-consolidated basis until February 29, 2008. Thereafter, the Company no longer had a controlling interest in Golden Harp which was then accounted for under the equity method. As of June 30, 2011 and May 31, 2010, the Company owned 10,000,000 shares of Golden Harp. The Company's proportionate interest in Golden Harp declined from 65.32% to 40.53% during fiscal 2008 as a result of issuances of common shares by Golden Harp and from the exercise of stock options and warrants. The Company's proportionate interest in Golden Harp declined further, from 40.53% to 40.51% during fiscal 2010 as a result of issuances of common shares by Golden Harp due to the exercise of warrants. The Company, through its shareholding in Golden Harp, exercises significant influence over that company. As a result, the investment in Golden Harp is accounted for using the equity method.

Details of the investment in Golden Harp are as follows:

	Amount $
Balance, May 31, 2009	2,291,427
Dilution loss from share issuances	(269)
Proportionate share of net loss	(262,037)
Proportionate share of unrealized gain on available for sale marketable securities	12,153
Write-down of investment	(541,274)
Balance, May 31, 2010	1,500,000
Proportionate share of net loss	(203,265)
Proportionate share of unrealized gain on available for sale marketable securities	16,307
Write-down of investment	(13,042)
Balance, June 30, 2011	1,300,000

As at June 30, 2011, the Company's investment in Golden Harp had a quoted market value of $1,300,000. The Company's management believes the decline in quoted market price is other than temporary and the investment was written down to $1,300,000.

8. SHARE CAPITAL

Common Shares

The authorized share capital of the Company consists of unlimited number of common shares without par value.

	Number of Shares	Amount $
Balance, May 31, 2009	4,462,633	16,280,011
Issued during fiscal 2010 for:		
Cash	6,486,666	859,500
Mineral property option payments	20,000	6,000
Share issuance costs	-	(10,942)
Balance, June 30, 2011 and May 31, 2010	10,969,299	17,134,569

For the period ended June 30, 2011:

No shares were issued.

During the year ended May 31, 2010:

(a) On May 12, 2010 the Company issued 3,000,000 units through a non-brokered private placement at a price of $0.12 per unit for total proceeds of $360,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable at a price of $0.16 to acquire a common share for a period of 5 years. There is no fair value separately attributed to the warrants.

(b) On March 16, 2010 the Company issued 3,000,000 units through a non-brokered private placement at a price of $0.13 per unit for total proceeds of $390,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable at a price of $0.17 to acquire a common share for a period of 5 years. There is no fair value separately attributed to the warrants.

(c) On August 6, 2009 the Company issued 220,000 units through a non-brokered private placement at a price of $0.225 per unit for total proceeds of $49,500 in a first tranche. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable for a period of five years to acquire a common share at a price of $0.75 per share for the first year, and at $1.50 per share for the balance of the term of the warrant. There is no fair value separately attributed to the warrants.

(d) On September 16, 2009, the Company issued 266,666 units through a non-brokered private placement at a price of $0.225 per unit for total proceeds of $60,000 in a second and final tranche. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable for a period of five years to acquire a common share at a price of $0.75 per year for the first year, and at $1.50 per share for the balance of the term of the warrant. There is no fair value separately attributed to the warrants.

(e) The Company issued 20,000 common shares pursuant to the Wolf mineral property acquisition option agreements with an estimated fair value of $0.30 per share for total fair value of $6,000.

Share issuance costs of $10,942 were incurred in relation to the private placements completed during the year.

8. SHARE CAPITAL (continued)

Stock Options

Stock option plan and stock options issued

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Share Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the "Discounted Market Price" of the Company's stock on the grant date. The maximum discount allowed varies with share price, with a maximum of 25% and a minimum price of $0.10. Options have a maximum expiry period of up to ten years from the grant date. The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date.

Pursuant to the stock option plan, options granted in respect of investor relations activities are subject to vesting in stages over one year from the grant date with a maximum of one-quarter of the options vesting in any three month period. Vesting restrictions may also be applied to other options grants, at the discretion of the Board of Directors.

The following table summarizes the continuity of the Company's stock options.

	Number of Shares	Weighted Average Exercise Price $
Outstanding, May 31, 2009	206,667	2.33
Granted	290,000	0.22
Expired	(206,667)	2.33
Outstanding, May 31, 2010	290,000	0.22
Granted	400,000	0.25
Expired	(20,000)	0.22
Outstanding, June 30, 2011	670,000	0.24

As at June 30, 2011, the following share purchase options were outstanding:

Options Outstanding				Options Exercisable	
Exercise Price $	Outstanding #	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price $	Exercisable #	Weighted Average Exercise Price $
0.22	270,000	1.47	0.22	270,000	0.22
0.25	400,000	2.70	0.25	400,000	0.25
0.24	670,000	4.17	0.24	670,000	0.24

Total stock-based compensation expense recognized for stock options during the period ending June 30, 2011 was $94,136 (May 31, 2010 - $60,800). The weighted average grant date fair value of options granted during the period ending June 30, 2011 was $0.24 (May 31, 2010 - $0.21) per option.

8. SHARE CAPITAL (continued)

Stock Options (continued)

The fair value for stock options granted was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2011	2010
Risk free interest rate	1.98%	2.57%
Expected life (in years)	5	5
Expected volatility	146%	175%
Dividend yield	–	–

Share Purchase Warrants

The following table summarizes the continuity of the Company's share purchase warrants:

	Number of Shares	Weighted Average Exercise Price $
Balance, May 31, 2009	–	–
Issued	6,486,667	0.21
Balance, May 31, 2010	6,486,667	0.21
Issued	–	–
Balance, June 30, 2011	6,486,667	0.27

At June 30, 2011, the following share purchase warrants were outstanding:

Number of Warrants	Exercise Price $	Expiry Date
220,000	1.50 (1)	August 6, 2014
266,667	1.50 (2)	September 16, 2014
3,000,000	0.17	March 16, 2015
3,000,000	0.16	May 12, 2015
6,486,667		

(1) Exercisable at $1.50 ($0.75 until August 6, 2010) from August 7, 2010 until August 6, 2014.

(2) Exercisable at $1.50 ($0.75 until September 16, 2010) from September 17, 2010 until September 16, 2014

Contributed Surplus

The following table summarizes the continuity of the Company's contributed surplus:

	Amount $
Balance, May 31, 2009	799,464
Stock-based compensation	60,800
Balance, May 31, 2010	860,264
Stock-based compensation	94,136
Balance, June 30, 2011	954,400

9. RELATED PARTY TRANSACTIONS AND BALANCES

(a) Related Party Transactions

	2011 THIRTEEN MONTHS	2010 TWELVE MONTHS
	$	$
Management fees charged by directors and a company controlled by a director	–	122,925
Consulting fees charged by a director	3,175	10,000
	3,175	132,925

The above transactions were recorded at their exchange amounts, being the amounts agreed upon by the related parties.

10. INCOME TAXES

A reconciliation of income taxes at statutory rates for the years ended June 30, 2011 and May 30, 2010 with the reported taxes is as follows:

	2010 $	2010 $
Loss before income tax	(4,029,149)	(2,112,938)
Tax rate	27.5%	29.4%
Expected income tax recovery	(1,108,016)	(621,204)
Effect on income taxes due to:		
Permanent differences	26,098	111,457
Other	(542)	–
Impact of changes in tax rates	336,431	110,761
Changes in valuation allowance	746,029	398,986
Income tax recovery	–	–

10. INCOME TAXES (continued)

The tax effects of temporary differences that give rise to significant portions of the future tax liability are as follows:

	2010 $	2010 $
Future income tax assets (liabilities):		
Non-capital losses carried forward	810,672	720,978
Resource pools	439,074	(452,531)
Property and equipment	15,367	61,193
Investment tax credit	209,330	208,860
Capital losses carried forward	5,796	5,796
Share issuance costs	1,641	4,894
Marketable securities	839	–
Investment in Golden Harp	237,500	425,000
Total future income tax assets (liabilities)	1,720,219	974,190
Valuation allowance	(1,720,219)	(974,190)
Net future income tax assets	–	–

The Company has resource related expenses of approximately $2,900,000 (May 31, 2010: $2,900,000 and investment tax credit of $280,000 (May 31, 2010: $279,000) available for deduction against future Canadian taxable income. The Company also has approximately $3,242,000 (May 31, 2010: $2,884,000) of losses for tax purposes which may be used to reduce future Canadian taxable income and will expire commencing 2014. The Company has not recognized any future benefit for these losses as it is not considered likely that they will be utilized.

	$
2014	289,000
2015	281,000
2027	608,000
2028	866,000
2029	493,000
2030	347,000
2031	358,000
	3,242,000

11. COMMITMENT

The Company is committed to aggregate premise lease payments of $104,308 as follows:

- $18,175 for fiscal 2012;
- $20,617 for fiscal 2013;
- $20,689 for fiscal 2014;
- $21,480 for fiscal 2015;
- $21,551 for fiscal 2016 and
- $1,796 for fiscal 2017.

In addition the Company is also committed to pay additional rent being share of tax cost and operation costs.

12. 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 development of its mineral properties and to maintain a flexible capital structure for its projects for the benefit of its stakeholders, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. As the Company is in the exploration stage, its principal source of funds is from the issuance of common shares. The Company considers the components of shareholders' equity and cash to comprise capital.

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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	2011 $	**2010** $
NON-CASH FINANCING AND INVESTING ACTIVITIES		
Issuance of shares pursuant to mineral property option agreements	–	6,000
SUPPLEMENTAL INFORMATION		
Interest paid	–	–
Income tax paid	–	–

14. RISK MANAGEMENT

The Company is exposed to financial instrument related risks as follows:

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash accounts and amounts receivable. This risk is managed through the use of major financial institutions which have high credit quality as determined by the rating agencies. Amounts receivable mainly consist of harmonized sales tax due from the Government of Canada. Management believes that the credit risk concentration with respect to receivables is minimal.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and raising capital through equity financing.

(c) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The fair value of the Company's cash account affected by changes in short term interest rates is minimal.

14. RISK MANAGEMENT (continued)

(d) Commodity Price Risk

The Company's ability to raise capital to fund exploration activities is subject to risks associated with fluctuations in the market price of commodities. The Company monitors commodity prices to determine the appropriate course of actions to be taken.

(e) Foreign Exchange Risk

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company operates in Canada and is consequently not exposed to foreign exchange risk arising from transactions denominated in foreign currency.

(f) Market Risk

Market risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in market prices. The Company is exposed to market risk on its marketable securities and investment in Golden Harp. A 1% changes in market prices will increase or decrease the total fair value of the marketable securities and investment in Golden Harp by $13,000.