Deer Horn Metals Inc.

(formerly Golden Odyssey Mining Inc.)

Consolidated Financial Statements
For the Year Ended July 31, 2011

To the Shareholders of Deer Horn Metals Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that the transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

Davidson & Company LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report. The external auditors have full and free access to, and meet periodically and separately with, both the Committee and management to discuss their audit findings.

Signed "Tony Fogarassy"

Signed "Matt Wayrynen"

To the Shareholders of
Deer Horn Metals Inc.
(formerly Golden Odyssey Mining Inc.)

We have audited the accompanying consolidated financial statements of Deer Horn Metals Inc. (formerly Golden Odyssey Mining Inc.) which comprise the consolidated balance sheets as at July 31, 2011 and 2010 and the consolidated statements of loss, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 control. 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 consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Deer Horn Metals Inc. (formerly Golden Odyssey Mining Inc.) as at July 31, 2011 and 2010 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

November 25, 2011

NEXIA INTERNATIONAL

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Deer Horn Metals Inc. (formerly Golden Odyssey Mining Inc.)
Consolidated Balance Sheets
As at July 31

	2011	**2010**
	$	**$**
Assets		
Current assets		
Cash	**2,056,384**	6,939
Receivables	**153,498**	12,295
Prepaids	**62,760**	-
Exploration advances (note 4)	**288,726**	-
	2,561,368	19,234
Mineral properties (note 4)	**8,250**	11,000
Equipment (note 6)	**2,298**	2,122
Reclamation deposits (note 7)	**116,140**	80,883
	2,688,056	113,239
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**170,093**	925,192
Shareholders' equity (deficiency)		
Share capital (note 8)	**9,870,388**	6,042,177
Contributed surplus (note 8)	**4,320,407**	2,772,011
Deficit	**(11,672,832)**	(9,626,141)
	2,517,963	(811,953)
	2,688,056	113,239

Nature of operations and going concern (note 1)
Subsequent events (note 13)

Approved on behalf of the Board:

"signed" Tyrone Docherty
Tyrone Docherty

"signed" Tony Fogarassy
Tony Fogarassy

The accompanying notes are an integral part of these consolidated financial statements.

Deer Horn Metals Inc. (formerly Golden Odyssey Mining Inc.)
Consolidated Statements of Loss, Comprehensive Loss and Deficit
For the years ended July 31

	2011	2010
	$	$
General and administrative expenses		
Amortization	**2,268**	2,953
Exploration expenses (note 5)	**785,903**	1,762,575
Foreign exchange loss (gain)	**(2,086)**	2,623
Investor relations and shareholder information	**264,634**	104,457
Office	**26,543**	42,465
Professional fees	**65,662**	87,438
Regulatory and filing fees	**61,516**	30,670
Rent	**17,655**	16,893
Salaries and management fees	**316,570**	195,503
Stock-based compensation (note 8)	**499,631**	415,492
Travel	**29,735**	809
Loss before other items and income taxes	**(2,068,031)**	(2,661,878)
Other items		
Gain on settlement of accounts payable	**36,051**	-
Interest income	**13,039**	1,896
Write-off of mineral properties (note 4)	**(27,750)**	-
	21,340	1,896
Loss before income taxes	**(2,046,691)**	(2,659,982)
Future income tax recovery (note 10)	**-**	99,000
Loss and comprehensive loss for the year	**(2,046,691)**	(2,560,982)
Deficit, beginning of year	**(9,626,141)**	(7,065,159)
Deficit, end of year	**(11,672,832)**	(9,626,141)
Basic and diluted loss per share	**(0.03)**	(0.05)
Weighted average shares outstanding	**80,718,268**	54,818,591

The accompanying notes are an integral part of these consolidated financial statements.

Deer Horn Metals Inc. (formerly Golden Odyssey Mining Inc.)
Consolidated Statements of Cash Flows
For the years ended July 31

	2011	2010
	$	$
Operating activities		
Loss for the year	(2,046,691)	(2,560,982)
Items not affecting cash:		
Stock-based compensation	499,631	415,492
Future income tax recovery	-	(99,000)
Amortization	2,268	2,953
Gain on settlement of accounts payable	(36,051)	
Foreign exchange loss	5,813	3,518
Write-off of mineral properties	27,750	-
Changes in non-cash working capital balances:		
Receivables	(141,203)	25,223
Prepaids	(62,760)	7,500
Exploration advances	(288,726)	28,000
Reclamation liability	-	(111,650)
Accounts payable and accrued liabilities	(719,048)	627,745
Cash flows used in operating activities	(2,759,017)	(1,661,201)
Investing activities		
Mineral property acquisition costs	(25,000)	-
Equipment purchase	(2,444)	-
Reclamation deposits	(41,070)	7,751
Cash flows provided from (used in) investing activities	(68,514)	7,751
Financing activities		
Issuance of common shares	5,120,426	1,563,444
Share issuance costs	(243,450)	(1,958)
Cash flows provided from financing activities	4,876,976	1,561,486
Change in cash during year	2,049,445	(91,964)
Cash, beginning of year	6,939	98,903
Cash, end of year	2,056,384	6,939

Supplemental disclosure with respect to cash flow:		
Fair value of warrants on share issuance	$ 1,123,225	$ 165,256
Fair value of warrants on exercise	13,470	84,903
Fair value of options on exercise	8,124	81,176
Share capital adjustment for renunciation	-	99,000

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Deer Horn Metals Inc. (the "Company") was incorporated under the Canada Business Corporations Act on April 16, 2004 under the name "Golden Odyssey Mining Inc.". On January 20, 2011, shareholders of the Company approved a name change and it commenced trading as Deer Horn Metals Inc. on January 27, 2011. The Company's principal activity is the acquisition and exploration of mineral properties. The Company has not yet determined whether the properties contain ore reserves which are economically recoverable.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Continued operations of the Company are dependent on its ability to receive continued financial support, complete equity financings, or generate profitable operations in the future. The financial statements do not include any adjustments to assets and liabilities should the Company be unable to continue as a going concern. Such adjustments could be material.

	July 31, 2011	July 31, 2010
Deficit	$(11,672,832)	$ (9,626,141)
Working capital (deficit)	$ 2,391,275	$ (905,958)

The company estimates it has sufficient working capital to continue operations for the next year.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Golden Odyssey Exploration Inc., a company incorporated in Nevada, United States of America. All inter-company transactions and balances have been eliminated upon consolidation.

(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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the amount of revenues and expenses reported for the year. Significant estimates include fair value of financial instruments, stock-based compensation, reclamation liabilities, future income taxes, and the impairment of assets. Actual results could differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Mineral properties

The Company records its interest in mineral properties at cost. Direct costs related to the acquisition of mineral properties, less recoveries, are capitalized until such time as the properties are either put into commercial production, sold, determined not to be economically viable, or abandoned. If the property is placed into production, the acquisition costs will be amortized over the estimated life of the related property. If it is determined that the carrying value of a property exceeds its net recoverable amount as determined by management, a provision for the decline in value is charged to operations in the period that such determination is made.

Exploration costs are charged to operations as incurred unless the deferral criteria are met and it is probable that any deferred costs will be recovered from future operations of the related project.

(d) Equipment

Equipment is recorded at cost. Amortization is provided over the related assets' estimated useful lives using the following methods and annual rates:

Computer equipment	20% straight line

(e) Asset retirement obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it occurs and/or when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded as a liability with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is charged to operations using a systematic and rational method and is adjusted to reflect period-to-period changes in the liability resulting from the passage of time and revision to either the timing or the amount of the original estimate of undiscounted cash flow. Upon settlement of the liability, a gain or loss is charged to operations if the actual costs incurred to discharge the retirement obligation differ from the liability recorded in the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

(g) Foreign currency translation

The accounts of foreign operations are translated into Canadian dollars by the temporal method, as follows:

(i) Monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date;
(ii) Non-monetary items, except those items which are carried at market value are translated at historical exchange rates; and
(iii) Revenue and expense items are translated at the rate of exchange approximating those in effect at the time they occur.

Gains and losses arising on foreign currency translation are included in operations in the year.

(h) Stock-based compensation

The Company recognizes stock-based compensation expense for the estimated fair value of equity-based instruments granted to both employees and non-employees.

Accordingly, compensation costs attributable to stock options or similar equity instruments granted to employees are measured at the fair value using the Black-Scholes option pricing model, at the grant date, and expensed over the expected vesting period. Transactions in which goods or services are received from non-employees in exchange for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Loss per share

Basic loss per share is computed using the weighted average number of common shares outstanding during the year. Provided that they are not anti-dilutive, diluted earnings or loss per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. For the years presented, this calculation proved to be anti-dilutive.

(j) Future income taxes

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

(k) Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefits transferred to shareholders.

When the company renounces flow-through expenditures, a portion of the Company's future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, will be recognized as a recovery of income taxes in the statement of operations.

(l) Mining tax credits

The Company accounts for tax credits on eligible exploration expenditures as a deduction from its mineral properties interests, on a property by property basis, and will be charged to operations on the same basis as the deferred acquisition and exploration and development expenditures. The exploration tax credits are accrued in the year when the exploration expenditures are incurred, provided there is reasonable assurance that the tax credits will be realized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Financial instruments

Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Under this standard, all financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables, or other financial liabilities. The Company has implemented the following classifications for its financial instruments:

(i) Cash has been classified as held-for-trading.
(ii) Receivables have been classified as loans and receivables and measured at amortized cost.
(iii) Accounts payable and accrued liabilities have been classified as other financial liabilities and are measured at amortized cost.
(iv) Reclamation deposits have been classified as held to maturity and are measured at amortized cost.

(n) Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources, such as any unrealized gains and losses in financial assets classified as available for sale. Other comprehensive income, is added to the shareholders' equity section of the balance sheet. The Company had no "other comprehensive income or loss" transactions during the years presented and no opening or closing balances for "accumulated other comprehensive income or loss".

3. RECENT ACCOUNTING PRONOUNCEMENTS

Business Combinations

The CICA issued Handbook Section 1582 *Business Combinations,* which replaces CICA Handbook Section 1581. This new standard aligns accounting for business combinations under Canadian GAAP with IFRS and is effective for business combinations entered into on or after January 1, 2011. Early adoption is permitted. The new standard requires assets and liabilities acquired in a business combination, contingent consideration and certain acquired contingencies to be measured at their fair values as of the acquisition date. This section is applicable for fiscal years beginning on or after January 1, 2011.

CICA Handbook Section 1601 *Consolidated Financial Statements* and CICA Handbook Section 1602 *Non-Controlling Interests.* These new sections will replace CICA Handbook Section 1600 *Consolidated Financial Statements* and establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination, and is effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. Early adoption is permitted. This standard is not expected to have a material impact on the Company's financial statements.

International Financial Reporting Standards (``IFRS``)

The Accounting Standards Board has announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for periods beginning on or after January 1, 2011. Although IFRS employs a conceptual framework that is similar to Canadian GAAP, there are significant differences in recognition, measurement, and disclosure. The transition date of the Company will be August 1, 2011 and will require restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. The Company has identified the key differences and is progressing with its changeover plan to adopt IFRS on the transition date.

4. MINERAL PROPERTIES

Title to mineral 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 conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and to the best of its knowledge, all properties are in good standing.

Mineral property costs as at July 31, 2011 are set out below:

	Deerhorn	Dome South	Total
	$	$	$
Balance, July 31, 2009 and 2010	**8,250**	**2,750**	**11,000**
Additions:			
Reclamation bond	**-**	**25,000**	**25,000**
Write-off of mineral properties	**-**	**(27,750)**	**(27,750)**
Balance, July 31, 2011	**8,250**	**-**	**8,250**

4. MINERAL PROPERTIES (continued)

As at July 31, 2011, the Company had provided exploration advances of $288,726 (2010 - $nil) on its Deerhorn property.

Dome South

In November 2008, the Company entered into an option agreement with a company related by virtue of common directors, to acquire a 50% interest in the Dome South property, located near Smithers, British Columbia.

To acquire its interest in the property, the Company was required to incur $1,000,000 in exploration expenditures by November 15, 2010. On September 24, 2010, the Company entered into an amending agreement providing for an extension of one year for $25,000.

Subsequent to year end, the Company elected to terminate its option and wrote-off all acquisition costs on the property.

Deerhorn

In August 2009, the Company entered into an option agreement with a company related by virtue of common directors, to acquire an initial 50% interest in the Deerhorn property, located in north western British Columbia.

To acquire its interest, the Company is required to incur $5,000,000 in exploration expenditures as follows:

1) Incur $400,000 by August 12, 2010 (incurred)
2) Incur an additional $1,100,000 by August 12, 2011 (incurred)
3) Incur an additional $1,500,000 by August 12, 2012
4) Incur an additional $2,000,000 by August 12, 2013

After the Company has acquired the initial 50% interest, it may acquire an additional 25% interest by incurring all costs required to bring the property to commercial production.

5. EXPLORATION EXPENSES

The following is a summary of mineral property expenditures for the year ended July 31, 2011:

	Washiki	**Deerhorn**	**Dome South**	**Total**
Assays and sampling	-	17,390	-	17,390
Camp and field expense	-	49,400	-	49,400
Drilling and field support	-	385,405	-	385,405
Equipment rental	-	213,228	-	213,228
Geological consulting	-	40,440	807	41,247
Reports, drafting and maps	-	6,910	-	6,910
Travel and accommodation	-	22,251	-	22,251
Environmental Expense	2,016	-	-	2,016
Other	-	47,828	228	48,056
Total exploration expenses	**$ 2,016**	**$ 782,852**	**$ 1,035**	**$ 785,903**

5. EXPLORATION EXPENSES (continued)

The Washiki Property was written off during the year ended July 31, 2008. Expenses relating to the property during the year ended July 31, 2011 related to its reclamation obligations.

The following is a summary of mineral property expenditures for the year ended July 31, 2010:

	Deerhorn	Dome South	Other	Total
Assays and sampling	35,330	-	-	35,330
Camp and field expense	27,873	-	-	27,873
Drilling and field support	1,353,975	-	-	1,353,975
Equipment rental	177,774	-	-	177,774
Geological consulting	54,626	500	-	55,126
Miscellaneous	72,401	18,540	-	90,941
Reports, drafting and maps	29,264	2,994	-	32,258
Travel and accommodation	144,231	-	-	144,231
BC Mining Exploration tax credit	-	(55,000)	-	(55,000)
Recovery of reclamation liability	-	-	(99,933)	(99,933)
Total exploration expenses	**$ 1,895,474**	**$ (32,966)**	**$ (99,933)**	**$ 1,762,575**

6. EQUIPMENT

	July 31, 2011		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Computer equipment	5,438	3,140	2,298

	July 31, 2010		
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	$	$
Computer equipment	14,759	12,637	2,122

7. RECLAMATION DEPOSITS

The Company provided non-interest bearing cash bonds amounting to US$35,794 (2010 - US$60,139) in favour of the U.S. Bureau of Land Management as a reclamation deposit relating to properties held in the United States written off in prior years.

Additionally, the Company provided funding for deposits totalling $82,000 (2010 - $19,000) as security against potential future reclamation work related to its British Columbia mineral property.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

(a) Issued and outstanding

Authorized

Unlimited Common shares
Unlimited Preferred shares, issued in series

Issued:	**Common shares**		**Contributed Surplus**
	Number of shares	**Amount $**	**Amount $**
Balance – July 31, 2009	**48,179,759**	**4,578,868**	**2,357,342**
Issued through private placement	3,713,028	426,146	137,348
Issued through private placement	1,283,000	175,182	17,268
Issued through private placement	1,100,000	99,360	10,640
Issued on exercise of options	1,200,000	120,000	-
Issued on exercise of warrants	3,850,000	577,500	-
Transferred from contributed surplus upon exercise of options	-	81,176	(81,176)
Transferred from contributed surplus upon exercise of warrants	-	84,903	(84,903)
Stock-based compensation	-	-	415,492
Tax benefits renounced to flow-through share subscribers	-	(99,000)	-
Share issue costs	-	(1,958)	-
Balance – July 31, 2010	59,325,787	6,042,177	2,772,011
Issued through private placement	14,060,000	469,296	233,704
Issued through private placement	21,595,000	3,429,479	889,521
Issued on exercise of options	53,379	10,676	-
Issued on exercise of warrants	575,000	87,750	-
Transferred from contributed surplus upon exercise of options	-	8,124	(8,124)
Transferred from contributed surplus upon exercise of warrants	-	13,470	(13,470)
Stock-based compensation	-	-	499,631
Share issue costs	-	(190,584)	(52,866)
Balance – July 31, 2011	**95,609,166**	**9,870,388**	**4,320,407**

i) On December 3, 2009, the Company completed a non-brokered private placement of 3,713,028 units for aggregate proceeds of $563,494. The Company issued 1,091,757 flow-through shares at a price of $0.18 per share for proceeds of $196,516 and 2,621,271 non-flow through units at a price of $0.14 per unit for gross proceeds of $366,978. Each unit consists of one common share and one common share purchase warrant, with each warrant exercisable into one common share at a price of $0.17 for a period of two years. The warrants were attributed a value of $137,348.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

ii) On May 3, 2010, the Company completed a non-brokered private placement of 1,283,000 units at a price of $0.15 per unit for aggregate proceeds of $192,450. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable into one common share at a price of $0.18 for a period of one year. The warrants were attributed a value of $17,268.

iii) On June 22, 2010, the Company completed a non-brokered private placement of 1,100,000 units at $0.10 per unit for gross proceeds of $110,000. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant exercisable into one common share at a price of $0.15 for a period of one year. The warrants were attributed a value of $10,640.

iv) On September 28, 2010, the Company completed a non-brokered private placement of 14,060,000 Units at a price of $0.05 per unit for gross proceeds of $703,000. Each unit consists of once common share and one common share purchase warrant, with each whole warrant exercisable into one common share at a price of $0.10 for a period of two years. The warrants were attributed a value of $233,704.

v) On February 24, 2011, the Company completed a non-brokered private placement of 21,595,000 Units at a price of $0.20 per unit for gross proceeds of $4,319,000. Each unit consists of one common share and one common share purchase warrant, with each whole warrant exercisable into one common share at a price of $0.30 for a period of one year. The warrants were attributed a value of $889,521.

Share issuance costs were bifurcated between capital stock and contributed surplus.

(b) Warrants

Warrant transactions are as follows:

	Number of shares	Exercise Price
Balance – July 31, 2009	**6,200,000**	
Exercised	(3,850,000)	$0.15
Expired	(2,350,000)	0.15
Issued pursuant to private placements	3,812,771	0.15-0.18
Balance – July 31, 2010	3,812,771	0.17
Issued pursuant to private placement	35,655,000	0.22
Exercised	(575,000)	0.15
Expired	(691,500)	0.18
Balance – July 31, 2011	38,201,271	$0.22

The fair value of the share purchase warrants issued during the year ended July 31, 2011 and recorded as contributed surplus was $1,123,223 (2010 - $165,256) and was estimated at the date of issue using the Black-Scholes option pricing model with the following weighted-average assumptions:

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(b) Warrants (continued)

	2011	2010
Dividend yield	Nil	Nil
Expected volatility	108%	109%
Risk free rate of return	1.41%	1.39%
Expected life	1.39 years	1.69 years

The exercise price and expiry dates of the warrants outstanding as at July 31, 2011 are set out below:

Exercise price	Number outstanding	Expiry date
$0.17	2,546,271	December 3, 2011
$0.10	14,060,000	September 28, 2012
$0.30	21,595,000	February 24, 2012
$0.22 (weighted average)	38,201,271	

(c) Options

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the Plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years. Vesting occurs in accordance with the stock option plan.

During the year ended July 31, 2011, the Company granted 3,550,000 (2010 – 3,350,000) options with a fair value of $447,489 (2010 - $348,940). Total stock-based compensation expense in the year ended July 31, 2011 amounted to $499,631 (July 31, 2010 – $415,492). The fair value of the compensation expense for year is included within contributed surplus and has been recognized over the vesting period.

Options transactions are summarized as follows:

	Number	Exercise price
		$
Balance – July 31, 2009	**4,270,000**	0.18
Granted	3,350,000	0.10 – 0.22
Cancelled	(275,000)	0.30
Exercised	(1,200,000)	0.10
Expired	(612,500)	0.17
Balance – July 31, 2010	5,532,500	0.16
Granted	3,550,000	0.10 – 0.25
Exercised	(53,379)	0.20
Cancelled	(187,500)	0.31
Expired	(471,621)	0.20 – 0.27
Balance – July 31, 2011	8,370,000	0.19

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(c) Options (continued)

The exercise price and remaining contractual life of options outstanding and options exercisable at July 31, 2011 are as follows:

Exercise price	Expiry date	Number outstanding	Number exercisable	Remaining contractual life (years)
$0.30	Jan. 2, 2012	20,000	20,000	0.4
$0.39	Jan. 2, 2012	150,000	150,000	0.4
$0.27	April 27, 2012	125,000	125,000	0.7
$0.10	May 29, 2013	175,000	175,000	1.8
$0.10	March 9, 2014	500,000	500,000	2.6
$0.22	July 14, 2014	500,000	500,000	3.0
$0.22	August 28, 2014	850,000	850,000	3.1
$0.10	May 21, 2015	2,500,000	2,500,000	3.8
$0.10	October 8, 2015	300,000	250,000	4.2
$0.25	March 11, 2016	2,750,000	2,633,333	4.6
$0.25	June 24, 2016	500,000	500,000	4.9
$0.19 (weighted average)		**8,370,000**	**8,203,333**	**3.8**

The fair values of the options outstanding in the years ended July 31, 2011 and 2010 were estimated on the dates of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2011	**2010**
Dividend yield	Nil	Nil
Expected volatility	114%	110%
Risk free rate of return	2.49%	2.63%
Expected life	5.0 years	5.0 years

9. RELATED PARTY TRANSACTIONS

Transactions with related parties not disclosed elsewhere in these financial statements comprise:

	2011	2010
Management fees paid or accrued to a company controlled by the President	$ 205,000	$ 120,000
Management fees paid or accrued to the CFO	30,000	30,000
Exploration costs paid or accrued to private companies controlled by directors	780,364	1,831,208

These transactions 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 related parties.

10. Future Income Taxes

A reconciliation of current income taxes at statutory rates with reported taxes is as follows:

	2011	2010
Loss for the year before income taxes	$ (2,046,691)	$ (2,659,982)
Expected income tax recovery	559,422	774,720
Non-deductible items for tax purposes	(361,358)	(635,881)
Items deductible for tax purposes	16,287	24,182
Unrecovered benefit of operating loss carry-forwards	(214,357)	(64,021)
Future income tax recovery	$ -	$ 99,000

The components of future income tax balances are as follows:

	2011	2010
Non-capital loss carry forwards	$ 1,603,000	$ 1,560,000
Investment tax credit	-	10,000
Resource pools	840,000	768,000
Share issuance costs	52,000	6,000
	2,495,000	2,344,000
Valuation allowance	(2,495,000)	(2,344,000)
Net future income tax assets	$ -	$ -

The Company has non-capital losses of approximately $6,314,000 available for deduction against future taxable income. These losses, if not utilized, will expire through to 2031. The Company has resource expenditures of approximately $1,862,000 available for deduction against future taxable income. Future tax benefits which may arise as a result of these tax assets have not been recognized in these financial statements and have been offset by a valuation allowance.

11. CAPITAL MANAGEMENT

The Company's objective when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares. 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, acquire or dispose of assets or adjust the amount of cash.

The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its properties for the benefit of its stakeholders. The Company seeks to place its cash with reputable financial institutions. Accordingly, the Company believes that it is exposed to minimal credit risks at the current time. The company's capital structure is composed of equity which is not subject to externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash is based on level 1 of the fair value hierarchy. The fair value of reclamation deposits are based on level 2 of the fair value hierarchy. The fair values of receivables, accounts payable and accrued liabilities approximate their fair value because of the short term nature of these instruments.

The Company's financial instruments are exposed to a number of financial and market risks, including credit, liquidity, interest rate and price risks. The Company may, or may not, establish from time to time active policies to manage these risks. The Company does not currently have in place any active hedging or derivative trading policies to manage these risks since the Company's management does not believe that the current size, scale and pattern of its operations would warrant such hedging activities.

Credit Risk

Credit risk arises from non-performance by counterparties of contractual financial obligations. The Company's credit risk is primarily attributable to cash and receivables. The Company's cash was invested in established Canadian banking and federal institutions and the receivable was due from the Canadian federal government, so collection of accounts is relatively certain.

Liquidity Risk

Liquidity is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity by maintaining sufficient cash to meet its anticipated operational needs. Liquidity requirements are managed based on expected cash flow to ensure that there is adequate capital to meet short term and long term obligations. The Company is seeking additional financing.

Foreign Currency Risk

The Company operates in Canada and presently has exposure to foreign exchange risk with respect to $34,140 of its reclamation deposit. The Company does not consider this exposure to be significant.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has minimal risk as it does not carry interest bearing debt liabilities.

Commodity Price Risk

The ability of the Company to find and develop mineral properties and the future profitability of the Company are directly related to the market price of base metals. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

13. SUBSEQUENT EVENTS

On October 6, 2011, the Company granted 1,000,000 incentive stock options to a consultant. The stock options are exercisable for a period of five years from the date of grant at a price of $0.18 per option share.