BONAPARTE RESOURCES INC.

(FORMERLY BONAPARTE CAPITAL CORP.)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

AUGUST 31, 2011 AND 2010

MANNING ELLIOTT
CHARTERED ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bonaparte Resources Inc.

We have audited the accompanying financial statements of Bonaparte Resources Inc., which comprise the balance sheets as at August 31, 2011 and 2010, and the statements of operations, comprehensive loss and deficit, and cash flows for the years then ended, and the related notes comprising 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 control as management determines is necessary to enable the preparation of 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 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 audits 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 our 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, we consider internal control relevant to the Company'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 Company'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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Bonaparte Resources Inc. as at August 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.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Bonaparte Resources Inc. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

December 22, 2011

BONAPARTE RESOURCES INC. (FORMERLY BONAPARTE CAPITAL CORP.)

BALANCE SHEETS

AS AT AUGUST 31, 2011 AND 2010

		2011		**2010**
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Note 4)	$	136,741	$	466,746
HST recoverable		64,782		29,765
Prepaid expenses (Note 5)		2,798		2,699
		204,321		499210
Advances to contractor for exploration work (Note 5)		769,858		78,025
Deferred financing costs (Note 12)		28,500		–
Mineral properties (Note 6)		558,837		401,850
	$	1,561,516	$	979,085
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	22,612	$	23,579
Note payable to related party (Note 7(a))		–		51,729
Amount owing to related parties (Note 7(c))		21,920		–
		44,532		75,308
SHAREHOLDERS' EQUITY				
SHARE CAPITAL (Note 8)		1,875,334		1,080,534
CONTRIBUTED SURPLUS (Note 8(c))		209,225		91,171
DEFICIT		(567,575)		(267,928)
		1,516,984		903,777
	$	1,561,516	$	979,085

NATURE OF BUSINESS AND CONTINUED OPERATIONS (Note 1)
COMMITMENTS (Notes 6 and 12)
SUBSEQUENT EVENTS (Note 13)

APPROVED ON BEHALF OF THE BOARD:

"Thomas Randall Saunders" Director

"Robert Jamieson" Director

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

BONAPARTE RESOURCES INC. (FORMERLY BONAPARTE CAPITAL CORP.)

STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	**2010**
REVENUES	$ –	$ –
GENERAL AND ADMINISTRATION EXPENSES		
Bank charges and interest	1,259	1,866
Listing and filing fees	14,627	29,424
Management fees (Note 7(b))	48,000	–
Office and miscellaneous	8,277	5,466
Professional fees	33,378	91,655
Promotion and travel	1,551	–
Stock-based compensation (Note 8(b))	127,956	19,877
	235,048	148,288
LOSS BEFORE OTHER INCOME	(235,048)	(148,288)
OTHER INCOME (EXPENSE)		
Mineral property written-off (Note 6(a))	(405,236)	–
Interest income	10,517	1,790
	(394,719)	(146,498)
LOSS BEFORE INCOME TAXES	(629,767)	(146,498)
FUTURE INCOME TAX RECOVERY (Note 8)	330,120	–
NET LOSS AND COMPREHENSIVE LOSS	(299,647)	(146,498)
DEFICIT, BEGINNING OF YEAR	(267,928)	(121,430)
DEFICIT, END OF YEAR	(567,575)	(267,928)
BASIC AND DILUTED LOSS PER COMMON SHARE	($0.03)	($0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,651,933	6,736,438

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

BONAPARTE RESOURCES INC. (FORMERLY BONAPARTE CAPITAL CORP.)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010

	2011	**2010**
OPERATING ACTIVITIES		
Net loss for the year	$ (299,647)	$ (146,498)
Item not involving cash		
Stock-based compensation	127,956	19,877
Future income tax recovery	(330,120)	–
Mineral property written-off in year	405,236	–
	(96,575)	(126,621)
Changes in non-cash working capital items:		
HST recoverable	(35,017)	(28,273)
Prepaid expenses	(99)	(15)
Accounts payable and accrued liabilities	(967)	13,939
Payable to related parties	21,920	–
CASH USED IN OPERATING ACTIVITIES	(110,738)	(140,970)
INVESTING ACTIVITIES		
Advances to contractor for exploration work	(691,833)	(78,025)
Mineral property and exploration costs (Note 6)	(562,223)	(236,850)
	(1,254,056)	(314,875)
FINANCING ACTIVITIES		
Deferred financing costs	(28,500)	–
Note payable to related party	(51,729)	51,729
Shares issued – net (Note 8)	1,115,018	363,199
PROCEEDS FROM FINANCING ACTIVITIES	1,034,789	414,928
CHANGE IN CASH AND CASH EQUIVALENTS	(330,005)	(40,917)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	466,746	507,663
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 136,741	$ 466,746
BREAKDOWN OF CASH AND CASH EQUIVALENTS		
Cash	$ 129,162	$ 355,817
Cash equivalents	7,579	110,859
	$ 136,741	$ 466,676
SUPPLEMENTAL INFORMATION:		
Interest paid	$ –	$ –
Income taxes paid	$ –	$ –
Shares issued for option agreements	$ –	$ 165,000

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

1. NATURE OF BUSINESS AND CONTINUED OPERATIONS AND BASIS OF PRESENTATION

The company was incorporated pursuant to the Business Corporation Act (British Columbia) on July 10, 2007 and was a Capital Pool Company as defined in the TSX Venture Exchange ("TSX-V") Policy 2.4. In 2010, the Company received regulatory approval from the TSX-V for an option agreement on the Rosy Property, Yukon Territory, thereby satisfying its requirement for a Qualifying Transaction.

The Company is primarily engaged in the acquisition and exploration of mineral properties and is considered to be in the exploration stage. No revenues have been earned to date from its operations. The Company has not yet determined whether its mineral properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related exploration and development costs are dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. The Company has accumulated losses of $567,575 to August 31, 2011. The Company is not certain it can complete financing to obtain sufficient funds to complete its financial obligations described in Note 6.

These financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable for a going concern 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 forced liquidation. These financial statements do not give effect to the adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities, the possible impairment of mineral properties, should the Company be unable to continue as a going concern.

2. ACCOUNTING POLICIES

(a) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to future income tax assets and liabilities, the possible impairment of mineral properties, and assumptions used in stock-based compensation calculations.

(b) Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the net loss for the period available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

2. ACCOUNTING POLICIES (continued)

(c) Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts payable and amounts owing to related party. In management's opinion the Company is not exposed to significant interest rate or currency exchange changes arising from these financial instruments. The fair values of these financial instruments approximate their carrying values because of their current nature. The Company is not exposed to derivative financial instruments. Financial instruments that potentially subject the Company to concentration of credit risks consist principally of cash and cash equivalents. The Company minimizes the credit risk associated with its financial instruments by placing cash with high credit financial institutions.

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held to maturity or loans and receivables depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition, except for those arising from certain related party transactions, and loans and receivables, which are accounted for at amortized cost.

The Company classifies its cash and cash equivalents as held-for-trading and its accounts payable and amounts owing to related party as other financial liabilities.

(d) Comprehensive Loss

Comprehensive loss reflects net loss and other comprehensive income (loss) for the period. Other comprehensive income (loss) may include 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.

(e) Share Issue Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financial transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

(f) 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. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(g) Stock-based Compensation

The Company applies the fair value method to stock-based payments to all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in contributed surplus are credited to share capital. Effective September 1, 2010, the Company adopted graded vesting method and there was no impact on the financial statements from this adoption.

2. ACCOUNTING POLICIES (continued)

(h) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks and highly liquid marketable investments with original terms to maturity of less than ninety days at the time of acquisition, or which are redeemable at the option of the Company.

(i) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written-off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future revenues from the property or from the sale of the property. Amounts shown for the properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

(j) Impairment of Long-Lived Assets

Long-term assets are reviewed when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

(k) Flow-through shares

Flow-through shares entitle a company that incurs certain mineral expenditures in Canada to renounce them for income tax purposes allowing the expenditures to be deducted for income tax purposes by investors who purchase the shares. The income tax benefits foregone are considered to constitute share issue costs and are recognized in capital stock with an offsetting increase to future income tax liability at the date that the exploration expenditures are renounced.

3. RECENT ACCOUNTING PRONOUNCEMENTS

(a) International Financial Reporting Standards ("IFRS")

In February 2008, the AcSB announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This change is effective for interim and annual financial statements of the Company for fiscal years beginning on September 1, 2011. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(b) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January, 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective for the Company beginning September 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination.

The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which replace Section 1600 "Consolidated Financial Statements".

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. These standards are effective for the Company beginning September 1, 2011, unless they are early adopted at the same time as Section 1582 "Business Combinations". The Company does not anticipate that the adoption of these sections will have a material effect on its financial statements.

(c) Equity

In August, 2009, Section 3251 Equity was issued in response to issuing Section 1602 non-controlling interests. The amendments require non-controlling interests to be recognized as a separate component of equity. The amendments apply only to entities that have adopted Section 1602. The adoption of this section is not expected to have a material impact on the financial statements.

(d) Comprehensive Revaluation of Assets and Liabilities

In August, 2009, Section 1625 Comprehensive Revaluation of Assets and Liabilities was issued for consistency with new Section 1582 Business Combinations. The amendments apply prospectively to comprehensive revelations of assets and liabilities occurring in fiscal years beginning on or after January 1, 2011. The adoption of this section is not expected to have a material impact on these financial statements.

4. CASH EQUIVALENTS

Cash equivalents consist of cash held with financial institutions and an investment in a redeemable investment account with interest at 1.00% per annum. At August 31, 2011, the fair value of the investment account was $7,579 (2010 - $110,859), the same as its carrying amount.

5. PREPAID EXPENSES AND DEPOSITS

	2011	**2010**
Advances to contractor for exploration work	$ 769,858	$ 78,025
Other prepaid expenses	2,798	2,699
	$ 772,656	$ 80,724

6. MINERAL PROPERTIES

(a) Rosy Property

During 2010, the Company entered into an Option Agreement with Atac Resources Ltd. ("Atac") whereby the Company acquired an option to earn a 50% interest in 90 claims in the Whitehorse Mining District, Yukon Territory, known as the Rosy Claims for:

i) $5,000 cash on execution of the agreement (paid);
ii) additional cash payments of $10,000 (paid), $15,000 and $20,000 on or before February 1, 2010, 2011 and 2012 respectively;
iii) incurring exploration expenditures of not less than $1,000,000 comprised of $300,000, $300,000 and $400,000 on or before December 31, 2010, 2011 and 2012, respectively, and;
iv) issuing Atac an aggregate of 1,500,000 shares in the capital of the Company comprised of 300,000 (issued), 500,000 and 700,000 shares on or before February 1, 2010, 2011 and 2012 respectively.

During 2010, the Company paid $15,000 and issued 300,000 shares at a fair value of $0.55 per share ($165,000), pursuant to the agreement and incurred exploration expenditures of $225,236 in fiscal 2010 and the first quarter of fiscal 2011. After considering results of this program, the Company abandoned its interest in the Rosy Property Option Agreement and wrote-off a total of $405,236 in 2011.

(b) Hopper Property

The Company entered into an Option Agreement ("the Option") with Strategic Metals Ltd., ("Strategic") whereby the Company acquired the option to acquire up to a 100% interest in 192 claims, comprising approximately 4,000 hectares located in the Whitehorse Mining District, Yukon Territory, known as the Hopper Property. The Hopper Property is located southwest of Whitehorse and is accessible from the Alaska Highway along the access to the Aishihik hydroelectric facility. The Company can earn its 100% interest as part of a three (3) phase programme as follows:

<u>Phase 1</u> - the Company will earn a 50% interest in the Hopper Property by: paying $50,000 (paid) within 10 days of the acceptance of the Option by the TSX - Venture Exchange and by paying $150,000, $300,000 and $500,000 on or before December 31, 2011, 2012 and 2013. In addition, the Company will be required to incur exploration expenditures of $700,000, $1,300,000 and $2,000,000 on or before December 31, 2011, 2012 and 2013 respectively;

<u>Phase 2</u> - the Company will earn a further 30% (80% total) interest in the Hopper Property by paying Strategic $1,000,000 each on or before December 31, 2014 and 2015 and by incurring further exploration expenditures of $3,000,000 and $7,000,000 on or before December 21, 2014 and 2015 respectively: and,

<u>Phase 3</u> - Upon completion of Phase 2, the Company shall have the option to acquire the remaining 20% of the Hopper Property by paying $5,000,000 to Strategic on or before March 31, 2016. Strategic retains the right, but not the obligation, to accept all or part of the final payment in shares of the Company and Strategic shall retain a 2% net smelter returns royalty.

During the year, the Company paid Strategic $50,000 and incurred exploration expenses in amount of $501,837.

6. MINERAL PROPERTIES (continued)

(c) Hooch Property

During the year, the Company has entered into an agreement with Strategic Metals Ltd. ("Strategic") to acquire an option to earn a 50% interest in 12 mineral claims located in the Whitehorse Mining District, Yukon Territory, know as the "Hooch" claims for the following consideration:

i) paying $5,000 (paid) on the execution of the agreement and $15,000, $30,000 and $50,000 on or before December 31, 2011, 2012 and 2013 respectively;
ii) incurring exploration expenditures totalling $30,000, $70,000 and $100,000 on or before December 31, 2011, 2012 and 2013 respectively.

On completion of the first option the Company has the option to earn a further 50% (100% total) interest in the Hooch claims for the payment of a further $875,000 in the increments of $125,000 on or before January 31, 2014 and $250,000 and $500,000 on or before December 31, 2014 and 2015 respectively. In addition, the Company will be required to make further exploration expenditures in the amounts of $500,000 and $600,000 on or before December 31, 2014 and 2015 respectively. Strategic will retain a 2% Net Smelter returns Royalty on the property.

	2011				2010
	Hooch $	Hopper $	Rosy $	Total $	(Rosy) $
Acquisition and holding costs					
Cash payments	5,000	50,000	-	55,000	15,000
Shares issued	-	-	-	-	165,000
Regulatory payments	1,000	1,000	-	2,000	-
	6,000	51,000	-	57,000	180,000
Deferred exploration costs					
Assays and testing	-	30,045	313	30,358	2,464
Camp costs	-	27,728	150	27,878	2,851
Consulting and engineering	-	22,697	1,275	23,972	10,140
Contract Labour	-	157,974	-	157,974	17,619
Drilling and site preparation	-	130,722	-	130,722	56,967
Equipment rental	-	73,669	-	73,669	93,057
Fuel	-	37,774	(671)	37,103	7,371
Legal and regulatory	-	-	-	-	250
Miscellaneous	-	13	32	45	2,310
Office and overhead	-	1,757	2,287	4,044	13,224
Reports, drafting and maps	-	3,863	-	3,863	3,000
Travel and accommodation	-	15,595	-	15,595	12,597
	-	501,837	3,386	505,223	221,850
Expended in year	6,000	552,837	3,386	562,223	401,850
Balance, beginning of year	-	-	401,850	401,850	-
Written-off in year	-	-	(405,236)	(405,236)	-
Balance, end of year	6,000	552,837	-	558,837	401,850

7. RELATED PARTY TRANSACTIONS AND BALANCES

The transactions below have been incurred in the normal course of operations and are measured at the exchange amounts, which are the amount of consideration agreed upon by the Company and the related parties

(a) During 2010, the Company was loaned $50,000 from an officer of the Company, which was part of the Qualifying Transaction. The promissory note, with interest at bank prime plus 3 percent was repaid on its anniversary date, during the year. The total amount repaid was $52,801. During the year, the Company incurred interest expense on the promissory note in the amount of $1,072 (2010 - $1,729).

(b) In January 2011 the Company agreed to pay its Chief Executive Officer and Chief Financial Officer $4,000 and $2,000 monthly respectively, effective January 1, 2011. The total payments made to private companies controlled by the two officers were $48,000, which is included in management fees.

(c) The Company was indebted to private companies controlled by the two officers in the amount of $21,920 (2010 - $nil) from the incurred but unpaid management fees. The amount is non-interest bearing, unsecured and due on demand.

8. SHARE CAPITAL

Authorized:
An unlimited number of common shares without par value.

Issued:

	Shares	Amount
Balance at August 31, 2009	6,237,839	$ 534,320
Agents Warrants exercised at $0.15	232,240	34,836
Fair value recovery - agents warrants	-	18,015
Issued for cash at $0.45 per share	812,334	365,550
Shares issued for mineral property	300,000	165,000
Share issue costs		(37,187)
Balance at August 31, 2010	7,582,413	$ 1,080,534
Stock options exercised at $0.15 per share	86,574	12,986
Transferred from contributed surplus upon exercise of options	-	9,902
Flow-through shares issued at $0.40 per share	3,000,000	1,200,000
Income tax recovery from flow-through	-	(330,120)
Share issue costs	-	(97,968)
Balance at August 31, 2011	10,668,987	$ 1,875,334

In 2010, the Company issued 812,334 units at $0.45 per unit by way of Private Placement, for cash consideration of $365,550. Each unit consisted of one common share and 1/2 share purchase warrant exercisable at a price of $0.55 per share until June 24, 2011. No fair value was assigned to the warrants upon issuance as they had no intrinsic value at the time of issuance. August 31, 2011 all 406,167 warrants were expired.

8. SHARE CAPITAL (continued)

During the year, the Company received $12,986 from the exercise of 86,574 stock options and issued 3,000,000 flow-through units consisting of one flow-through share and 1/2 non-flow-through share purchase warrants exercisable until December 30, 2011. The units were priced at $0.40 per share and the Company received $1,118,080 after broker commissions of $81,920. No fair value was assigned to the warrants upon issuance as they had no intrinsic value at the time of issuance. The Company was committed to spend $1,200,000 of qualifying Canadian Exploration Expenditures ("CEE") and renounced this amount to the shareholders. Of this amount the Company incurred $727,073 of CEE as of August 31, 2011 and had committed to incur the remaining approximately $472,927 of CEE by December 31, 2011. At August 31, 2011 all 1,500,000 warrants remained outstanding.

(a) Escrowed Shares

Pursuant to an escrow agreement dated August 27, 2007 the 3,733,339 shares then issued and outstanding were to be held in escrow and are to be released on a staged basis, with 10% to be released on the issuance of a final exchange bulletin by the TSX-V and 15% to be released every six months thereafter for a period of 36 months. Upon approval of the Qualifying Transaction and the issue of the exchange bulletin 10% or 373,331 shares were released from escrow in February 2010 and a further 15% or 560,000 shares were released in each of August 2010, February 2011 and August 2011. As at August 31, 2011 a total of 1,680,008 shares (2010 - 2,950,008) remained in escrow.

(b) Stock Options

The Company grants incentive stock options as permitted under the Company's Stock Option plan ("the Plan") as approved by the shareholders of the Company. The Plan has been structured to comply with the rules of the TSX-V. The aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of five years. If the optionee ceases to be qualified to receive options from the Company those options expire immediately. Stock options granted generally have varying expiry terms of up to five years and vesting periods determined at the discretion of the directors.

On June 22, 2010, the Company granted 50,000 stock options to a director of the Company vesting upon grant and exercisable at $0.45 per share on or before June 22, 2015. Stock based compensation of $19,877 was expensed in the year ended August 31, 2010.

In February, 2011, the Company granted a further 315,000 options exercisable at a price of $0.45 per share until February 8, 2016. Of the 315,000 options granted, 78,750 vested immediately, 78,750 vested on May 8, 2011, 78,750 vested on August 8, 2011 and the remaining 78,750 vest on November 8, 2011. In July 2011, the Company's CEO and CFO relinquished a total of 80,000 options that had been granted in February 2011. The Company recognized $32,987 in stock-based compensation for the fair value of the relinquished options.

The Company granted a further 150,000 options to consultants at a price of $0.30 exercisable until July 30, 2012. The options vest over a period of one year, with 37,500 options vesting on four dates: October 20, 2011, January 20, 2012, April 20, 2012 and July 20, 2012. The Company expensed a total of $94,969 in stock-based compensation during the year calculated using the Black-Scholes model.

8. SHARE CAPITAL (continued)

(b) Stock Options (continued)

	Number of Options	Weighted average exercise price in $ per share
Balance at August 31, 2008 and 2009	623,334	$ 0.15
Granted	50,000	0.45
Balance at August 31, 2010	673,334	$ 0.17
Exercised	(86,574)	0.15
Granted	465,000	0.40
Cancelled	(80,000)	0.45
Balance at August 31, 2011	971,760	$0.26

The following table summarizes stock options outstanding and exercisable at August 31, 2011:

	Options Outstanding			Options Exercisable	
Exercise Price in $	Weighted Average Remaining Contractual Life (years)	Number of Shares	Weighted Average Exercise Price in $	Number Exercisable	Weighted Average Exercise Price in $
0.15	0.96	536,760	0.15	536,760	0.15
0.30	3.81	50,000	0.30	50,000	0.30
0.40	4.44	235,000	0.40	176,250	0.40
0.30	0.92	150,000	0.30	-	-
	1.94	971,760	0.26	763,010	0.24

At August 31, 2011, the weighted average remaining contractual life of these options was 1.94 years (2010 – 2.17 years).

During the year ended August 31, 2011, the Company recognized compensation cost of $127,956 (2010 - $19,877) as stock-based compensation expense and credited to contributed surplus.

Stock-based compensation was calculated by using the Black-Scholes Option Pricing Model with the following weighted average assumptions during the year:

	2011	2010
Weighted average risk-free interest rate	1.98%	2.65%
Expected life	2.98 years	5 years
Weighted average expected volatility	114%	137%
Expected dividends	Nil	Nil

The weighted average grant date fair value of options granted during the year ended August 31, 2011 was $0.27 (2010 - $0.40).

8. SHARE CAPITAL (continued)

(c) Contributed Surplus

Balance at August 31, 2009	$ 89,309
Stock-based compensation expense	19,877
Transferred on exercise of agent's warrants	(18,015)
Balance at August 31, 2010	$ 91,171
Transferred to share capital on exercise of options	(9,902)
Stock-based compensation expense (Note 8(b))	127,956
Balance at August 31, 2011	$ 209,225

9. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

	2011	2010
Combined statutory tax rate	27.17%	29.00%
Income tax recovery at statutory rate	$ 171,108	$ 42,484
Non-deductible expenses and other items	(99,323)	(5,764)
Flow-through shares renounced	192,859	–
Reduction in income tax rates	(2,050)	(623)
Change in valuation allowance	67,526	(36,097)
Future income tax recovery	$ 330,120	$ –

Significant components of the Company's future income tax assets and liabilities are shown below:

	2011	2010
Non-capital loss carry forwards	$ 101,021	$ 64,040
Incorporation costs	139	149
Share issue costs	31,239	10,277
Mineral properties	(125,459)	–
Total gross future income tax asset	6,940	74,466
Valuation allowance	(6,940)	(74,466)
Net future income tax asset	$ –	$ –

As at August 31, 2011, the Company has approximately, $404,082 of non-capital losses carried forward available to reduce taxable income for future years. The loss carry forwards expire commencing 2007 through 2031, if unused.

In assessing the realizability of future income tax assets, management considers whether it is more likely than not that some portion of the future tax assets will not be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, 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. The Company's principal source of funds is advances from related parties and the issuance of share capital.

Management considers shareholders' equity and amounts payable to related parties as capital as follows:

	2011	**2010**
Shareholders' equity	$ 1,516,984	$ 903,777
Note payable to related party (Note 7(a))	-	51,729
Amount payable to related parties (Note 7(c))	21,920	-
	$ 1,538,904	$ 955,506

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 while minimizing dilution for its existing shareholders.

The Company's investment policy is to invest its cash in financial instruments in high credit quality financial institutions with terms to maturity selected to match the expected timing of expenditures from continuing operations.

11. FINANCIAL INSTRUMENTS

CICA 3862, Financial Instruments - Disclosures, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. CICA 3862 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

Financial assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of August 31, 2011 are as follows:

11. FINANCIAL INSTRUMENTS (continued)

	Fair Value Measurements Using			
	Quoted Prices in Active Markets For Identical Observable Instruments Level 1 $	Significant Other Unobservable Inputs (Level 2) $	Significant Inputs (Level 3) $	Balance as of August 31, 2011 $
Cash and cash equivalents	136,741	-	-	136,741

At August 31, 2011, there are no financial liabilities measured at fair value on a recurring basis presented on the Company's balance sheet.

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

As at August 31, 2011, the Company's financial instruments consist of cash and cash equivalents, accounts payable and amounts owing to related parties. The fair values of these financial instruments approximate their carrying values because of the short-term nature of those instruments.

The following table summarizes information regarding the carrying values of the Company's financial instruments:

	2011 $	**2010** $
Held for trading (i)	136,741	466,746
Other financial liabilities (ii)	33,532	66,308

(i) Cash and cash equivalents
(ii) Accounts payable, amounts owing to related parties and note payable to a related party

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's primary counterparties related to its cash and cash equivalent investment grade ratings as assessed by external rating agencies. The Company maintains a majority of its cash with financial institutions domiciled in Canada. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. There is ongoing review to evaluate the creditworthiness of these counterparties.

The Company is not exposed to significant credit risk because the Company's only significant financial investment is comprised of cash on deposit with a Canadian Chartered Bank.

11. FINANCIAL INSTRUMENTS (continued)

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 manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term administrative expenditures by raising additional funds through share issuance and acquiring short term loans from related parties when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed commercial paper.

Foreign Exchange Risk

During the year ended August 31, 2011, the Company incurred expenses primarily in Canada. The Company does not have significant foreign exchange risk.

Interest Rate Risk

The Company's cash equivalents are subject to interest rate risk. The Company's interest rate risk management policy is to purchase highly liquid investments with terms to maturity of three months or less on the date of purchase or redeemable at the option of the Company. The Company does not engage in any hedging activity. A 1% change in interest rates would not have significant impact on interest income and expense.

12. COMMITMENT

On July 15, 2011, the Company entered into an agreement with IBK Capital Corp. ("IBK Capital") to assist in completing a private placement for the Company of up to $2.6 million of units of common shares and common share purchase warrants. The Company has incurred $28,500 in non-refundable fees as a part of the agreement with IBK Capital, which have been recognized as deferred financing costs at August 31, 2011. The Company is committed to paying IBK Capital a commission of 9% of the total amount of proceeds and issuing warrants equal to 10% of the total number of units issued by the Company. As of August 31, 2011, no financing has been raised.

13. SUBSEQUENT EVENTS

a) On September 6, 2011, the Company obtained an unsecured short term loan from its CEO for $65,000. The loan bears interest at bank prime plus 3% per annum and is due on September 6, 2012.

b) On December 16, 2011, the Company announced completion of a non-brokered private placement of 1,100,000 common shares at the subscription price of $0.20 per share for a gross proceeds of $220,000. The common shares sold are subject to a four-month hold period expiring April 17, 2012. There were no finders' fees paid.

14. COMPARATIVE FIGURES

Certain of the 2011 and 2010 figures have been reclassified to conform to the 2011's presentation. Such reclassification is for presentation purposes only and has no effect on previous results.