KOKANEE MINERALS INC.

FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

SEPTEMBER 30, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kokanee Minerals Inc.

We have audited the accompanying financial statements of Kokanee Minerals Inc. which comprise the balance sheet as at September 30, 2011 and the statements of loss, comprehensive loss and deficit and cash flows for the year 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 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 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 auditors' 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 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 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 Kokanee Minerals Inc. as at September 30, 2011 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

NEXIA INTERNATIONAL

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Restated Comparative Information

The financial statements of Kokanee Minerals Inc. for the year ended September 30, 2010 (prior to the restatement of the comparative information resulting from a change in accounting policy as described in Note 3 to the financial statements) were audited by another auditor who expressed an unmodified opinion on those statements on March 15, 2011.

As part of our audit of the financial statements of Kokanee Minerals Inc. for the year ended September 30, 2011, we also audited the adjustments described in Note 3 that were applied to restate the financial statements for the year ended September 30, 2010. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the financial statements of Kokanee Minerals Inc. for the year ended September 30, 2010 other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the financial statements for the year ended September 30, 2010 taken as a whole.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

January 25, 2012

KOKANEE MINERALS INC.
BALANCE SHEETS
(Expressed in Canadian dollars)
AS AT SEPTEMBER 30

	2011	2010 (restated – Note 3)
ASSETS		
Current		
Cash	$ 259,782	$ 55,946
Prepaid expenses	-	45
Exploration advances (Note 4)	-	200,961
Receivables	4,000	-
	263,782	256,952
Deferred financing costs (Note 14)	71,784	-
Resource property interests (Note 5)	-	93,591
Reclamation claim deposit (Note 5)	-	11,635
	$ 335,566	$ 362,178
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	$ 511,244	$ 757,547
Notes payable (Note 6)	265,883	-
	777,127	757,547
Shareholders' deficiency		
Share capital (Note 8)	4,079,851	1,449,018
Share subscriptions received in advance (Note 14)	257,450	-
Contributed surplus (Note 8)	215,622	268,069
Deficit	(4,994,484)	(2,112,456)
	(441,561)	(395,369)
	$ 335,566	$ 362,178

Nature of operations and going concern (Note 1)
Commitment (Note 13)
Subsequent events (Note 14)

On behalf of the Board:

"Michelle Gahagan" Director — Michelle Gahagan

"John Jardine" Director — John Jardine

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

KOKANEE MINERALS INC.
STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT
(Expressed in Canadian dollars)
YEAR ENDED SEPTEMBER 30

	2011	2010 (restated - Note 3)
OPERATING EXPENSES		
Consultant fees	$ 14,464	$ 2,750
Interest expense	31,128	15,809
Investor relations	52,455	35,901
Management fees	131,660	19,215
Office expenses	14,201	1,074
Professional fees	153,427	74,314
Resource property exploration (Note 5)	1,128,975	659,375
Securities filings	35,823	18,938
Stock-based compensation (Note 8)	374,811	181,523
Travel	25,920	19,419
Loss before other items	(1,962,864)	(1,028,318)
OTHER ITEMS		
Exploration advances written-off (Note 4)	(813,938)	-
Resource property interest written-off (Note 5)	(93,591)	(110,094)
Reclamation claim deposit written-off (Note 5)	(11,635)	-
	(919,164)	(110,094)
Loss and comprehensive loss for the year	(2,882,028)	(1,138,412)
Deficit, beginning of year	(2,112,456)	(548,605)
Adjustment for change in accounting policy (Note 3)	-	(425,439)
Deficit, beginning of the year, restated	(2,112,456)	(974,044)
Deficit, end of year	$ (4,994,484)	$ (2,112,456)
Loss per share – basic and diluted	$ (0.10)	$ (0.07)
Weighted average shares outstanding	27,891,336	16,410,473

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

KOKANEE MINERALS INC.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
YEAR ENDED SEPTEMBER 30

	2011	2010 (restated - Note 3)
OPERATING ACTIVITIES		
Loss for the year	$ (2,882,028)	$ (1,138,412)
Non-cash items:		
Stock-based compensation	374,811	181,523
Resource property interests written-off	93,591	110,094
Exploration advances written-off	813,938	-
Reclamation claim deposit written-off	11,635	-
Interest accreted	15,694	-
Changes in non-cash working capital:		
Increase in exploration advances	(612,977)	(200,961)
Increase in prepaid expenses	(45)	-
Increase in receivables	(4,000)	-
Increase (decrease) in accounts payable and accrued liabilities	(277,274)	174,677
Net cash used in operating activities	(2,466,565)	(873,079)
FINANCING ACTIVITIES		
Issue of common shares	2,188,585	1,200,000
Share issue costs	(34,821)	(219,439)
Share subscriptions received in advance	257,450	-
Deferred financing costs	(40,813)	53,572
Proceeds from notes payable	300,000	-
Net cash provided by financing activities	2,670,401	1,034,133
INVESTING ACTIVITIES		
Resource property interests	-	(93,591)
Reclamation claim deposit	-	(11,635)
Net cash used in investing activities	-	(105,226)
Increase in cash	203,836	55,828
Cash, beginning of year	55,946	118
Cash, end of year	$ 259,782	$ 55,946
Supplemental information:		
Shares issued for resource property interests	$ -	$ 45,000
Shares issued for interest payment	49,811	-
Shares issued for finders' fees	37,500	15,499
Warrants issued to agent	-	86,546
Deferred financing fees included in accounts payable and accrued liabilities	30,971	-
Fair value of options and warrants exercised	427,258	
Cash paid for:		
Interest expense	$ -	$ 18,636
Income taxes	-	

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Kokanee Minerals Inc. (the "Company") was incorporated under the Business Corporations Act of British Columbia on August 25, 2005. The company is in the business of acquiring and exploring mineral properties and has not yet generated revenues from operations. Accordingly, the Company is considered to be an enterprise in the exploration stage. On January 19, 2010, the Company's common shares were listed for trading on the TSX Venture Exchange ("TSX-V") (trading symbol KOK).

These financial statements have been prepared on a going concern basis which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

As at September 30, 2011 and 2010, the Company had a working capital deficiency of $513,345 (2010: $500,595) and a deficit of $4,994,484 (2010: $2,112,456). The Company is in the process of exploring and evaluating its mineral property interest. The Company presently has no proven or probable reserves identified and on the basis of information to date, has not yet determined whether it's mineral property interest contains economically recoverable resources. The recoverability of the amounts shown for resource property interests is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the property, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production or proceeds from disposition of the mineral properties. The outcome of these matters cannot be predicted at this time.

If the going concern assumption was not appropriate for these financial statements then adjustments would be necessary to the carrying value of assets and liabilities, the reported expenses and the balance sheet classifications used and such amounts would be material.

The Company raised additional financing subsequent to year end (Note 14) and accordingly estimates it will have sufficient capital to continue operations for the upcoming year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of mineral interests' assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates are the determination of impairment of resource property interests, future income taxes, fair value determinations of financial instruments, stock-based transactions and non-monetary transactions. Actual results could differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instrument - recognition and measurement

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 classifies its financial instruments as follows:

- Cash is classified as "held-for-trading" and is measured at fair value with any changes in fair value recognized in operations.

- Accounts payable and accrued liabilities, notes payable and due to related parties are classified as "other financial liabilities" and are measured at amortized costs which management has determined approximates fair value due to their short term nature.

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 in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity from transactions and other events from non-owner sources. Certain gains and losses not normally included in net income or loss, such as unrealized gains and losses related to available for sale securities and gains and losses resulting from the translation of self-sustaining foreign operations, are included in a statement of comprehensive income.

The presentation of comprehensive income and its components are to be included in a separate financial statement that is displayed with the same prominence as the other financial statements. The presentation of "accumulated other comprehensive income" in the shareholders' equity section of the balance sheet is not required as the Company has had no other comprehensive income or loss transactions from inception.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Translations of foreign currency

The accounts of the Company are measured using the Canadian dollar as the functional currency. Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Monetary items denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date and non-monetary items are translated using historical exchange rates. Exchange gains or losses arising on the transaction or settlement of foreign currency denominated monetary items are included in the determination of net loss.

Resource property interests

Mineral property exploration costs, incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development, are charged to operations as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Mineral property acquisition costs are capitalized and include cash consideration and the fair value of common shares and warrants issued for mineral property interests. These costs are amortized over the estimated life of the property following commencement of commercial production. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For property acquired under an option agreement or by joint venture, where payments are made at the sole discretion of the Company, payments are recorded in the accounts at the time of payment.

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

During fiscal 2011, the Company changed its accounting policy on mineral properties.

Asset retirement obligations

Asset Retirement Obligations applies to potential statutory, regulatory, or civil obligations associated with the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. A liability for an asset retirement obligation is recognized in the period in which a reasonable estimate and a corresponding asset retirement cost should be recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost would be recognized over the expected life of the asset. Management has reviewed the Company's long-lived assets for known or expected obligations. These financial statements do not include any adjustments related to asset retirement obligations. Any future retirement costs will be recognized on a systematic basis when determinable and quantifiable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Impairment of long-lived assets

The Company reviews the carrying value of long-lived assets whenever events or changes in circumstances occur that would indicate impairment. Carrying value is assessed by management with reference to the estimated recoverable value based on factors including, estimated undiscounted and discounted future cash flows, financial operating conditions, obsolescence and value in use. Should management determine that the carrying value of an asset or group of assets is determined to be impaired in value, an impairment charge is recorded in the period so determined.

Stock-based compensation

The Company measures all stock-based awards using a fair value method. Awards granted with vesting provisions are recognized over the expected vesting period. The fair value of options and other stock-based awards issued or altered in the period, are determined using an option pricing model. Upon the exercise of stock options or warrants, the fair value of the share based award is allocated from contributed surplus to share capital.

Share issue costs and warrants

Costs associated with the issuance of shares are charged directly to share capital. Proceeds received on issuance of units, consisting of common shares and warrants, are allocated entirely to common shares.

Administrative costs

Administrative costs not directly related to resource properties are recognized as period costs and are expensed in the period incurred.

Deferred financing costs

Deferred financing costs are recognized in connection with proposed corporate transactions which are specifically identified in that the form of equity issuances is known and completion of the transaction is probable. As the corporate transactions are recognized, the deferred financing costs are allocated to the carrying value of equity recognized. Deferred financing costs include only those costs which are incremental and directly attributable to the proposed corporate transaction. In the event that the transaction is abandoned, previously capitalized deferred financing costs are expensed through the statement of operations.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income assets and liabilities are determined based on differences between the financial statements carrying amounts of existing assets and liabilities and their respective income tax bases (temporary difference) and are measured using enacted or substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. Future tax benefits, such as non-capital loss carry forwards, are recognized if realization of such benefits is considered more likely than not and the Company provides a valuation allowance against the excess.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Loss per share

Basic loss per share is computed by dividing the income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the income (losses) incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

Comparative figures

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

Recent accounting pronouncements

International financial reporting standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its December 31, 2011 interim financial statements. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ended September 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.

Business combinations

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These new standards are harmonized with IFRS. Section 1582 specifies a number of changes, including: an expanded definition of a business, a requirement to measure all business acquisitions at fair value, the use of the date of exchange as the measurement date, the requirement to measure non-controlling interests at fair value and a requirement to recognize acquisition related costs that are not capital in nature as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. The new standards will become effective in 2011 but early adoption is permitted.

3. CHANGE IN ACCOUNTING POLICY

On October 1, 2010, the Company changed its accounting policy for mineral property exploration expenditures. In prior years, the Company capitalized the acquisition cost of mineral properties and deferred mineral property exploration expenditures directly related to specific mineral properties, net of recoveries received.

Under the new policy, mineral property exploration expenditures incurred prior to the determination of the feasibility of mining operations and prior to a decision to proceed with development are charged to operations as incurred.

(Expressed in Canadian dollars)

3. CHANGE IN ACCOUNTING POLICY (cont`d…)

Development expenditures incurred subsequent to a development decision and to increase or extend the life of existing production are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Management considers this policy change provides more relevant information because of the nature of the expenditures.

The impact of this change was to decrease mineral properties and increase the deficit by $425,439 for the year ended September 30, 2009 and to decrease mineral properties by $334,974, increase the deficit by $334,974 and increase the loss by $334,974 or $0.01 per share for the year ended September 30, 2010. The total effect of this change in accounting policy was to decrease mineral properties and increase the deficit by $334,974 as at September 30, 2010.

4. EXPLORATION ADVANCES

The amount represents advances to contractors that are responsible for the exploration of resource property interests. All exploration advances were written off as at September 30, 2011.

5. RESOURCE PROPERTY INTERESTS

There are inherent risks associated with title to mineral properties due to the difficulty of determining the validity of claims, as well as the potential for problems to arise from the frequently ambiguous conveyance history characteristic of mineral properties. The Company has investigated title to its resource property interests and, to the best of its knowledge, title to its resource property interests are in good standing.

Schedule of resource property interests for the year ended September 30, 2011 is as follows:

	Tanzania Jackson Gold Project 5(a)	Tanzania Morogoro 5(b)	Tanzania Handeni 5(c)	Total
Acquisition costs				
Balance, September 30, 2010	$ 93,591	$ -	$ -	$ 93,591
Additional costs	-	-	-	-
Total acquisition costs, September 30, 2011	93,591	-	-	93,591
Resource property interest written-off	(93,591)	-	-	(93,591)
Resource property interest, September 30, 2011	$ -	$ -	$ -	$ -

(Expressed in Canadian dollars)

5. RESOURCE PROPERTY INTERESTS (cont'd…)

Schedule of resource property interests for the year ended September 30, 2010 is as follows:

	Diamond Peak Property 5(d)	Tanzania Jackson Gold Project 5(a)	Total
Acquisition costs			
Balance, September 30, 2009	$ 65,094	$ -	$ 65,094
Additional cost	45,000	93,591	138,591
Total acquisition costs, September 30, 2010	110,094	93,591	203,685
Resource property interest written-off	(110,094)	-	(110,094)
Resource property interest, September 30, 2010	$ -	$ 93,591	$ 93,591

Schedule of resource property exploration for the year ended September 30, 2011 is as follows:

	Tanzania Jackson Gold Project 5(a)	Tanzania Morogoro 5(b)	Tanzania Handeni 5(c)	Total
Exploration costs				
Consulting fees	$ -	$ 155,896	$ 129,764	$ 285,660
Drilling and exploration fees	-	5,500	22,623	28,123
Equipment rental	305,285	-	-	305,285
Field crew and related expenses	-	88,750	153,859	242,609
Geological	-	7,000	76,250	83,250
Insurance and permits	-	-	8,604	8,604
Supplies and miscellaneous	9,353	7,100	14,248	30,701
Travel and accommodation	60,745	13,753	70,245	144,743
Resource property exploration, September 30, 2011	$ 375,383	$ 277,999	$ 475,593	$ 1,128,975

(Expressed in Canadian dollars)

5. RESOURCE PROPERTY INTERESTS (cont'd…)

Schedule of resource property interests for the year ended September 30, 2010 is as follows:

	Diamond Peak Property 5(d)	Tanzania Jackson Gold Project 5(a)	Total
Exploration costs			
Consulting fees	$ 24,400	$ 33,000	$ 57,400
Drilling and exploration fees	184,720	102,180	286,900
Insurance and permits	23,344	-	23,344
Maintenance	21,233	-	21,233
Option and lease	55,565	75,000	130,565
Supplies and miscellaneous	-	99,801	99,801
Travel and accommodation	15,139	24,993	40,132
Resource property exploration, September 30, 2010	$ 324,401	$ 334,974	$ 659,375

a) Jackson Gold Project, Bulyanhulu-Geita area of Tanzania

On September 7, 2010, the Company entered into an option agreement to acquire 51% interest for US$375,000 payable in instalments (US$75,000 paid). Upon completion, the Company could purchase up to an additional 29% interest in the property and thereafter an additional 15% interest for specified payments of cash and issuances of shares.

As of September 30, 2011, management decided to discontinue the exploration on the property. The Company has recorded a write-off of $93,591 for the year ended September 30, 2011.

b) Morogoro area of Tanzania

On May 2, 2011, the Company entered into an option agreement with companies owned by a former common director to acquire for an 80% interest in a prospective property in the Morogoro area of east central Tanzania (the "MEG South Property") for payments of $2,000,000 over three years, the issuance of 1,200,000 common shares and an exploration work commitment of $3,500,000 to be expended over the next five years to be incurred as follows:

(Expressed in Canadian dollars)

5. RESOURCE PROPERTY INTERESTS (cont'd…)

b) Morogoro area of Tanzania (cont'd...)

	Acquisition in Cash	Acquisition in Shares	Exploration Work Commitments (Note 13)
Within 5 business days of written approval of this Agreement by the TSX-V	$ 500,000	1,200,000	$ -
October 7, 2012	500,000	-	350,000
October 7, 2013	500,000	-	525,000
October 7, 2014	500,000	-	525,000
October 7, 2016	-	-	2,100,000
Total	$ 2,000,000	1,200,000	$ 3,500,000

On October 7, 2011, the Company received the regulatory approval.

Upon the Company exercising its option to acquire an 80% interest, it will be granted a second option to acquire some or all of the remaining 20% interest, subject to a 2% net smelter return royalty ("NSR") at a cost of $3,000,000 for each additional 5%. If the Company acquires the additional 20% interest as described above, it shall be entitled to an option to repurchase up to 1% of the 2% NSR held by the optionor by payment of $750,000 for each 0.5% NSR purchased.

c) Handeni area of Tanzania

On May 2, 2011, the Company entered into an option agreement with companies owned by a former director to acquire an 80% interest in a prospective property in the Handeni area of Tanzania (the "Handeni North 500 Property") for cash payments of $3,000,000 over three years, the issuance of 1,500,000 common shares and an exploration work commitment of $6,500,000 to be expended over the next five years to be incurred as follows:

	Acquisition in Cash	Acquisition in Shares	Exploration Work Commitments (Note 13)
Within 5 business days of written approval of this Agreement by the TSX-V	$ 500,000	1,500,000	$ -
October 7, 2012	500,000	-	650,000
October 7, 2013	1,000,000	-	975,000
October 7, 2014	1,000,000	-	975,000
October 7, 2016	-	-	3,900,000
Total	$ 3,000,000	1,500,000	$ 6,500,000

5. RESOURCE PROPERTY INTERESTS (cont'd…)

c) Handeni area of Tanzania (cont'd...)

On October 7, 2011, the Company received the regulatory approval.

When the Company exercises its option to acquire an 80% interest, it will be granted a second option to acquire some or all of the remaining 20% interest subject to a 2% NSR at a cost of $6,250,000 for each additional 5%. If the Company acquires the additional 20% interest described above, it will be entitled to an option to repurchase up to 1% of the 2% NSR held by the optionor, by payment of $750,000 for each 0.5% NSR purchased.

d) Diamond Peak Property, Eureka County Nevada, United States

In January 2007, the Company entered into an option agreement to acquire an interest in the Diamond Peak Property located in Eureka County, Nevada consisting of certain unpatented mining claims.

The Company provided bonds amounting to $Nil (2010: $11,635) as a reclamation deposit. The bonds were determined to be uncollectible and were written off as at September 30, 2011.

As of September 30, 2010, management decided to discontinue the exploration on the property as the assay results on the samples were of no commercial value. The Company recorded a write-off of $110,094 for the year ended September 30, 2010.

6. NOTES PAYABLE

On May 13th, 2011, the Company issued notes payable for proceeds of $300,000, of which $150,000 was from a director, bearing interest at 10% per annum payable in cash. A loan bonus of 226,414 common shares was issued at a value of $49,811 to the lenders which offset the notes payable resulting in an effective rate of interest of approximately 27%. The loan bonus is accreted to interest over the term of the loan (2011: $15,694; 2010: $Nil).

7. RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company has entered into certain related party transactions which have been measured at the respective exchange amounts, being the consideration established and agreed by the related parties as follows:

(a) paid or accrued management fees of $66,600 (2010: $37,800) to a director and a company owned by a director;

(b) paid or accrued management fees of $65,000 (2010: $Nil) to a director and a company controlled by a director;

(Expressed in Canadian dollars)

7. RELATED PARTY TRANSACTIONS (cont'd…)

(c) paid or accrued investor relations of $41,455 (2010: $117,700) to directors;

(d) paid or accrued resource property exploration costs and exploration advances of $1,265,103 (2010: $754,500) to a company owned by a former director; and

(e) paid or accrued interest of $12,573 (2010: $Nil) to a director and $1,566 (2010: $6,868) to a former director.

Included in accounts payable and accrued liabilities as September 30, 2011 is $141,380 (2010: $288,245) due to directors and a company controlled by a common director and $209,949 (2010: $156,619) due to a former director or a company owned by the former director, of which $120,263 bears interest at 5% per annum.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized – unlimited common shares without par value

b) Issued and outstanding:

		Number of Shares	Amount	Contributed Surplus
Balance as at September 30, 2009		10,470,588	$ 510,003	$ -
Shares issued for initial public offering	*i).*	8,000,000	1,200,000	-
Shares issued for property acquisition	*ii).*	300,000	45,000	-
Shares issued for underwriter commission		103,325	15,499	-
Share issue costs		-	(321,484)	86,546
Stock-based compensation		-	-	181,523
Balance as at September 30, 2010		18,873,913	1,449,018	268,069
Shares issued for private placement	*i).*	7,443,332	1,116,500	-
Shares issued for finder fees	*i).*	250,000	37,500	-
Shares issued for options exercised	*ii).*	3,354,283	1,157,122	(388,551)
Shares issued for warrants exercised	*iii).*	1,607,017	342,221	(38,707)
Shares issued for loan bonus	*iv).*	226,414	49,811	-
Share issue costs		-	(72,321)	-
Stock-based compensation		-	-	374,811
Balance as at September 30, 2011		31,754,959	$ 4,079,851	$ 215,622

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

b) Issued and outstanding: (cont'd...)

In fiscal year 2011:

i) In December 2010, the Company issued 7,443,332 units for total proceeds of $1,116,500. Each unit consists of one common share of the Company and one share purchase warrant having a two-year term for the purchase of one further common share of the Company in the first year the exercise price of $0.20 per shares after first year the exercise price is $0.25 per share. Finders' fees paid consisted of $22,050 in cash and 250,000 shares value at $37,500.

ii) As of September 30, 2011, a total of 3,354,283 options were exercised for gross proceeds of $768,571.

iii) As of September 30, 2011, a total of 1,607,017 warrants were exercised for gross proceeds of $299,514.

iv) On September 20, 2011, the Company issued 226,414 common shares as loan bonuses with a value of $49,811 (Note 6).

In fiscal year 2010:

i) On January 15, 2010, the Company issued 8,000,000 units of the Company at a price of $0.15 per unit for gross proceeds of $1,200,000 in respect of its Initial Public Offering. Each unit will consist of one common share and one additional share purchase warrant to purchase one additional common share for a period of five years for an exercise price of $0.20 per common share during the first two years of the term and at $0.25 per common share during the last three years of the term. The Company paid the underwriter $104,501 in cash and 103,325 in units, valued at $15,499. Each unit consists of one common share and one purchase warrant; each warrant entitles to purchase one common share at price of $0.20 per share for the first two years and $0.25 for the remaining three years. In connection of the public offering, the Company also paid $114,938 cash for the related legal fees and disbursements and granted 800,000 agent warrants, valued at $86,546. Each warrant is exercisable at an exercise price of $0.15 per common share for a period of five years.

ii) On January 15, 2010, a total of 300,000 shares were issued at $0.15 per share at a value of $45,000 to acquire the Diamond Peak Property claims located in Eureka County Nevada.

c) Stock options outstanding:

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, employees and consultants. The Company has implemented a fixed Stock Option Plan (the "Plan") whereby the Company has reserved 10% of the issued shares for issuance under the Plan. Options have a maximum term of five years and terminate after a certain number of days following the termination of the optionee's term/employment, except in the case of death, in which case they terminate one year after the event. Vesting is determined by the Board of Directors.

(Expressed in Canadian dollars)

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

c) Stock options outstanding: (cont'd...)

As of September 30, 2011, the following options were outstanding:

Expiry Date	Outstanding	Price
November 24, 2014	94,370	$ 0.25
December 3, 2015	1,050,000	0.21
	1,144,370	

A summary of the Company's stock options is presented below:

	Number of Outstanding Options	Weighted Average Exercised Price
Balance, September 30, 2009	-	$ -
Granted	1,887,392	0.25
Balance, September 30, 2010	1,887,392	0.25
Granted	2,800,000	0.21
Exercised	(3,354,283)	0.23
Forfeited	(188,739)	0.25
Balance, September 30, 2011 – outstanding and exercisable	1,144,370	0.21

d) Share purchase warrants outstanding:

As of September 30, 2011, the following warrants were outstanding:

Expiry Date	Outstanding	Price
January 15, 2015	6,854,100	0.20 (i)
January 15, 2015	442,208	0.15
October 8, 2013	7,443,332	0.20 (ii)
	14,739,640	

(i) The exercise price of these warrants is $0.20 in the first two years and $0.25 for the remaining three years.
(ii) The exercise price of these warrants is $0.20 in the first year and $0.25 for the remaining one year.

(Expressed in Canadian dollars)

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

d) Share purchase warrants outstanding: (cont'd...)

A summary of the Company's warrants is presented below:

	Number of Outstanding Warrants	Weighted Average Exercised Price
Balance, September 30, 2009	-	$ -
Granted	8,903,325	0.20
Balance, September 30, 2010	8,903,325	0.20
Granted	7,443,332	0.20
Exercised	(1,607,017)	0.19
Balance, September 30, 2011	14,739,640	$ 0.20

e) Stock-based compensation

During the year ended September 30, 2011, the Company granted 2,800,000 (2010: 1,887,392) stock options with a fair value of $374,811 (2010: $181,523), or $0.09 (2010 - $0.10) per option.

The options and compensatory warrants were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2011	2010
Risk free interest rate	2.44%	2.70%
Expected dividend yield	-	-
Stock price volatility	128%	93%
Expected life of options	1 year	5 years

f) Escrow shares

As at September 30, 2011, 3,406,763 (2010: 7,570,588) common shares were held in escrow.

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:

(Expressed in Canadian dollars)

9. INCOME TAXES (cont'd…)

The net loss for accounting purposes differs from the taxable income as follows:

	2011	2010
Loss before income taxes	$ (2,882,028)	$ (1,228,877)
Expected income tax recovery	(778,148)	(354,838)
Non-deductible items	101,874	-
Deductible items	(20,971)	-
Tax benefits not recognized	278,164	354,838
Change in valuation allowance	419,081	-
Future income tax recovery	**$** -	$ -

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

	2010	2010
Future income tax assets:		
Non-capital losses	$ 322,000 **$**	$ 217,350
Deferred financing costs (share issue costs)	44,000	74,263
Resource property interest (Note 4)	593,000	248,306
	959,000	539,919
Valuation allowance	(959,000)	(539,919)
	$ -	**$** -

As at September 30, 2011, the Company has non-capital losses carry forward for income tax purposes of approximately $1,287,000 which may be deducted against future years' taxable income expiring through to 2031.

The Company has mineral exploration and development expenditures of approximately $2,371,000 (2010 - $1,318,497) available to reduce certain types of taxable income of future years.

10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT

Fair value measurement

The fair value of cash was determined using level 1 of the fair value hierarchy. The carrying values of receivables and accounts payable and accrued liabilities and notes payable approximate their fair values due to the short-term maturity of these financial instruments.

10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont'd...)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company has significant financial liabilities outstanding including accounts payable and accrued liabilities and loan payable. The Company is exposed to the risk that it may not have sufficient liquid assets to meet its commitments associated with these financial liabilities. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity transactions.

Credit risk

Credit risk reflects the risk that the Company may be unable to fulfill its payment obligations and is primarily attributable to interest on its cash balance. Cash is held with a reputable Canadian financial institution, from which management believes the risk of loss to be minimal.

Market Risks

i) Other Price Risk

The ability of the Company to finance the exploration and development of its properties and the future profitability of the Company is directly related to the market price of the primary minerals identified in its mineral properties. Mineral prices fluctuate on a daily basis and are affected by a number of factors beyond the Company's control. A sustained, significant decline in the prices of the primary minerals could have a negative impact on the Company's ability to raise additional capital. Sensitivity to price risk is remote since the Company has not established any reserves or production.

ii) Currency Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's mineral properties are located in the Tanzania with the majority of related expenditures being conducted in US currency. The Company is exposed to moderate currency risk as a result of fluctuations in the US dollar.

iii) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Interest rate risk is minimal as the Company does not have any interest bearing assets or any interest bearing liabilities that are tied into market rates.

10. FINANCIAL INSTRUMENTS RISK EXPOSURE AND MANAGEMENT (cont`d...)

iv) Political Risk

The Company performs its main exploration activities in Tanzania. The overall political climate differs significantly between countries, as do the limitations on business activity, assets expropriation and confiscation rules, monetary systems and their potential negative changes, and the potential for other crisis factors due to government policy. There is a possibility that new trade barriers may be established, which could have a negative impact on our exploration operations. Political risks also include potential conflicts, terrorist acts, social unrest, and the introduction of a state of emergency. All these might influence our exploration activities – and although none of them has directly affected our business so far, they could have an adverse effect on our business, financial condition, and the results of our explorations.

11. SEGMENTED INFORMATION

The Company operates in a single reportable operating segment, the acquisition and exploration and development of mineral property interests. All of the Company’s capital assets are located in Tanzania.

12. MANAGEMENT OF CAPITAL

The Company defines the capital it manages as cash and equity, consisting of share capital, stock options and share purchase warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. Management does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to any externally imposed capital restrictions.

13. COMMITMENT

The Company entered into an agreement to have its exploration management functions performed by a company controlled by a former director of the Company (resigned in December 2010). Pursuant to the agreement, the Company was to pay all of the operating costs and disbursements incurred on behalf of the Company. The compensation under the agreement is $1,500 per day, subject to adjustment by the Company. The agreement is renewable bi-annually.

14. SUBSEQUENT EVENTS

Subsequent to September 30, 2011, the Company:

a) issued 50,000,000 units for total proceeds of $7,500,000. Each unit consisted of one common share of the Company and one share purchase warrant having a one year term for purchasing of one further common share at exercise price of $0.30 per share. Finder's fees paid totaled $517,707. As at September 30, 2011, the Company had received $257,450 of advance subscriptions and had incurred $71,784 in costs related to the financing; and

b) paid $1,000,000 and issued 2,700,000 common shares as option payments pursuant to the Morogoro and Handeni options agreements (Note 5).