

FAIRMONT RESOURCES INC.

FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

SIX MONTH PERIOD ENDED
APRIL 30, 2011

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended April 30, 2011.

FAIRMONT RESOURCES INC.
BALANCE SHEETS
(Unaudited – Prepared by Management)

| | April 30, 2011 | October 31, 2010 (Audited) |
|---|---------------------|----------------------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Note 4) | \$ 1,629,059 | \$ 975,901 |
| Receivables | 96,514 | 11,795 |
| Prepaid expenses | <u>8,934</u> | <u>10,000</u> |
| | 1,734,507 | 997,696 |
| Mineral properties and deferred exploration costs (Note 5) | <u>1,035,971</u> | <u>187,636</u> |
| | <u>\$ 2,770,478</u> | <u>\$ 1,185,332</u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|---------------------|
| Current | | |
| Accounts payable and accrued liabilities | \$ 186,858 | \$ 103,282 |
| Due to related parties (Note 7) | <u>10,068</u> | <u>6,720</u> |
| | <u>196,926</u> | <u>110,002</u> |
| Shareholders' equity | | |
| Capital stock (Note 6) | 2,981,658 | 1,297,464 |
| Contributed surplus (Note 6) | 493,063 | 127,833 |
| Deficit | <u>(901,169)</u> | <u>(349,967)</u> |
| | <u>2,573,552</u> | <u>1,075,330</u> |
| | <u>\$ 2,770,478</u> | <u>\$ 1,185,332</u> |

Nature and continuance of operations (Note 2)

On behalf of the Board:

“Bernie Dewonck”

“Jerry Minni”

Director

Director

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

FAIRMONT RESOURCES INC.
STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
(Unaudited – Prepared by Management)

| | Three Month Period Ended April 30, 2011 | Three Month Period Ended April 30, 2010 | Six Month Period Ended April 30, 2011 | Six Month Period Ended April 30, 2010 |
|---|--|--|--|--|
| EXPENSES | | | | |
| Accounting and audit | \$ 23,460 | \$ 8,401 | \$ 25,460 | \$ 12,451 |
| Administration | 1,500 | - | 3,000 | - |
| Advertising and promotion | 58,833 | 5,608 | 61,994 | 5,608 |
| Bank charges and interest | 458 | 39 | 523 | 103 |
| Consulting | 8,872 | - | 14,872 | - |
| Insurance | 2,865 | - | 3,316 | - |
| Investor relations | 24,500 | - | 47,000 | - |
| Legal | - | - | 9,886 | 1,992 |
| Management | 25,500 | 12,000 | 50,000 | 22,500 |
| Office and miscellaneous | 1,491 | 2,425 | 3,364 | 2,425 |
| Rent | 4,500 | 2,000 | 9,000 | 3,500 |
| Registration and filing fees | 7,822 | 1,552 | 11,275 | 1,552 |
| Shareholder costs | 1,786 | - | 3,786 | - |
| Stock-based compensation (Note 6) | 27,287 | 78,290 | 295,145 | 78,290 |
| Transfer agent | 1,343 | - | 3,580 | - |
| Travel and related | 10,213 | 3,204 | 11,300 | 3,204 |
| | <u>(200,430)</u> | <u>(113,519)</u> | <u>(553,501)</u> | <u>(131,625)</u> |
| OTHER ITEM | | | | |
| Interest income | <u>1,301</u> | <u>-</u> | <u>2,299</u> | <u>-</u> |
| Loss before income taxes | (199,129) | (113,519) | (551,202) | (131,625) |
| Future income tax recovery | <u>-</u> | <u>11,602</u> | <u>-</u> | <u>16,128</u> |
| Loss and comprehensive loss for the period | (199,129) | (101,917) | (551,202) | (115,497) |
| Deficit, beginning of period | <u>(702,040)</u> | <u>(125,174)</u> | <u>(349,967)</u> | <u>(111,594)</u> |
| Deficit, end of period | \$ (901,169) | \$ (227,091) | \$ (901,169) | \$ (227,091) |
| Basic and diluted loss per common share | \$ (0.01) | \$ (0.02) | \$ (0.04) | \$ (0.03) |
| Weighted average number of common shares outstanding | 14,259,556 | 4,496,667 | 12,627,649 | 4,496,667 |

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

FAIRMONT RESOURCES INC.
STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

| | Three Month Period Ended April 30, 2011 | Three Month Period Ended April 30, 2010 | Six Month Period Ended April 30, 2011 | Six Month Period Ended April 30, 2010 |
|---|--|--|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Loss and comprehensive loss for the period | \$ (199,129) | \$ (101,917) | \$ (551,202) | \$ (115,497) |
| Future income tax recovery | - | (11,602) | - | (16,128) |
| Stock-based compensation | 27,288 | 78,290 | 295,145 | 78,290 |
| Changes in non-cash working capital items: | | | | |
| Increase in receivables | (50,679) | (2,346) | (84,719) | (9,069) |
| (Increase) decrease in prepaids | 15,900 | (3,500) | 1,066 | (1,750) |
| Increase (decrease) in accounts payable and accrued liabilities | 7,813 | (53,058) | (74,526) | (123,842) |
| Decrease in due to related party | <u>6,854</u> | <u>-</u> | <u>3,348</u> | <u>-</u> |
| Net cash used in operating activities | <u>(191,953)</u> | <u>(94,133)</u> | <u>(410,888)</u> | <u>(187,996)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Deferred financing costs | - | 79,467 | - | 31,450 |
| Proceeds from share issuances | 1,894,720 | 600,000 | 1,894,720 | 600,000 |
| Share issuance costs | <u>(175,302)</u> | <u>(144,772)</u> | <u>(175,441)</u> | <u>(144,772)</u> |
| Net cash provided by financing activities | <u>1,719,418</u> | <u>534,695</u> | <u>1,719,279</u> | <u>486,678</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of mineral property | (13,000) | - | (38,000) | - |
| Deferred exploration costs | (520,906) | (3,600) | (617,233) | (3,600) |
| Short-term investments | <u>-</u> | <u>(350,000)</u> | <u>-</u> | <u>(350,000)</u> |
| Net cash used in investing activities | <u>(533,906)</u> | <u>(353,600)</u> | <u>(655,233)</u> | <u>(353,600)</u> |
| Change in cash and cash equivalents during the period | 993,559 | 86,962 | 653,158 | (54,918) |
| Cash and cash equivalents, beginning of period | <u>635,500</u> | <u>21,903</u> | <u>975,901</u> | <u>163,783</u> |
| Cash and cash equivalents, end of period | <u>\$ 1,629,059</u> | <u>\$ 108,865</u> | <u>\$ 1,629,059</u> | <u>\$ 108,865</u> |

Supplemental disclosure with respect to cash flows (Note 9)

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

FAIRMONT RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
APRIL 30, 2011

1. BASIS OF PRESENTATION

The financial statements contained herein include the accounts of Fairmont Resources Inc. (the “Company”).

These interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the Company’s audited financial statements and the accompanying notes for the year ended October 31, 2010. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

Fairmont Resources Inc. (the “Company”) was incorporated on May 25, 2007 under the British Columbia Business Corporations Act as Strike Explorations Corp. On April 23, 2009, the Company changed its name to Fairmont Resources Inc. The Company is primarily engaged in the acquisition, exploration and development of mineral properties. At April 30, 2011, the Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production from the mineral properties or proceeds from the disposition of the mineral property.

The Company’s ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

| | April 30, 2011 | October 31, 2010 |
|-----------------|-------------------|---------------------|
| | | (Audited) |
| Working capital | \$ 1,537,581 | \$ 887,694 |
| Deficit | (901,169) | (349,967) |

3. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, Section 3855 has been amended to clarify the application of the effective interest method after a debt instrument has been impaired, and when an embedded prepayment option is separated from its host debt instrument for accounting purposes. These amendments apply to the Company's interim and annual financial statements beginning on or after November 1, 2011. The Company does not expect any significant impact on its financial position, operating results or disclosure on adopting the amended Section 3855.

In January 2009, the AcSB issued CICA Handbook Section 1582, "Business Combinations", which replaces Section 1581, "Business Combinations". The AcSB also issued Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replace Section 1600, "Consolidated Financial Statements". These new sections are based on the International Accounting Standards Board's ("IASB") International Financial Reporting Standard 3, "Business Combinations". These new standards replace the existing guidance on business combinations and consolidated financial statements. These new standards require that most assets acquired and liabilities assumed, including contingent liabilities, to be measured at fair value and all acquisition costs to be expensed. These new standards also require non-controlling interests to be recognized as a separate component of equity and net earnings to be calculated without a deduction for non-controlling interests. The objective of these new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items. The Company does not expect that the adoption of these standards will have a material impact on the Company's financial statements.

In February 2008, the AcSB adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies will converge with International Financial Reporting Standards ("IFRS"). AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canadian GAAP. This date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of November 1, 2010 will require the restatement for comparative purposes of amounts reported by the Company for the year ended October 31, 2011. The Company continues to monitor and assess the impact of convergence of Canadian GAAP and IFRS.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include two redeemable guaranteed investment certificates ("GIC") with interest rates of prime minus 1.80% per annum and expiring on June 16, 2011 and March 11, 2012, respectively. At April 30, 2011, the fair value of the GIC's were \$1,330,000 (October 31, 2010 - \$330,000).

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Title to mineral property interests

Title to mineral property interests involve certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

Clay and Powell Properties (Ontario)

On September 14, 2010, the Company entered into a Letter of Intent with Rainy Mountain Royalty Corp. and Mega Uranium Ltd. (the “Optionors”) for an option to purchase a 70% undivided interest in 11 mineral tenures comprising the Powell property and 10 mineral tenures comprising the Clay property (the “Properties”) located near Thunder Bay, Ontario.

The Company may exercise the option by the issuance to the Optionors of 400,000 common shares in the capital stock of the Company, and by incurring a total of \$1,000,000 in exploration and development expenditures on the properties as follows:

| Date of Completion | Number of Common Shares | Minimum Expenditures |
|---|-------------------------------|-------------------------|
| Within 10 days of October 15, 2010 (issued) | 100,000 | \$ - |
| Before October 15, 2011 | 100,000 | 250,000 |
| Before October 15, 2012 | 100,000 | 250,000 |
| Before October 15, 2013 | <u>100,000</u> | <u>500,000</u> |
| | 400,000 | \$ 1,000,000 |

In the event that the Company decides to abandon the Option and the Properties, the Company will provide thirty days prior written notice and will provide payment of rental fees for a period of at least six months from the effective date of such abandonment.

Pursuant to the Letter of Intent, the Clay and Powell properties are subject to a 2% net smelter return (“NSR”) of which 1% can be purchased for \$500,000 and \$1,000,000 respectively. The Company and the Optionors will pay the amount in proportion to their respective interest in the Properties.

FAIRMONT RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
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APRIL 30, 2011

5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Marmion South Contact Property (Ontario)

On January 7, 2011, the Company entered into a letter agreement with Karl Bjorkman (the “Optionor”) to earn a 100% interest in 47 mineral claims known as the Marmion South Contact property. The property is located in the Thunder Bay Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay \$320,000, issue a total of 750,000 common shares and incur a total of \$1,500,000 in exploration expenditures as follows:

| | Cash Payments | Number of Common Shares | Exploration Expenditures |
|--|-------------------|-------------------------------|-----------------------------|
| By January 7, 2011 (paid) | \$ 25,000 | - | \$ - |
| On receiving approval from TSX Venture Exchange (issued at a value of \$35,000) | - | 100,000 | - |
| By January 7, 2012 | 40,000 | 150,000 | 150,000 |
| By January 7, 2013 | 60,000 | 150,000 | 250,000 |
| By January 7, 2014 | 75,000 | 150,000 | 400,000 |
| By January 7, 2015 | <u>120,000</u> | <u>200,000</u> | <u>700,000</u> |
| | <u>\$ 320,000</u> | <u>750,000</u> | <u>\$ 1,500,000</u> |

The Company paid \$13,000 as a finder’s fee for the Marmion South Contact acquisition.

The property is subject to a 2.5% net smelter return royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production upon the property for \$1,000,000.

Nicoamen River Claims (British Columbia)

On July 30, 2009, the Company entered into an option agreement to acquire an initial 51% interest in the Nicoamen River Claims located in the Kamloops Mining Division, British Columbia. In order to earn its interest the Company agreed to make \$25,000 cash payments to the optionor and incur \$300,000 in exploration expenditures as follows:

| | Cash Payments | Exploration Expenditures |
|---|------------------|-----------------------------|
| On execution of the Agreement (paid) | \$ 10,000 | \$ - |
| By December 31, 2009 (completed) | - | 100,000 |
| Before April 15, 2011 (cash paid in 2010, exploration requirement due date extended) | <u>15,000</u> | <u>200,000</u> |
| | <u>\$ 25,000</u> | <u>\$ 300,000</u> |

FAIRMONT RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
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5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Nicoamen River Claims (British Columbia) (cont'd...)

On February 14, 2011, the Company entered into an amending agreement for the July 30, 2009 option agreement. Pursuant to the option agreement, the Company was required to incur \$200,000 in exploration expenditures on the property by April 15, 2011. The optionor agreed to extend the exploration expenditure deadline from April 15, 2011 to July 31, 2011. As consideration for the amendment, the Company immediately paid the \$15,000 cash obligation that would have been due on April 15, 2011.

The Company may acquire an additional 9% interest in the Nicoamen River Claims by issuing 300,000 common shares to the optionor and incurring \$1,700,000 in exploration expenditures as follows:

| | Number of Common Shares | Exploration Expenditures |
|-------------------|-------------------------------|-----------------------------|
| By April 15, 2012 | - | \$ 300,000 |
| By April 15, 2013 | 50,000 | 500,000 |
| By April 15, 2014 | 100,000 | - |
| By April 15, 2015 | <u>150,000</u> | <u>900,000</u> |
| | 300,000 | \$ 1,700,000 |

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5. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

The following mineral property and deferred exploration costs were incurred on the Company's mineral properties:

| | Clay and Powell | Marmion South Contact | Nicoamen River Claims | Total |
|--|--------------------|-----------------------------|-----------------------------|----------------|
| Acquisition costs, October 31, 2010 | \$ 35,000 | \$ - | \$ 29,224 | \$ 64,224 |
| Additions during the period | <u>-</u> | <u>73,000</u> | <u>-</u> | <u>73,000</u> |
| Acquisition costs, April 30, 2011 | <u>35,000</u> | <u>73,000</u> | <u>29,224</u> | <u>137,224</u> |
| Deferred exploration costs, October 31, 2010 | \$ - | \$ - | \$ 123,412 | \$ 123,412 |
| Additions during the period | | | | |
| Administration | 7,968 | - | 612 | 8,580 |
| Assays | 29,418 | - | 15,229 | 44,647 |
| Camp costs | 37,751 | - | 3,054 | 40,805 |
| Consulting | - | - | 3,920 | 3,920 |
| Demobilization | 9,487 | - | 445 | 9,932 |
| Drilling | 245,876 | - | - | 245,876 |
| Equipment rental | 29,881 | - | 4,680 | 34,561 |
| Field expenditures | 17,785 | - | 868 | 18,653 |
| Field personnel | 51,633 | - | 17,175 | 68,808 |
| Geological consulting | 120,505 | 1,727 | 30,523 | 152,755 |
| Geophysical | 84,726 | - | - | 84,726 |
| Insurance | 2,150 | - | - | 2,150 |
| Line-cutting and surveying | 34,506 | - | - | 34,506 |
| Mapping | 3,038 | - | - | 3,038 |
| Mobilization | 10,581 | - | 445 | 11,026 |
| Staking | 2,871 | - | - | 2,871 |
| Storage | - | - | 433 | 433 |
| Transport and freight | 4,215 | - | 1,308 | 5,523 |
| Travel and related | <u>2,245</u> | <u>-</u> | <u>280</u> | <u>2,525</u> |
| | <u>694,636</u> | <u>1,727</u> | <u>78,972</u> | <u>775,335</u> |
| Deferred exploration costs, April 30, 2011 | <u>694,636</u> | <u>1,727</u> | <u>202,384</u> | <u>898,747</u> |
| Total mineral property and deferred exploration costs | \$ 729,636 | \$ 74,727 | \$ 231,608 | \$ 1,035,971 |

FAIRMONT RESOURCES INC.
NOTES TO THE FINANCIAL STATEMENTS
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APRIL 30, 2011

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

| | Number of Shares | Amount | Contributed Surplus |
|---|---------------------|---------------------|------------------------|
| Authorized | | | |
| Unlimited common shares without par value | | | |
| Issued common shares | | | |
| Balance as at October 31, 2010 | 11,037,000 | \$ 1,297,464 | \$ 127,833 |
| Private placement | 4,905,000 | 1,880,500 | - |
| Share issuance costs | - | (175,441) | - |
| Agent warrants issued as finders' fees | - | (77,124) | 77,124 |
| Exercise of agent warrants | 65,100 | 14,220 | - |
| Adjustment for exercised agent warrants | - | 7,039 | (7,039) |
| Shares issued for mineral property option | 100,000 | 35,000 | - |
| Stock-based compensation | - | - | 295,145 |
| | <u>16,107,100</u> | <u>\$ 2,981,658</u> | <u>\$ 493,063</u> |
| Balance as at April 30, 2011 | 16,107,100 | \$ 2,981,658 | \$ 493,063 |

Escrow Shares

At April 30, 2011, pursuant to an escrow agreement dated December 10, 2009, 1,351,503 of the common shares issued and outstanding were held in escrow and 337,875 are to be released every six months from April 15, 2011 to April 15, 2012.

Share Issuance Costs

During the current period, the Company paid \$139 in legal fees directly attributed to the October 25, 2010 private placement and therefore were allocated to share issuance costs.

Shares Issued for Mineral Property Option

On January 20, 2011, the Company issued 100,000 common shares valued at \$35,000 to the Optionor pursuant to the Marmion South Contact Property option agreement.

Private Placement

On March 4, 2011, the Company completed the 1st tranche of a private placement which was comprised of 3,275,000 Flow-Through Units ("FT Unit") at \$0.40 per FT Unit for gross proceeds of \$1,310,000. An additional \$351,750 was received from the issuance of 1,005,000 Non-Flow-Through Units ("Units") at \$0.35 per Unit.

On March 15, 2011, the Company completed the 2nd tranche of a private placement by issuing 625,000 Non-Flow-Through Units at \$0.35 per Unit for gross proceeds of \$218,750.

FAIRMONT RESOURCES INC.
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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Private Placement (cont'd...)

Each FT Unit is comprised of one flow-through common share and one-half of a non-transferable share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per unit until March 4, 2012 and then at \$0.75 per unit Until March 4, 2013.

Each Unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant is exercisable into an additional common share at \$0.45 per Unit in the first year and then at \$0.70 in the second year from issuance of the respective warrants.

The Company issued 287,500 units valued at \$50,030 as finder's fees for the 1st tranche of the private placement. These units are exercisable into units at \$0.40 per unit until March 4, 2013. The units are comprised of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per share until March 4, 2012 and then at \$0.75 per share until March 4, 2013.

The Company paid \$107,940 cash in finder's fees. An additional 178,000 agent warrants valued at \$27,094 were issued as finder's fees, of which 15,000 are exercisable into one common share at \$0.50 per share until March 4, 2012 and at \$0.75 per share until March 4, 2013. The remaining 163,000 agent warrants are exercisable into one common share at \$0.45 per share in the first year and then at \$0.70 in the second year from issuance of the respective agent warrants.

The Company paid \$67,362 cash for due diligence, filing, legal and other fees directly attributed to the private placement and therefore were allocated as share issuance costs.

Stock options

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding common stock. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

As at April 30, 2011, the following incentive stock options are available:

| Number of Shares | Exercise Price | Expiry Date |
|---------------------|-------------------|------------------|
| 400,000 | \$ 0.15 | December 9, 2014 |
| <u>1,250,000</u> | 0.31 | November 3, 2015 |
| <u>1,650,000</u> | | |

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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

As at April 30, 2011, the following incentive stock options are fully vested:

| Number of Shares | Exercise Price | Expiry Date |
|------------------|----------------|------------------|
| 400,000 | \$ 0.15 | December 9, 2014 |
| <u>1,088,750</u> | 0.31 | November 3, 2015 |
| 1,488,750 | | |

Stock-based compensation

During the six month period ended April 30, 2011, the Company granted 1,250,000 (2010 – 1,100,000) stock options. The total stock-based compensation calculated on the options granted in the current period was \$323,499 (2010 - \$78,290). The Company expensed \$295,145 (2010 - \$78,290) of the total stock-based compensation leaving an unamortized balance of \$28,354 (2010 - \$Nil).

The following weighted average assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the period:

| | 2011 | 2010 |
|--------------------------------|---------|------------|
| Risk-free interest rate | 2.02% | 2.79% |
| Expected life of options | 5 years | 4.75 years |
| Expected annualized volatility | 100.00% | 134.00% |
| Expected dividend rate | - % | - |

Warrants

As at April 30, 2011, the following share purchase warrants are outstanding:

| Number of Shares | Exercise Price | Expiry Date |
|-----------------------------|---------------------|------------------|
| 1,321,000 | \$ 0.33 | October 25, 2011 |
| 1,005,000 | 0.45 | March 4, 2012 |
| | if not then at 0.70 | March 4, 2013 |
| 1,637,500 | 0.50 | March 4, 2012 |
| | if not then at 0.75 | March 4, 2013 |
| 625,000 | 0.45 | March 15, 2012 |
| <u> </u> | 0.70 | March 15, 2013 |
| 4,588,500 | | |

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6. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Agent warrants

As at April 30, 2011, the following agent warrants are outstanding:

| Number of Shares | Exercise Price | Expiry Date |
|---------------------|---------------------|------------------|
| 234,400 | \$ 0.30 | October 25, 2011 |
| 226,900 | 0.20 | April 13, 2012 |
| 287,500 | 0.40 | March 4, 2013 |
| 100,500 | 0.45 | March 4, 2012 |
| | if not then at 0.70 | March 4, 2013 |
| 15,000 | 0.50 | March 4, 2012 |
| | if not then at 0.75 | March 4, 2013 |
| 62,500 | 0.45 | March 15, 2012 |
| | if not then at 0.70 | March 15, 2013 |
| <hr/> 926,800 | | |

Exercised agent warrants

During the six month period ended April 30, 2011, 65,100 agent warrants were exercised at prices ranging from \$0.20 to \$0.30 per share for total gross proceeds of \$14,220. The Company transferred \$7,039 from contributed surplus to capital stock upon the exercise of the agent warrants.

7. RELATED PARTY TRANSACTIONS

Due to related parties at April 30, 2011, of \$10,068 (October 31, 2010 - \$6,720) is owed to a director and two companies controlled by two of the Company's directors.

- a) Paid or accrued \$5,000 (2010 - \$Nil) in management fees to a company controlled by a director of the Company.
- b) Paid or accrued \$15,000 (2010 - \$Nil) in management fees to a company controlled by a director of the Company.
- c) Paid or accrued \$Nil (2010 - \$9,500) in management fees to a company controlled by a director of the Company.

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7. RELATED PARTY TRANSACTIONS (cont'd...)

- d) Paid or accrued \$Nil (2010 - \$13,000) in management fees to a company controlled by a former director of the Company.
- e) Paid or accrued \$Nil (2010 - \$6,550) in accounting fees to a company controlled by a director of the Company.
- f) Paid or accrued \$2,372 (2010 - \$Nil) in consulting fees and \$4,305 (2010 - \$Nil) in deferred exploration costs to a company controlled by a director of the Company.
- g) Paid or accrued \$Nil (2010 - \$3,500) in office rent to a company controlled by a former director of the Company.

The related party transactions are in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

8. CAPITAL MANAGEMENT

The Company considers its capital to be the components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

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

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the three month period ended January 31, 2011 were as follows:

- a) The Company issued 100,000 common shares valued at \$35,000 pursuant to the letter agreement for the Marmion South Contact property.
- b) The Company issued 287,500 units and 178,000 agent warrants valued at \$50,030 and \$27,094 respectively as finders' fees for the private placement.
- c) The Company transferred \$7,039 from contributed surplus to capital stock upon the exercise of the agent warrants.
- d) The Company accrued deferred exploration costs of \$158,102 in accounts payable and accrued liabilities.

There were no significant non-cash transactions during the three month period ended January 31, 2010.

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10. FINANCIAL INSTRUMENTS

Fair Values

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

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

| | April 30, 2011 | October 31, 2010 |
|----------------------------------|-------------------|---------------------|
| Held for trading (i) | \$ 1,629,059 | \$ 975,901 |
| Other financial liabilities (ii) | 196,926 | 110,002 |

(i) Cash and cash equivalents

(ii) Accounts payable and amounts due to related parties

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|--------------|---------|---------|--------------|
| Cash and cash equivalents | \$ 1,629,059 | - | - | \$ 1,629,059 |

Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

10. FINANCIAL INSTRUMENTS (cont'd...)

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 exploration and administrative expenditures by raising additional funds through share issuances when required. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

Foreign Exchange Risk

The Company does not have significant foreign exchange risk as all of its transactions are in Canadian dollars.

Interest Rate Risk

The Company is not exposed to significant interest rate risk.

11. SEGMENT INFORMATION

The Company conducts all of its business activities in Canada.