



**YANKEE HAT MINERALS LTD.**

**AUDITED ANNUAL FINANCIAL STATEMENTS**

**For the years ended July 31, 2010 and 2009**



Tel: 604 688 5421  
Fax: 604 688 5132  
www.bdo.ca

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

## AUDITORS' REPORT

To the Shareholders of  
Yankee Hat Minerals Ltd.

We have audited the balance sheets of Yankee Hat Minerals Ltd. as at July 31, 2010 and 2009 and the statements of changes in equity, operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO CANADA LLP"

Chartered Accountants

Vancouver, Canada  
November 29, 2010

**YANKEE HAT MINERALS LTD.**  
BALANCE SHEETS

	Notes	July 31, 2010	July 31, 2009
<b>Assets</b>			
Current			
Cash		\$ 482	\$ 237,393
Amount receivable		-	3,000
GST/HST recoverable		6,625	21,811
Prepaid expenses	8	21,320	68,833
		28,427	331,037
Exploration advances		-	144,219
Environmental reclamation deposits	4	20,000	20,000
Equipment and exploration database	5	44,097	81,738
Mineral properties and deferred exploration expenditures	6, 8	4,684,265	4,569,876
		\$ 4,776,789	\$ 5,146,870
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 701,021	\$ 646,756
Exploration advances received	6	-	361,684
Due to related parties	8	605,340	197,199
Subscription received		-	50,000
		1,306,361	1,255,639
<b>Shareholders' Equity</b>			
Share capital	7, 8	16,732,663	16,641,944
Contributed surplus		1,213,460	918,296
Deficit		(14,475,695)	(13,669,009)
		3,470,428	3,891,231
		\$ 4,776,789	\$ 5,146,870
Basis of presentation and ability to continue as a going concern			
	2		
Commitments and contingencies			
	4, 6, 7, 8, 14		
Subsequent events			
	6, 7, 8		

APPROVED BY THE DIRECTORS:

"Terence Schorn" Director  
Terence Schorn

"Bradley Kitchen" Director  
Bradley Kitchen

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

**YANKEE HAT MINERALS LTD.**  
STATEMENTS OF CHANGES IN EQUITY

	Notes	Number of Common Shares	Share Capital	Commitment to issue Shares	Contributed Surplus	Deficit	Shareholders' Equity
<b>Balance - July 31, 2008</b>		65,038,650	\$ 15,711,481	\$ 135,000	\$ 894,020	\$ (12,229,840)	\$ 4,510,661
Shares issued pursuant to private placements, net of issue costs	7	8,045,888	336,986	-	-	-	336,986
Shares issued for settlement of debt	7	9,636,298	481,815	-	-	-	481,815
Shares issued for mineral property	6	3,388,888	439,555	(135,000)	-	-	304,555
Future income taxes on flow-through shares		-	(327,893)	-	-	-	(327,893)
Stock-based compensation		-	-	-	24,276	-	24,276
Net loss for the year		-	-	-	-	(1,439,169)	(1,439,169)
<b>Balance - July 31, 2009</b>		86,109,724	<b>16,641,944</b>	-	<b>918,296</b>	<b>(13,669,009)</b>	<b>3,891,231</b>
Shares issued pursuant to private placements	7	1,900,000	95,000	-	-	-	95,000
Shares issued for mineral property	6	2,222,222	77,778	-	-	-	77,778
Future income taxes on flow-through shares		-	(82,059)	-	-	-	(82,059)
Stock-based compensation	7	-	-	-	295,164	-	295,164
Net loss for the period		-	-	-	-	(806,686)	(806,686)
<b>Balance - July 31, 2010</b>		90,231,946	<b>\$ 16,732,663</b>	<b>\$ -</b>	<b>\$ 1,213,460</b>	<b>\$ (14,475,695)</b>	<b>\$ 3,470,428</b>

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

**YANKEE HAT MINERALS LTD.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**

For the year ended July 31,	Notes	2010	2009
General and administrative expenses			
Amortization		\$ 15,180	\$ 21,734
Bad debts		-	4,382
Commissions and finders' fees		-	38,520
Consulting	8	50,931	122,000
Filing, transfer agent and shareholder reporting		19,900	31,480
Interest	8	22,263	41,174
Investor relations		26,830	60,724
Management fees	8	174,500	236,896
Occupancy costs	8	21,339	24,388
Office administration and miscellaneous		38,780	35,636
Professional fees		78,499	52,037
Stock-based compensation		295,164	24,276
Travel		1,140	21,896
<b>Loss before undernoted income (expenses)</b>		<b>(744,526)</b>	<b>(715,143)</b>
Equipment rental income		-	22,000
Gain on debt settlement		-	206,450
Interest and miscellaneous income		176	9,644
Operators' fees		23,778	34,916
Property investigation		-	(38,854)
Part XII.6 tax, interest and penalties	10	(145,712)	(13,000)
Write-off of capital assets		(22,461)	(2,658)
Write-off of mineral property	6	-	(1,270,417)
<b>Net loss before income tax provision</b>		<b>(888,745)</b>	<b>(1,767,062)</b>
Future income tax recovery	10	82,059	327,893
<b>Net loss and comprehensive loss for the year</b>		<b>\$ (806,686)</b>	<b>\$ (1,439,169)</b>
Net loss per share, basic and diluted		\$ (0.01)	\$ (0.02)
Weighted average common shares outstanding		88,254,382	71,879,900

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

**YANKEE HAT MINERALS LTD.**  
**STATEMENTS OF CASH FLOWS**

For the year ended July 31,	Notes	2010	2009
Cash derived from (applied to)			
<b>Operating activities</b>			
Net loss and comprehensive loss for the year	\$	(806,686)	\$ (1,439,169)
Operating items not involving cash:			
Amortization		15,180	21,734
Bad debt expense		-	4,382
Gain on settlement of debt		-	(206,450)
Stock-based compensation		295,164	24,276
Write-off of capital assets		22,461	2,658
Write-off of mineral properties		-	1,270,417
Future income tax recovery		(82,059)	(327,893)
		(555,940)	(650,045)
Change in non-cash operating working capital items:			
Amounts receivable		3,000	303,681
GST / HST Payable / (recoverable)		15,186	37,888
Prepaid expenses		47,513	(23,143)
Accounts payable and accrued liabilities		331,388	181,867
Exploration advances received		-	361,684
Loans payable		-	(120,393)
Due to related parties		206,157	-
		47,304	91,539
<b>Financing activities</b>			
Shares issued for cash, net of costs		45,000	336,986
Share subscriptions received		-	50,000
		45,000	386,986
<b>Investing activities</b>			
Environmental reclamation deposit		-	(20,000)
Exploration advances		-	(144,219)
Mineral properties		(329,215)	(196,193)
Purchase of equipment		-	(615)
		(329,215)	(361,027)
<b>Increase (decrease) in cash</b>		(236,911)	117,498
Cash, beginning of year		237,393	119,895
<b>Cash, end of year</b>	\$	<b>482</b>	\$ <b>237,393</b>

Non-cash Transactions (note 11)

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

**YANKEE HAT MINERALS LTD.**  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
For the years ended July 31, 2010 and 2009

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**Note 1**      **Nature of Operations**

Yankee Hat Minerals Ltd. ("Yankee Hat" or the "Company") is incorporated under the laws of British Columbia and its principal business is the acquisition, exploration and development of precious and strategic metals properties. The Company currently has mineral exploration projects in British Columbia and in the Yukon. The Company is a reporting venture issuer in British Columbia and Alberta and is listed on the TSX Venture Exchange under the symbol "KHT".

**Note 2**      **Basis of Presentation and Ability to Continue as a Going Concern**

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of the Company's mineral properties and deferred exploration expenditures and the Company's continued existence is dependent upon the preservation of its interests in the underlying mineral properties, the discovery of economically recoverable reserves, the achievement of profitable operations and the ability of the Company to raise financing and or dispose of its mineral property interests on an advantageous basis.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for the Company's next fiscal year. As at July 31, 2010, the Company had cash of \$482 and a working capital deficit of \$1,277,934, all of which cast substantial doubt on the Company's ability to continue as a going concern. Therefore the Company's future ability to meet its obligations and carry out exploration activities is uncertain and dependent upon its ability to obtain additional financing, sell its assets and or enter into favorable joint venture agreements. Realization values may be substantially different from the carrying values shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

All amounts, unless otherwise noted, are in Canadian dollars.

**Note 3**      **Significant Accounting Policies**

The financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and, except as noted below under recently adopted Canadian accounting standards, their basis of application is consistent with the prior year.

**Mineral Properties**

The Company capitalizes 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 include all expenditures made with respect to maintaining on site administration of exploration projects. Cost 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 first to the carrying value of acquisition costs of the mineral properties, then to carrying costs of exploration expenditures, with any excess included in operations. Write downs due to impairment in value are charged to operations.

**Note 3      Significant Accounting Policies – (cont'd)**

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 probability of profitable revenues from the property or from the sale of the property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Long-Lived Asset Impairment

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Asset Retirement Obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would include obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, amortization and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and amortization rates for the related asset. The Company does not have any asset retirement obligations as at July 31, 2010 and 2009.

Equipment and Exploration Data

Equipment and exploration data is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis over their estimated useful lives at the following annual rates:

Computer equipment	45%
Exploration database	6%
Exploration equipment	20%
Motor vehicle	30%

Basic and Diluted Loss Per Share

Basic loss per share is computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted 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. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

**Note 3**     **Significant Accounting Policies – (cont'd)**

For the years ended July 31, 2010, and 2009, potentially dilutive common shares (relating to options outstanding at year-end) totaling 6,630,000 (2009: 2,730,000) were not included in the computation of loss per share because their effect was anti-dilutive.

Use of Estimates

The preparation of financial statements in conformity with 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 statements and the reported amount of expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in the preparation of these financial statements include, but are not limited to, recoverability of receivables, accounting for stock-based compensation, impairment of mining claims and deferred exploration costs, the physical and economic lives of equipment the determination of the likelihood that future income tax benefits can be realized and valuation allowances applied against future tax assets.

Stock-Based Compensation

The Company follows the Canadian Institute of Chartered Accountants (“CICA”) Section 3870 “Stock-Based Compensation and Other Stock-Based Payments” to account for stock-based compensation expense using the fair value based method with respect to all stock based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004. Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the measurement date and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to common share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date unless there is a specific contractual term.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at fair value and recognized over the vesting period. Changes in fair value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

**Note 3      Significant Accounting Policies – (cont'd)**

Flow-Through Common Shares

The CICA has issued guidance on the accounting treatment for Canadian flow-through shares through its Emerging Issues Committee Abstract (“EIC”) No. 146. Upon renunciation of exploration expenditures to the shareholders for flow-through shares issued by the Company, the Company reduces share capital and recognizes a future income tax liability for the amount of tax reduction renounced to the shareholders. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deduction and is more-likely-than-not able to utilize either these tax losses or other deductible temporary differences before expiry, the Company recognizes future tax assets, with a corresponding credit to operations, for an amount equal to the future income tax liability.

Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts, which are not subject to withdrawal restrictions or penalties, and all short-term highly-liquid investments with an original maturity to the holder of three months or less, which can be converted into known amounts of cash.

Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are determined based on differences between the tax and accounting basis of assets and liabilities. The future tax assets or liabilities are calculated using the tax rates for the period in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

Share Issue Costs

Share issue costs, which include commissions, professional and regulatory fees are charged directly to share capital.

Accounting Changes

CICA Handbook Section 1506 revised the standards on changes in accounting policy, estimates or errors to require a change in accounting policy to be applied retrospectively (unless doing so is impracticable or is specified otherwise by a new accounting standard), changes in estimates to be recorded prospectively, and prior period errors to be corrected retrospectively. Voluntary changes in accounting policy are allowed only when they result in consolidated financial statements that provide reliable and more relevant information. In addition, these revised standards call for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the consolidated financial statements.

Comprehensive Income

CICA Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available for sale investments, gains and

**Note 3**     **Significant Accounting Policies – (cont'd)**

losses on certain derivative instruments and currency gains and losses relating to the translating of financial statements of self-sustaining foreign operations. As at July 31, 2010 and 2009, the Company has no items that represent comprehensive income, and therefore, has not included a schedule of comprehensive income in these consolidated financial statements.

**Recently Adopted Canadian Accounting Standards**

Effective August 1, 2009, the Company adopted the following accounting pronouncements:

- i. Section 3064, "Goodwill and Intangible Assets". This section replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this section has had no significant impact on the Company's financial statements
- ii. The Company also adopted CICA Handbook Section 3862, Financial Instruments – Disclosures whereby an entity shall classify and disclose fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:
  - Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
  - Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
  - Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The Company categorizes its financial instruments which are measured at fair value as level 1. The required disclosures are included in note 12.

- iii. In January 2009, the CICA issued EIC Abstract 173 – Credit risk and the fair value of financial assets and liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC-173 is applicable for the Company's interim and annual consolidated financial instruments for its fiscal year ending July 31, 2010, with retroactive application. The adoption of EIC-173 had no impact on the Company's financial statements.

**Note 3      Significant Accounting Policies – (cont'd)**

Future Accounting Changes

*Section 1582, "Business Combinations".*

This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at acquisition date fair value. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. The Company will be required to adopt this standard prospectively for business combinations with acquisition dates on or after April 1, 2011, but may adopt the standard sooner. The Company is currently evaluating the impact of adopting this standard on its financial statements.

*International Financial Reporting Standards ("IFRS")*

On February 13, 2008, the CICA Accounting Standards Board 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") by 2011. The Company's first year end under IFRS will be July 31, 2012. The Company has completed a high-level scoping study and concluded that the following IFRS standards will have the most significant impact:

- IFRS 1 – First-time adoption of IFRS
- IFRS 2 – Share Based Payments
- IFRS 6 – Exploration and evaluation of mineral resources
- IAS 16 – Property, plant and equipment
- ED 9 – Joint arrangements (replacing IAS 31 – Interests in joint ventures)
- IAS 36 – Impairment of Assets

In addition, while IFRS does not prescribe how to account for flow-through shares, common practice may differ from Canadian GAAP and some adjustment to shareholders' equity may be required on the first-time adoption of IFRS.

The Company has updated its accounting procedures so as to collect information required under IFRS.

**Note 4      Environmental reclamation bonds**

The Company has posted term deposits pledged in favour of regulatory authorities as security for compliance with planned exploration expenditures on the Fran property which should be released to the Company upon satisfactory completion of that work.

Yankee Hat Minerals Ltd.  
Notes to the Annual Financial Statements  
For the years ended July 31, 2010 and 2009

**Note 5      Equipment and Exploration Data**

	Computer equipment	Exploration database	Exploration equipment	Vehicle	Total
<b>Cost</b>					
At July 31, 2009	\$ 615	\$ 28,000	\$ 49,755	\$ 29,425	\$ 107,795
Write-off	-	(28,000)	-	-	(28,000)
At July 31, 2010	615	-	49,755	29,425	79,795
<b>Accumulated Amortization</b>					
At July 31, 2009	111	4,105	12,931	8,910	26,057
Charge for the period	227	1,434	7,365	6,154	15,180
Write-off	-	(5,539)	-	-	(5,539)
At July 31, 2010	338	-	20,296	15,064	35,698
<b>Net book value</b>					
<b>At July 31, 2010</b>	<b>\$ 277</b>	<b>\$ -</b>	<b>\$ 29,459</b>	<b>\$ 14,361</b>	<b>\$ 44,097</b>
At July 31, 2009	\$ 504	\$ 23,895	\$ 36,824	\$ 20,515	\$ 81,738

Yankee Hat Minerals Ltd.  
Notes to the Annual Financial Statements  
For the years ended July 31, 2010 and 2009

**Note 6 Mineral Properties and Deferred Exploration Expenditures**

	Balance				Balance
	July 31,				July 31,
	2009	Additions	Recoveries	Write-Off	2010
<b>Acquisition costs:</b>					
Fran Property	\$ 389,500	\$ 30,000	\$ -	\$ -	\$ 419,500
Kidlark Property	263,925	-	(263,925)	-	-
Lancer Property	577,778	81,536	-	-	659,314
Selwyn Properties	38,800	-	-	-	38,800
Union Mine Property	154,165	15,000	-	-	169,165
	1,424,168	126,536	(263,925)	-	1,286,779
<b>Exploration costs:</b>					
Fran Property	3,003,914	5,853	-	-	3,009,767
Kidlark Property	4,024	545,586	(299,661)	-	249,949
Selwyn Properties	36,541	-	-	-	36,541
Union Mine Property	101,229	-	-	-	101,229
	3,145,708	551,439	(299,661)	-	3,397,486
	\$ 4,569,876	\$ 677,975	\$ (563,586)	\$ -	\$ 4,684,265
<b>Acquisition costs:</b>					
Achtung and Birdtung	\$ 5,000	\$ 14,667	\$ -	\$ (19,667)	\$ -
Fran Property	359,500	30,000	-	-	389,500
Kidlark Property	-	661,126	(397,201)	-	263,925
Lancer Property	288,889	288,889	-	-	577,778
Selwyn Properties	38,800	-	-	-	38,800
Tungsten Properties	135,000	-	-	(135,000)	-
Union Mine Property	131,592	22,573	-	-	154,165
WAU Property	233,333	-	-	(233,333)	-
Whitehorse Copper Property	128,000	685	-	(128,685)	-
	1,320,114	1,017,940	(397,201)	(516,685)	1,424,168
<b>Exploration costs:</b>					
Fran Property	2,994,235	9,679	-	-	3,003,914
Kidlark Property	-	145,565	(141,541)	-	4,024
Selwyn Properties	104,829	43,712	(112,000)	-	36,541
Tungsten Properties	-	-	-	-	-
Union Mine Property	100,729	500	-	-	101,229
WAU Property	325,000	-	(17,785)	(307,215)	-
Whitehorse Copper Property	425,923	20,594	-	(446,517)	-
	3,950,716	220,050	(271,326)	(753,732)	3,145,708
	\$ 5,270,830	\$ 1,237,990	\$ (668,527)	\$ (1,270,417)	\$ 4,569,876

**Note 6 Mineral Properties and Deferred Exploration Expenditures – (cont'd)**

a) Fran Property:

The Company entered into an option agreement whereby it has earned a 100% interest in three mineral claims located in the Omineca Mining Division, Province of British Columbia subject to a 2% net smelter return royalty ("NSR") and the payment of an additional \$30,000 per year in future royalty payments beginning March 31, 2009. At July 31, 2010 \$60,000 for future royalty payments due March 31, 2009 and March 31, 2010 are included in accounts payable.

The Company may reduce the 2% NSR to a 1% NSR by paying \$2,000,000 in cash.

After entering into the agreement above, the Company staked an additional 12 mineral claims contiguous to the original three.

b) Kidlark Property:

During the year ended July 31, 2009, the Company entered into an asset purchase agreement to purchase a 100% interest in a group of 102 mineral claims located in the Pelly Mountains approximately 90km northeast of Whitehorse, Yukon from a company having a common director and officer for consideration of \$662,000. The Company also entered into a joint venture agreement with a Japanese government corporation ("JOGMEC") whereby JOGMEC acquired a 60% joint venture interest in the properties by agreeing to contribute 60% of future expenditures as payment for their interest.

Pursuant to the terms of this joint venture agreement the Company and its joint venture partner, JOGMEC, are each responsible for their share of the combined expenditures on the Kidlark Property and the Selwyn Properties (the "JOGMEC Joint Venture"). Should one party fail to meet its share of the combined exploration costs then its joint venture interest will be diluted down on a pro-rata basis until such time as the joint venture interest is diluted to below 10% when that party's interest will be converted into a 1% NSR.

Subsequent to acquiring its initial joint venture interest, the Company has not contributed its full share of exploration costs related to the JOGMEC Joint Venture. As at July 31, 2010, the Company's joint venture interest in each of the Kidlark and Selwyn properties has been diluted down to 25% a joint venture interest.

The Company is the operator under the JOGMEC Joint Venture pursuant to which it received an operating fee of \$23,778 (2009 - \$34,916) related to the expenditure of \$545,586 (2009 - \$650,742) on the properties. JOGMEC's funding of the JOGMEC Joint Venture has been recorded as a recovery of acquisition and exploration costs. As the income from operating the JOGMEC Joint Venture is not related to the Company's primary business of exploring and mining mineral properties the net operator income has been shown under other income and not as revenue and expense on the statement of operations. In addition the Company also received \$18,000 in grants which has also been shown as a recovery of exploration costs.

Subsequent to July 31, 2010, the JOGMEC Joint Venture was terminated and JOGMEC transferred their 75% ownership of the joint venture to the Company, giving the Company undivided 100% ownership of the properties. In exchange the Company granted JOGMEC an option to repurchase a 75% joint venture interest in the properties until August 1, 2014 for the sum of \$1 plus two times the amount of any exploration expenditures incurred by the Company after September 30, 2010.

**Note 6**     **Mineral Properties and Deferred Exploration Expenditures – (cont'd)**

c) Lancer Property:

The Company entered into an option agreement whereby it has earned a 100% interest in a group of contiguous rare earth element properties located in south central Yukon, subject to a 2% net smelter return royalty to the vendors. The properties consist of 31 mineral claims located in the Watson Lake region of the Yukon.

During the year the Company issued 2,222,222 common shares (2009: 2,222,222) for a cumulative total of 6,666,666 shares over three years to earn the 100% interest.

d) Selwyn Properties:

During the year ended July 31, 2008, the Company acquired an initial 40% joint venture interest in a group of 299 mineral claims from a company having a common director and officer. These claims are located in several property groups throughout mid-central Yukon.

The Selwyn Properties were subject to the JOGMEC Joint Venture which was terminated subsequent to July 31, 2010 giving the Company a 100% interest in the properties, see note 6 b) above.

e) Union Mine Property:

During the year ended July 31, 2007 the Company acquired an undivided 100% interest in sixteen mineral claims located in the Greenwood Mining Division, Province of British Columbia. Twelve of these claims are subject to a 1.5% NSR, subject to a maximum of \$250,000 in NSR payments from eleven of the claims.

Also during the year ended July 31, 2007 the Company acquired an option to earn a 100% interest in an additional 27 mineral claims located in the same area on the following terms:

- i) pay \$30,000 (paid) and issue 175,000 common shares (issued);
- ii) pay \$15,000 on or before September 11, 2007 (paid);
- iii) pay \$15,000 on or before September 11, 2008 (paid);
- iv) pay \$15,000 on or before September 11, 2009 (paid);
- v) pay \$15,000 on or before September 11, 2010;(paid subsequent to July 31, 2010);
- vi) incurring exploration expenditures of not less than \$100,000 on or before October 31, 2008 (incurred).

This agreement is subject to a 1.5% net smelter return royalty, subject to a maximum of \$1,000,000.

f) Achtung, Birdtung, Tungsten, WAU and Whitehorse Copper properties:

During the year ended July 31, 2009 the Company decided not to continue its exploration of the Achtung and Birdtung, Tungsten, WAU and Whitehorse Copper properties and wrote off the costs incurred to date of \$19,667, \$135,000, \$540,548, and \$575,202 respectively.

**Note 7**     **Share Capital**

a) Authorized:

Unlimited number of common and preferred shares

b) Issued:

The Company had the following transactions involving its common shares during the year ended July 31, 2009:

- the Company closed two flow-through private placements consisting of 8,045,888 shares for gross proceeds of \$343,986. A total of \$7,000 in finders' fees were paid in connection with these private placements;
- in the settlement of various debts payable as a result of mineral property acquisition, exploration and general expenses the Company issued 9,636,298 common shares valued at \$481,815. Included in these debt settlements were 6,812,000 common shares valued at \$340,600, to a company with directors and officers in common. The common shares issued were valued at the market price of the common shares on the date of their issuance; and
- during the year ended July 31, 2009, the Company issued 3,388,888 common shares valued at \$439,555, being the market price of the shares on the date of the transaction, for acquisition of various resource properties.

During the year ended July 31, 2010 the Company had the following transactions involving common shares:

- the Company issued 1,900,000 flow-through shares for proceeds of \$95,000; and
- pursuant to the Lancer property option agreement the Company issued 2,222,222 common shares valued at \$77,778 based on the market price of the common share at the date of issuance.

Subsequent to July 31, 2010 the Company had the following transactions involving common shares:

- the Company closed a private placement consisting of 6,300,000 units at a price of \$0.05 per unit for gross proceeds of \$315,000. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase one common share at \$0.20 until August 24, 2011. In connection with this private placement the Company paid \$28,350 and issued 567,000 warrants, with an exercise price of \$0.10 until August 24, 2011, to finders; and
- the Company also closed a private placement consisting of 11,052,270 units at a price of \$0.05 per unit for gross proceeds of \$552,614 and 1,896,934 flow-through units at a price of \$0.075 per unit for gross proceeds of \$142,270. Each unit consisted of one common share and one share purchase warrant which entitles the holder to purchase one common share at \$0.20 until September 9, 2011. In connection with this private placement the Company paid finders' fees of \$27,564 and issued 516,024 warrants with an exercise price of \$0.10 until September 9, 2011.

**Note 7     Share Capital – (cont'd)**

c) Stock Options:

Under the Company's stock option plan, the total number of share purchase options to be granted and outstanding may not exceed 10% of the total issued and outstanding common shares at the date of grant. Options are granted with an exercise price at the market price, less permitted discounts on the grant date, vest according to privileges set at the time the option is granted and must expire no later than five years from the date of grant.

As at July 31, 2010, the following stock options are fully vested and are exercisable into an equal number of common shares:

Number Outstanding	Exercise Price	Expiry Date
500,000	\$0.10	June 1, 2011
330,000	\$0.12	October 13, 2011
700,000	\$0.10	June 1, 2012
750,000	\$0.10	June 21, 2012
550,000	\$0.15	March 16, 2013
700,000	\$0.10	May 31, 2014
3,100,000	\$0.10	June 1, 2015
6,630,000		

A summary of stock option activity during the years ended July 31, 2010 and 2009 is as follows:

	July 31, 2010		July 31, 2009	
	Number	Weighted Avg. Exercise Price	Number	Weighted Avg. Exercise Price
Options outstanding, beginning of year	2,730,000	\$ 0.13	4,470,000	\$ 0.14
Granted	5,000,000	0.10	-	-
Expired	<u>(1,100,000)</u>	0.15	<u>(1,740,000)</u>	0.15
Options outstanding, end of year	<u>6,630,000</u>	0.11	<u>2,730,000</u>	0.13
Options exercisable, end of year	<u>6,630,000</u>	\$ 0.11	<u>2,730,000</u>	\$ 0.13

The weighted average life remaining of the options outstanding at July 31, 2010 is 3.41 years (2009 – 3.06).

**Note 7**     **Share Capital – (cont'd)**

c) Stock Options:

During the year ended July 31, 2010, stock-based compensation expense was \$295,164 (2009: \$24,276). The fair value of stock options was determined on their grant date using the Black-Scholes Option Pricing Model with assumptions as follows:

	Year ended July 31, 2010	Year ended July 31, 2009
Risk-free interest rate	1.73%	2.7% - 4.18%
Estimated volatility	124% - 161%	69% - 98%
Expected life	1 year – 5 years	1 year – 5 years
Expected dividend yield	0%	0%

Subsequent to July 31, 2010, the Company entered into an agreement with an investor relations company whereby the Company agreed to pay a fee of \$3,000 per month and issue 250,000 stock options to acquire an equal number of common shares at \$0.10 per share. These options expire on September 1, 2011 and vest quarterly.

d) Share Purchase Warrants:

As at July 31, 2010 and 2009 there were no share purchase warrants outstanding.

During the year ended July 31, 2009 a total of 10,549,420 warrants to acquire an equal number of common shares at an average price of \$0.29 per share expired unexercised.

**Note 8**     **Related Party Transactions**

Related party transactions were measured at the exchange amount, which is the amount of consideration established and agreed to by the related party and the Company.

In addition to those noted elsewhere in these financial statements, the Company had the following transactions with related parties.

During the year ended July 31, 2010 the Company incurred \$174,500 (2009 - \$216,000) in management fees paid to various officers, directors and private companies controlled by them. The Company also incurred \$30,000 (2009 - \$40,000) in consulting fees by a private company with a director and officer in common. Occupancy costs of \$21,339 (2009 - \$31,118) were paid to various companies with officers and directors in common.

In addition to the above, during the year ended July 31, 2009 the Company also paid \$5,300 in interest to officers of the Company, a company with a director in common forgave a debt of \$196,450, and the Company purchased mineral properties from a company with a common director for \$662,000.

During the year ended July 31, 2009, the Company issued 6,812,000 common shares valued at \$340,600 to a company with a director and an officer in common, in the settlement of a debt payable as a result of the purchase of a mineral property. On April 30, 2009, the Company settled a further \$306,538 of debt with this company by assuming an equal value of that company's payables that pertained to work done in the Yukon on properties that the Company later purchased.

**Note 8**      **Related Party Transactions**

As at July 31, 2010, prepaid expenses included a rent deposit of \$9,820 (2009 - \$28,641) paid to a company with a director in common with the Company.

Included in due to related parties is \$322,675 (2009 - \$104,000) in unsecured, non-interest bearing loans with no specific terms of repayment from officers, directors and companies with directors and officers in common. Amounts due to related parties also include \$282,665 (2009 - \$80,606) in loans from a company with directors and officers in common which is unsecured, has no specific terms of repayment but bears interest at 6%,

At July 31, 2009 accounts payable and accrued liabilities included \$12,593 due to directors and officers of the Company and companies with directors in common with the Company.

**Note 9**      **Comparative Figures**

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation

**Note 10**     **Income Tax**

The reconciliation of income tax benefit computed at statutory rates to the reported income tax benefit is as follows:

	<u>2010</u>	<u>2009</u>
Income (loss) before income tax	\$ <u>(888,745)</u>	\$ <u>(1,767,062)</u>
Statutory income tax rate	<u>29.13%</u>	<u>30.21%</u>
Expected tax recovery on loss	\$ (258,800)	\$ (533,800)
Differences due to recognition of items for tax purposes		
Permanent differences	130,200	7,400
Share issue costs	-	(1,800)
Effect of reduction in statutory income tax rate	18,200	120,500
Non-capital losses expired	49,000	83,500
Change in valuation allowance	<u>(20,700)</u>	<u>(3,800)</u>
Future income tax recovery	\$ <u>(82,100)</u>	\$ <u>(328,000)</u>

Significant components of the Company's future tax assets and liabilities, after applying enacted corporate income tax rates, are as follows:

	<u>2010</u>	<u>2009</u>
Future income tax assets (liabilities)		
Non-capital loss carry-forwards	\$ 973,000	\$ 903,000
Capital loss carry-forwards	310,000	310,000
Share issue costs	26,000	44,000
Exploration and development expenses	(533,000)	(450,000)
Capital assets	32,000	22,000
Less: valuation allowance for future income tax assets	<u>(808,000)</u>	<u>(829,000)</u>
Net future income tax assets	\$ <u>-</u>	\$ <u>-</u>

**Note 10**    **Income Tax – (cont'd)**

The Company has a non-capital tax loss carry forward of \$3,893,412 available to reduce future taxable income. The loss expires as follows:

	<u>Amount</u>
2014	147,027
2015	402,365
2026	491,232
2027	545,545
2028	1,103,656
2029	724,426
2030	<u>479,161</u>
	<u>\$ 3,893,412</u>

The Company has capital losses of \$2,477,000 to be applied against future capital gains. These losses can be carried forward indefinitely.

The Company has Canadian Exploration and Development Expenditures totaling \$2,556,000 that are available to reduce future taxable income.

**Flow-Through Offerings**

During the year ended July 31, 2010, the Company issued 1,900,000 flow-through shares for total proceeds of \$95,000 (2009 - 8,045,888 flow-through shares for proceeds of \$343,986). The Company is committed to spending the flow-through unit proceeds on exploration and development activities and to renouncing these funds on eligible Canadian exploration expenditures to the subscribers of the flow-through units. Expenditures related to the use of flow through share proceeds are not available as a tax deduction to the Company as the benefits of these expenditures have been renounced to the investors.

During the year ended July 31, 2010, the Company renounced \$328,236 (2009 - \$1,260,750) of qualifying expenditures which were under the look-back rule which allows renunciation in advance of actual expenditures incurred. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$82,059 (2009: \$327,893) with respect to the renunciation. As at July 31, 2010, the Company was required to incur \$214,237 in additional qualifying expenditures by December 31, 2010.

Expenditures to be incurred are subject to Part XII.6 tax and possibly interest and penalties which the Company has estimated on an annual basis. During the year ended July 31, 2010 the Company was subject to an audit by the Canada Revenue Agency of its previously renounced flow through expenditures for the calendar years ended December 31, 2004 through 2007. This audit resulted in a reassessment of Part XII.6 tax, interest and penalties totaling \$145,712 being charged to income as at July 31, 2010.

**Note 11**    **Non-cash Transactions**

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statements of cash flows. The following transactions were excluded from the statements of cash flows:

**Note 11**    **Non-cash Transactions – (cont'd)**

- During the year ended July 31, 2010, the Company issued 2,222,222 common shares valued at \$77,778 in connection with the option agreement related to the Lancer Property. During the year ended July 31, 2009, the Company issued 3,388,888 common shares valued at \$439,555 for resource property acquisition costs in relation to the Tungsten property, the Achtung and Birdtung properties, the Lancer property and the Union property.
- During the year ended July 31, 2010, \$253,318 (2009 - \$348,317) in accounts payable related to mineral property acquisition and exploration costs.
- During the year ended July 31, 2009, the Company issued 9,636,298 shares to settle debts of \$481,815

**Note 12**    **Financial Instruments**

The carrying value of the company's financial instruments approximate their fair value due to their short term nature.

**Credit and liquidity risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. As at July 31, 2010 the Company is not exposed to any significant credit risk.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to the risk that the value of financial instruments will change due to movement in market interest rates. The Company does not hold interest-bearing debt with long-term maturities and therefore does not believe that interest rate risk is significant. The Company does not use derivative instruments to reduce its interest rate risk as the Company's management believes that the likely financial impact of interest rate changes does not justify using derivatives.

**Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liability. As at July 31, 2010, the Company has a working capital deficiency. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options. As disclosed in Note 7, subsequent to July 31, 2010, the Company raised an additional \$867,614 pursuant to the issue of common shares.

**Note 13**    **Capital Management**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

**Note 13**    **Capital Management – (cont'd)**

The Company considers the items included in shareholders' equity totalling \$3,488,428 as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

**Note 14**    **Contingencies**

The Company has been named in a claim commenced in the Supreme Court of British Columbia by Manto Resources Ltd. ("Manto") on January 6, 2009 against the Company and various vendors of the Fran property (Note 6(a)) alleging that the Company breached its duties owed to Manto in entering into the option agreement while negotiating a joint venture with Manto. No amount has been specified in the claim and management believes the claim is without merit and intends to defend the action.