Interim Consolidated Financial Statements

Pele Mountain Resources Inc.

For the Nine Months Ended June 30, 2011

Unaudited - See Notice to Reader

INDEX

NOTICE TO READER

The accompanying unaudited interim consolidated financial statements have been prepared by the Company's management and the Company's independent auditors have not performed a review of these financial statements.

Pele Mountain Resources Inc.

Interim Consolidated Balance Sheets
As at June 30, 2011 and September 30, 2010
Unaudited

	June 30, 2011	September 30, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 3,302,297	$ 2,100,803
Prepaid expenses and other assets	236,818	53,377
Receivables from joint venture partners	156	156
	3,539,271	2,154,336
Investment In and Advances to Affiliate (note 4)	41,449	40,000
Property, Plant and Equipment	51,478	73,098
Resource Properties (note 5)	19,859,458	17,642,629
	$ 23,491,656	$ 19,910,063
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	$ 975,213	$ 332,689
Resource Properties (note 5)	202,016	202,016
Future Income Taxes	2,095,628	1,551,446
	3,272,857	2,086,151
Shareholders' Equity		
Capital Stock (note 6)	35,157,257	31,483,427
Contributed Surplus (note 7,8)	3,690,224	3,412,470
Deficit	(18,628,682)	(17,071,985)
	20,218,799	17,823,912
	$ 23,491,656	$ 19,910,063

Approved by the Board **"Alan Shefsky"** Director **"Martin Cooper"** Director

See accompanying notes.

Pele Mountain Resources Inc.

Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the Periods Ended June 30
Unaudited

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Expenses				
Salaries and benefits	$ 110,403	$ 103,635	$ 417,691	$ 378,438
Public and investors relations	109,063	20,385	426,636	160,264
Listing and filing fees	23,052	4,320	123,884	72,334
Administrative	88,163	53,877	270,138	184,321
Professional fees	31,671	32,009	123,258	132,064
Directors' fees	5,250	7,050	16,950	19,050
Stock-based compensation	27,240	27,022	606,587	423,740
Write-off of resource properties (note 5)	-	27,681	-	2,259,808
Amortization	4,330	13,539	28,894	40,615
Less:				
Interest income	(11,266)	(592)	(33,446)	(3,188)
	387,906	288,926	1,980,592	3,667,446
Net Loss and Comprehensive Loss before Income Taxes	(387,906)	(288,926)	(1,980,592)	(3,667,446)
Future Income Tax Recoveries (note 9)	(89,777)	(65,094)	(423,895)	(1,107,313)
Net Loss and Comprehensive Loss for the Period	(298,129)	(223,832)	(1,556,697)	(2,560,133)
Deficit - Beginning of Period	(18,330,553)	(16,724,089)	(17,071,985)	(14,387,788)
Deficit - End of Period	$ (18,628,682)	$ (16,947,921)	$ (18,628,682)	$ (16,947,921)
Net Loss per Share				
Basic and diluted	$ (0.002)	$ (0.002)	$ (0.012)	$ (0.025)
Weighted Average Number of Common Shares Outstanding				
Basic and diluted	133,918,746	101,843,608	130,562,575	100,623,022

See accompanying notes.

Pele Mountain Resources Inc.

Interim Consolidated Statements of Cash Flows
For the Periods Ended June 30
Unaudited

	Three Months Ended		Nine Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities				
Cash paid to suppliers and employees	$ (417,641)	$ (223,664)	$(1,608,304)	$ (899,819)
Interest received	11,266	592	33,446	3,188
	(406,375)	(223,072)	(1,574,858)	(896,631)
Cash Flows from Investing Activities				
Acquisition of property, plant and equipment	-	-	(7,274)	(2,378)
Resource property expenditures	(636,708)	(276,909)	(1,527,999)	(1,428,415)
Investment in and advances to affiliate	-	(35,000)	(1,449)	(35,000)
	(636,708)	(311,909)	(1,536,722)	(1,465,793)
Cash Flows from Financing Activities				
Issuance of capital stock	-	-	4,313,074	1,046,478
Increase (Decrease) in Cash during the Period	(1,043,083)	(534,981)	1,201,494	(1,315,946)
Cash and Cash Equivalents - Beginning of Period	4,345,380	1,183,350	2,100,803	1,964,315
Cash and Cash Equivalents - End of Period	$ 3,302,297	$ 648,369	$ 3,302,297	$ 648,369

See accompanying notes.

1. Basis of Presentation and Accounting Policies

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of Canadian generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended September 30, 2010. The unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended September 30, 2010.

Accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. In the opinion of management, the accompanying unaudited interim financial statements include all adjustments of a normal recurring nature to present fairly the position of the Company as at June 30, 2011. These financial statements reflect the results of operation for the nine month period ended June 30, 2011.

The Company's principal assets are its resource properties which are not yet in commercial production. The Company is in the process of exploring its resource properties and has not yet determined whether the properties contain economically recoverable reserves.

The recoverability of the carrying value of the Company's resource properties is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to develop these properties and future profitable production or proceeds from disposition of such properties. Realized amounts for the Company's resource properties may vary materially from book amounts.

These consolidated financial statements include the accounts of the Company and those of its wholly-owned subsidiaries, First Canadian Uranium Inc. ("**First Canadian Uranium**"), Pele Diamond Corporation ("**Pele Diamond**") and Pele Gold Corporation ("**Pele Gold**"). All intercompany accounts and transactions have been eliminated.

2. Capital Disclosures

The Company's objectives when managing capital are as follows:

(i) to safeguard the Company's ability to continue as a going concern;
(ii) to raise sufficient capital to finance its exploration and development activities on its Eco Ridge Mine Project;
(iii) to raise sufficient capital to meet its general and administrative expenditures, and to explore and develop its other resource properties;

The Company manages its capital structure and makes adjustments to it, based on the general economic conditions, the Company's short term working capital requirements, and its planned exploration and development program expenditure requirements.

As the Company is in the development stage, its principal source of capital is from the issuance of common shares. In order to achieve its objectives, the Company expects to spend its existing working capital and raise additional funds as required.

2. Capital Disclosures (continued)

The Company does not have any externally imposed capital requirements other than the requirement to incur certain amount of Canadian exploration expenses ("**CEE**") pursuant to the flow-through private placements completed during the calendar year ended December 31, 2010. As at June 30, 2011, the Company is required to incur CEE of $1,644,414 by December 31, 2011.

There were no changes to the Company's approach to capital management during the nine months ended June 30, 2011.

3. Financial Instruments

The Company has classified its financial instruments as follows:

Financial Instrument	Classification	Accounting Treatment
Cash and cash equivalents	Held for trading	Fair value
Receivables from joint venture partners	Loans and receivables	Amortized cost
Advances to affiliate	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost

Cash and cash equivalents include bank deposits and highly liquid money market investments such as bankers acceptance notes, treasury bills and guaranteed investment certificates.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

The Company is not exposed to any significant credit risk other than on its advances of $41,359 to its affiliate 2238484 Ontario Inc. as at June 30, 2011. The Company's cash and cash equivalents are either on deposit with a highly rated banking group in Canada or invested in the treasury bills issued by the Government of Canada.

Liquidity risk

The Company had working capital of $2,564,058 as at June 30, 2011, which is sufficient to cover its contractual obligations for at least the next twelve months.

Market and other risks

(i) Interest rate risk

The Company has significant cash and cash equivalent balances and it has no interest-bearing debt. The Company's current policy is to invest its excess cash in highly liquid short-term guaranteed investment certificates issued by the bank with which it keeps its bank accounts or in short term treasury bills issued by the Government of Canada. Accordingly, the Company is subject to short term interest rate price risk. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its bank.

3. Financial Instruments (continued)

(ii) Foreign currency risk

The Company's functional currency is primarily the Canadian dollar. All of the Company's cash and equivalents are in Canadian dollars. The majority of the Company's purchases are transacted in Canadian dollars. As at June 30, 2011, the Company had accounts payable of US$27,630 denominated in US currency.

(iii) Price risk

The prices of metals and other commodities are subject to market fluctuations and are affected by many factors outside of the Company's control. The prices of metals and future expectation of such prices have a significant impact on the market sentiment for investment in mining and mineral exploration companies. This in turn may impact the Company's ability to raise equity financing for its long term working capital requirements.

Sensitivity analysis

Based on management's knowledge and experiences of the financial markets, the Company's management believes the following movements are "reasonably possible" over a three month period.

As at June 30, 2011, approximately 95% of the Company's cash and cash equivalents are invested in fixed rate short term money market investments which are not subject to interest rate fluctuations for the next three months. Accordingly, sensitivity to a plus or minus 25 basis points change in rates would not have any significant effect on the Company's net income for the next three months.

The Company had accounts payable of US$27,630 denominated in US currency as at June 30, 2011 and its anticipated expenditures transacted in US dollars for the next three month period is approximately US$20,000. If the Canadian Dollar weakens (or strengthens) 5% against the United States Dollar with other variables held constant, the Company's expenditures would increase (or decrease) by approximately $2,000 over a three month period.

4. Investment in and Advances to Affiliate

The Company owns 3,000,000 common shares (which is 33.33%) of the issued share capital of 2238484 Ontario Inc.

The investment in 2238484 Ontario Inc. is accounted for by the equity method. This company owns mining claims in the Sachigo Greenstone Belt in Northern Ontario. Advances are non-interest bearing and have no specific terms of repayment.

Common shares	$ 90
Equity in retained earnings	-
	90
Advances	41,359
	$ 41,449

5. Resource Properties

	October 1, 2010	Net Additions (Recoveries)	Write-Offs	June 30, 2011
Eco Ridge Mine Project (i)	$ 9,693,946	$ 1,892,459	$ -	$ 11,586,405
Highland Gold Project (ii)	4,209,042	168,480	-	4,377,522
Ardeen Gold Project (iii)	3,177,303	6,500	-	3,183,803
Pigeon River Project (iv)	562,338	149,390	-	711,728
	$ 17,642,629	$ 2,216,829	$ -	$ 19,859,458
Timmins Project (v)[1]	$ (123,296)	$ -	$ -	$ (123,296)
Sudbury Project (vi)[1]	(78,720)	-	-	(78,720)
	$ (202,016)	$ -	$ -	$ (202,016)

(1) The Company had received consideration from its joint venture partners or optionees in excess of its costs incurred to date. It is expected that further expenditures in excess of this consideration will be incurred by the Company during the development of the property, and therefore these amounts have been deducted from the carrying value of these properties.

(i) Eco Ridge Mine Project (Elliot Lake, Ontario)

The Eco Ridge Mine Project is currently comprised of approximately 392 mining claim units covering approximately 20,000 acres in northern Ontario.

During the year ended September 30, 2005, the Company acquired a 100% beneficial interest in its original Elliot Lake uranium property by way of staking. It included a total of 15 mining claims (comprised of 122 mining claim units) covering nearly 5,000 acres.

During the year ended September 30, 2007, the Company expanded its Elliot Lake Project through the following acquisitions:

a) entered into a purchase agreement with CanAlaska Uranium Ltd. ("**CanAlaska**") to purchase a 100% interest in five unpatented mining claims comprising the Pardee Uranium Property (the "**Pardee Claim Group**"). The Pardee Claim Group includes 60 mining claim units located east of the city of Elliot Lake covering approximately 2,400 acres and tying on to the southern boundary of one of the Company's original Elliot Lake claim blocks.

   CanAlaska has retained a 1.75% Net Smelter Return Royalty (the "**NSR Royalty**") on the Pardee Claim Group, of which 1.0% can be bought back by the Company for a total of $1 million.

b) purchased a 100% interest in 101 mining claim units, known as the Platina Claim Group (the "**Platina Claim Group**") along the eastern and southern boundaries of its Eco Ridge Mine Project from Precambrian Ventures Ltd. (the "**Precambrian**").

5. Resource Properties (continued)

Under the terms of the amended agreement entered into by the Company and Precambrian on December 31, 2008, the Company is required to pay Precambrian up to an additional $150,000 in cash, all subject to and in accordance with the following conditions and provisions:

- $75,000 on the twentieth day after the completion of a positive feasibility study in respect of the Platina Claim Group; and

- $75,000 on the twentieth day after commencement of commercial production in respect of the Platina Claim Group.

Precambrian continues to retain a 1.75% NSR royalty, of which the Company may buy back 1% for $1.0 million.

c) purchased a 100% interest in 5 mining claims comprised of 77 claim units located immediately adjacent to the southern boundary of its Eco Ridge Mine Project.

Under the terms of the amended agreement entered into by the Company and the vendors of these five mining claims (the "**Vendors**"), the Company is required to pay the Vendors an additional $40,000 in cash on the date which is the 20th day after the completion by the Company of a positive feasibility study in respect of the 5 mining claims, if and when such feasibility study is completed.

The Vendors continue to retain a 3.0% NSR royalty, of which the Company may buy back 1.5% for $1.5 million.

d) acquired 14 additional mining claims comprised of 140 mining claim units by way of staking.

During the year ended September 30, 2009, the Company signed a 21-year lease agreement (the "**Lease**") with the City of Elliot Lake ("**City**") in respect of surface rights to key mining claims owned by the Company at its Eco Ridge Mine Project in Northern Ontario. The Lease includes the City's surface rights to a total of 48 surface patents comprising of approximately 796 hectares and includes an option for the Company to purchase the surface rights under certain circumstances. The annual lease payment is $2,388.

During the nine months ended June 30, 2011, the Company entered into two mining leases (the "**Mining Leases**") with the Province of Ontario for the Eco Ridge Mine Project. The Mining Leases provide the Company an exclusive right to mine the Eco Ridge deposit and include surface rights that allow for siting of project infrastructure and processing facilities. The Mining Leases are for a period of 21 years (commencing on March 1, 2011) and are renewable. The Mining Leases cover an area of 3,831 acres and the annual lease payments total $4,652.

5. Resource Properties (continued)

(ii) Highland Gold Project (Wawa, Ontario)

The Company has an undivided legal and beneficial interest in approximately 210 mining claim units and 40 lease-patented and 21 patented mining claims, and has entered into an exploration license agreement covering 45 square kilometers located 50 kilometers northeast of Wawa, Ontario.

The Company's interest in the above mining claims were acquired by staking and by entering into purchase or license agreements with various third parties, and are subject to certain royalties in favor of the vendors or land owners as outlined in the 43-101 technical report of the property that was filed by the Company on www.SEDAR.com on May 3, 2007.

(iii) Ardeen Gold Project (Moss Lake, Thunder Bay, Ontario)

The Company has an undivided 49% legal and beneficial interest in approximately 290 mining claim units and 4 patented mining claims located within Moss Township in the district of Thunder Bay, Ontario.

Approximately 41 mining claim units and 2 patented mining claims were acquired from a group of vendors pursuant to a purchase and sale agreement dated June 3, 1997. Under the terms of the purchase and sale agreement, the Company is required to issue an aggregate of 240,000 common shares to the vendors contingent on the property going into commercial production. The balance of the property was acquired through a series of acquisition agreements (some of which are subject to royalty interests to the vendors) and through staking campaigns.

During the year ended September 30, 2009, Pele Gold entered into a definitive option agreement (the "**Definitive Agreement**") for the Ardeen Gold Project with Coventry Resources Limited ("**Coventry**") with the following relevant terms:

- Coventry paid Pele Gold $25,000 initial payment and $75,000 cash on signing the Definitive Agreement;
- Coventry may earn a 51% interest in the project by spending $1.5 million at Ardeen within 18 months of entering into the Definitive Agreement;
- Once Coventry has earned a 51% interest, it may then elect to increase its interest to 75% by spending an additional $1.5 million at Ardeen by the 42nd month after signing the Definitive Agreement;
- Once Coventry has earned a 75% interest, it will provide Pele Gold with a proposed budget for an additional two years of work. At that point, Pele Gold may elect to keep its 25% interest in the project by agreeing to fund its proportionate share of the proposed budget in which case a joint-venture will be formed between Coventry and Pele Gold. Otherwise, Pele Gold can elect to not fund the proposed budget and Coventry will continue to solely fund project development. Under that scenario, once Coventry has completed a feasibility study, it will have earned a 100% interest in the project, with Pele retaining a 2.0% NSR royalty. Until a feasibility study has been completed, Pele Gold shall retain a 25% interest in the project.

During the nine months ended June 30, 2011, Coventry has earned its 51% interest in the project and Pele Gold now holds a 49% interest in the Project.

5. Resource Properties (continued)

(iv) Pigeon River Project (Thunder Bay, Ontario)

During the year ended September 30, 2010, the Company staked more than 1,000 mining claim units totalling approximately 18,750 hectares in the Pigeon River area of Northwest Ontario, about 80 kilometres to the west of Thunder Bay. The Pigeon River Project, which is owned 100 percent by the Company, covers very large unexplored magnetic targets with potential to host nickel ("Ni"), copper ("Cu"), and platinum group elements ("PGE") mineralization .

In connection with the staking and planned exploration of the Pigeon River Project, the Company had granted a 1.5% NSR to 2212150 Ontario Inc., a private, arm's length company operating as Vanex Exploration ("**Vanex**"), of which the Company may buy back up to 1.0% for $1,000,000. The Company has also retained Vanex for geological consulting services. In addition to the initial payment of $25,000 in consulting fees, the Company had also granted Vanex 200,000 stock options at a price $0.205 per share which is exercisable until December 31, 2012 (the "**First Option**") together with an additional 200,000 stock options at a price of $0.205 expiring on December 31, 2014 (the "**Second Option**"). The exercise of the Second Option is conditional upon independent third party confirmation of a drill intersection of at least 20 metres of core grading at least 2.5% nickel on the Pigeon River Property (the "**Grading Condition**"). In addition, upon satisfaction of the Grading Condition, Vanex shall be paid a one-time bonus of $50,000.

(v) Timmins Project (Timmins, Ontario)

The Company has a 100% registered interest in 20 mining claims located 35 kilometers south of Timmins in northern Ontario. These mining claims are comprised of approximately 88 mining claim units.

During the year ended September 30, 2008, the Company entered into a purchase and sale agreement with Fletcher Nickel Inc. ("**Fletcher**") to sell its 100% interest in the Timmins Project to Fletcher.

To acquire the 100% interest in the project, Fletcher has agreed to pay the following consideration:

a) pay the Company an aggregate of $600,000 in cash in eight quarterly payments of $75,000 each beginning on the effective date of the purchase and sale agreement, with the final payment being made on or before January 15, 2010;

b) issue to the Company 600,000 common shares in the capital of Fletcher (each a "**Fletcher Share**") on the effective date of the purchase and sale agreement and a second issuance of Fletcher Common Shares on May 15, 2009 having an aggregate value of $325,000, based on a weighted average trading price formula calculated as at the time of issuance.

The Company also retains a 1.5% NSR in the project, of which 1.0% can be repurchased by Fletcher for $1.0 million.

5. Resource Properties (continued)

As at September 30, 2009, the Company has received the cash payments totalling $175,000 and 600,000 Fletcher shares with a total fair value of $420,000 as at the time of issuance, and these amounts had been recorded as a reduction to the carrying value of the Timmins Project.

However, Fletcher failed to make the payments that were due in 2009. During the year ended September 30, 2010, Fletcher and the Company had agreed to terminate the purchase and sale agreement and the Timmins Project continues to be 100% owned by the Company.

(vi) Sudbury Project (Sudbury, Ontario)

During the year ended September 30, 2005, the Company acquired by way of purchase and staking, a 100% undivided legal and beneficial interest in certain mining claims in the prolific Sudbury Mining Camp of northern Ontario. It includes 28 mining comprised of 350 mining claim units covering approximately 14,000 acres. The vendor was reimbursed for the costs of staking and recording these claims and was granted a 1.5% NSR. The Company may, at its option, repurchase 1% of the NSR from the vendor for $1.0 million.

During the year ended September 30, 2006, the Company entered into an option agreement with Wallbridge Mining Company Ltd. ("**Wallbridge**"). Wallbridge has the right to earn a 60% interest by issuing 1,050,000 common shares to the Company (of which all 1,050,000 shares had been issued) and incurring $1.2 million in exploration expenditures by December 31, 2009. Wallbridge has the right to increase its interest to 72.5% by completing a bankable feasibility study and arranging the financing for the project through to commercial production.

Wallbridge has fulfilled its commitments under the Option Agreement and accordingly, Wallbridge currently holds a 60% interest in a new Joint Venture with Pele, with Wallbridge holding 60% and Pele holding a 40% interest in the Joint Venture.

A $200,000 program has been proposed by Wallbridge, and the Company has notified Wallbridge that it will not fund its share of this program, and upon completion of the program its interest in the joint venture is expected to be reduced to approximately 36%.

6. Capital Stock

Authorized

Unlimited common shares

Issued

	Number of Shares	Amount
Balance at October 1, 2010	113,645,908	$ 31,483,427
Issued for private placement (ii)	13,979,227	2,932,800
Issued on exercise of Compensation Options (ii)	272,222	69,961
Issued on exercise of options (ii)	1,980,000	932,926
Issued on exercise of warrants (ii)	4,041,389	1,010,365
Less: Share issuance costs - cash		(217,193)
Less: Share issuance costs - compensation warrants		(86,952)
Less: Tax effect of renunciation of exploration expenditures		(968,077)
Balance at June 30, 2011 (i)	133,918,746	$ 35,157,257

(i) The Company is conditionally committed to issue an additional 240,000 common shares in connection with the Ardeen Gold Project as more particularly described in Note 5(iii).

(ii) During the nine months ended June 30, 2011, the Company:

a) completed a non-brokered private placement and issued 3,026,664 units at a price of $0.18 per unit for gross proceeds of $544,800 (of which 660,000 units were issued to an officer and two directors or their holding companies). Each unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $0.25 per share until April 1, 2012.

In connection with the private placement, the Company paid a cash fee of $15,820 and issued 87,889 non-transferable compensation warrants, where each warrant entitles the holder to purchase one common share of the Company at a price of $0.18 per share until April 1, 2012.

The estimated fair value of the compensation warrants totalled $6,267 and this amount had been credited to the contributed surplus account;

6. Capital Stock (continued)

b) completed a non-brokered private placement and issued 4,600,000 units at a price of $0.18 per unit for gross proceeds of $828,000. Each unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $0.25 per share until April 6, 2012.

In connection with the private placement, the Company paid a cash fee of $57,960 and issued 322,000 non-transferable compensation warrants, where each warrant entitles the holder to purchase one common share of the Company at a price of $0.18 per share until April 6, 2012.

The estimated fair value of the compensation warrants totalled $26,726 and this amount had been credited to the contributed surplus account;

c) completed a non-brokered private placement and issued 2,250,000 units (of which 600,000 units were issued to a company owned by an officer and director) at a price of $0.16 per unit for gross proceeds of $360,000. Each unit is comprised of one common share and one non-transferable share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.25 per share until October 6, 2012.

In connection with the private placement, the Company paid a cash fee of $18,480 and issued 115,500 non-transferable compensation warrants, where each warrant entitles the holder to purchase one common share of the Company at a price of $0.16 per share until October 6, 2012.

The estimated fair value of the compensation warrants totalled $13,133 and this amount had been credited to the contributed surplus account;

d) completed a non-brokered private placement and issued 3,333,333 units at a price of $0.30 per unit for gross proceeds of $1,000,000. Each unit is comprised of one flow-through common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one additional common share of the Company at a price of $0.40 per share until November 16, 2012.

In connection with the private placement, the Company paid a cash fee of $61,750 and issued 221,666 non-transferable compensation warrants, where each warrant entitles the holder to purchase one common share of the Company at a price of $0.30 per share until November 16, 2012.

The estimated fair value of the compensation warrants totalled $32,496 and this amount had been credited to the contributed surplus account;

e) completed a non-brokered private placement and issued 769,230 units at a price of $0.26 per unit for gross proceeds of $200,000. Each unit is comprised of one common share and one non-transferable share purchase warrant, where each warrant entitles the holder to purchase one additional common share of the Company at a price of $0.36 per share until November 16, 2012.

6. Capital Stock (continued)

In connection with the private placement, the Company paid a cash fee of $13,000 and issued 53,846 non-transferable compensation warrants, where each warrant entitles the holder to purchase one common share of the Company at a price of $0.26 per share until November 16, 2012.

The estimated fair value of the compensation warrants totalled $8,330 and this amount had been credited to the contributed surplus account;

f) issued 272,222 units for cash proceeds of $49,000 pursuant to the exercise of an equivalent number of Finder's Compensation Options ("**Compensation Options**"). Each unit is comprised of one common share and one half non-transferable share purchase warrant, where each whole warrant entitles the holder to purchase one common share at a price of $0.35 per share until November 20, 2010. These 136,111 warrants expired unexercised. The estimated fair value at issuance of these compensation options was $20,961, and this amount has been added to the recorded value of the issued shares.

g) issued 1,980,000 common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of $539,100. The estimated fair value at issuance of these options was $393,826, and this amount has been added to the recorded value of the issued shares.

i) issued 4,041,389 common shares pursuant to the exercise 4,027,389 share purchase warrants and 14,000 compensation warrants for cash proceeds of $1,009,367. The estimated fair value at issuance of the compensation warrants was $998, and this amount has been added to the recorded value of the issued shares.

The fair value of the compensation warrants was estimated at the grant date based on the Black-Scholes pricing model, using the following weighted average assumptions:

Expected dividend yield	Nil
Risk-free interest rate	1.39%
Expected life	1.7 years
Expected volatility	104%

Warrant pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's compensation warrants.

7. Contributed Surplus

Contributed surplus consist of the estimated fair values of the outstanding and expired compensation warrants, stock options and compensation options:

Balance at October 1, 2010	$ 3,412,470
Stock-based compensation expense	606,587
Issuance of compensation warrants	86,952
Compensation Options exercised	(20,961)
Options exercised	(393,826)
Compensation warrants exercised	(998)
Balance at June 30, 2011	$ 3,690,224

8. Stock Options, Warrants and Shareholder Rights Plan

(i) Stock Options

The Company maintains a Stock Option Plan (the "**Plan**") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance and available for purchase pursuant to options granted under the Plan cannot exceed 10% of the total number of common shares of the Company issued and outstanding at the date of any grant made. In addition, the aggregate number of shares so reserved for issuance to one person may not exceed 5% of the issued and outstanding shares. Options pursuant to the Plan are granted at the discretion of the Board of Directors, vest at schedules determined by the Board, and have an exercise price of not less than that permitted by the stock exchange on which the shares are listed.

The following summarizes the stock option activities for the nine months ended June 30, 2011:

	Number of Options	Weighted Average Exercise Price
Balance at October 1, 2010	9,930,000	$ 0.42
Granted	3,345,000	0.28
Exercised	(1,980,000)	0.27
Expired	(375,000)	0.53
Cancelled	(125,000)	0.27
Outstanding at June 30, 2011	10,795,000	$ 0.40
Exercisable at June 30, 2011	10,495,000	$ 0.40

8. Stock Options, Warrants and Shareholder Rights Plan (continued)

The Company had the following stock options outstanding as at June 30, 2011:

Number of Options	Exercisable	Exercise Price	Expiry Date
40,000	40,000	$0.200	October 1, 2011
200,000	200,000	$0.880	December 15, 2011
1,310,000	1,310,000	$1.100	December 31, 2011
275,000	275,000	$0.270	December 31, 2011
1,900,000	1,900,000	$0.170	December 31, 2011
50,000	50,000	$0.033	April 30, 2012
500,000	400,000	$1.100	May 9, 2012
50,000	50,000	$0.170	December 31, 2012
200,000	200,000	$0.205	December 31, 2012
3,220,000	3,220,000	$0.270	December 31, 2012
500,000	500,000	$0.500	December 31, 2012
300,000	300,000	$0.430	December 31, 2012
50,000	50,000	$0.325	December 31, 2012
1,000,000	1,000,000	$0.170	December 31, 2013
1,000,000	1,000,000	$0.270	December 31, 2014
200,000	-	$0.205	December 31, 2014
10,795,000	10,495,000		

(ii) Warrants

All of the outstanding warrants were issued in conjunction with the issuance of common shares. Net proceeds received for the issuance of units comprising shares and warrants is reflected in capital stock.

The following summarizes the warrant activities:

	Number of Warrants	Weighted Average Exercise Price
Balance at October 1, 2010	12,509,870	$ 0.27
Issued	9,436,242	$ 0.28
Exercised	(4,041,389)	$ 0.25
Expired	(3,041,109)	$ 0.35
Outstanding and exercisable at June 30, 2011	14,863,614	$ 0.27

8. Stock Options, Warrants and Shareholder Rights Plan (continued)

The Company had the following warrants outstanding as at June 30, 2011:

Number of Warrants	Series	Type of Share	Exercise Price	Expiry Date
4,123,800	KK	Common shares	$ 0.25	March 30, 2012
555,142		Common shares	$ 0.18	March 30, 2012
2,267,700	LL	Common shares	$ 0.25	September 30, 2012
205,730		Common shares	$ 0.16	September 30, 2012
1,274,445	MM	Common shares	$ 0.25	April 1, 2012
87,889		Common shares	$ 0.18	April 1, 2012
1,300,000	NN	Common shares	$ 0.25	April 6, 2012
1,000,000	OO	Common shares	$ 0.25	April 6, 2012
322,000		Common shares	$ 0.18	April 6, 2012
900,000	LL	Common shares	$ 0.25	October 6, 2012
115,500		Common shares	$ 0.16	October 6, 2012
1,666,666	PP	Common shares	$ 0.40	November 16, 2012
221,666		Common shares	$ 0.30	November 16, 2012
769,230	QQ	Common shares	$ 0.36	November 16, 2012
53,846		Common shares	$ 0.26	November 16, 2012
14,863,614				

(iii) Shareholders' Rights Plan

The Company's Board of Directors approved a shareholders' rights plan, effective January 31, 2007, which was ratified and approved at the 2007 and 2010 annual shareholders meeting. This Rights Plan is intended to ensure, to the extent possible, that all shareholders of the Company are treated equally and fairly in connection with any take-over bid for the Company, and was designed to discourage discriminatory or unfair bids and to provide management, if appropriate, with sufficient time to pursue alternatives to maximize shareholder value.

9. Future Income Tax Recoveries

During the nine months ended June 30, 2011, the Company renounced Canadian exploration expenses totalling $3,872,308 to investors who participated in the flow-through private placements completed during the calendar year ended December 31, 2010. The renunciations resulted in an increase of the Company's future income tax liabilities of $968,077 and a corresponding reduction in share capital. The Company also recorded future income tax recoveries of $423,895 relating to its future income tax assets for which it had not previously recognized.

10. Related Party Transactions

During the nine months ended June 30, 2011, the Company had the following transactions with related parties that have not been disclosed elsewhere in the financial statements:

a) Consulting fees of $70,250 (2010 - $65,000) were earned by certain directors or their holding companies, of which $60,250 (2010 - $65,000) were deferred as resource property costs. As at June 30, 2011, accounts payable and accrued liabilities included $1,500 accrued to one of the directors;

b) Legal fees and share issuance costs of $82,900 (2010 - $103,000) were invoiced by a law firm in which a director of the Company is a partner. As at June 30, 2011, accounts payable and accrued liabilities included $28,803 payable to this law firm; and

c) Accounting fees of $25,000 (2010 - $15,000) were incurred with an accounting firm in which an officer of the Company is the principal. As at June 30, 2011, accounts payable and accrued liabilities included $11,780 accrued to this accounting firm.

Additional related party transactions are described separately in note 6(ii)(a) and (c).

11. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

International Financial Reporting Standards ("IFRS")

The CICA plans to incorporate IFRS into the CICA Handbook as a replacement for current Canadian Generally Accepted Accounting Principles for most publicly accountable enterprises effectively for fiscal years beginning on or after January 1, 2011. The transition date of October 1, 2010 for the Company will require restatement for comparative purposes of amounts reported by the Company for the year ended September 30, 2011. While the Company has begun assessing the adoption of IFRS for 2012, the financial reporting impact of the transition to IFRS has not been determined at this time.

<u>Business combinations</u>

In January 2009, the CICA published Section 1582, "Business Combinations" to replace Section 1581. The new standard requires the acquiring entity in a business combination to recognize most of the assets acquired and liabilities assumed in the transaction at fair value including contingent assets and liabilities, and recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase. Acquisition-related costs are to be expensed. This new standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after January 1, 2011. This new standard will only have an impact on the Company's consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

11. Recent Accounting Pronouncements (continued)

Consolidated financial statements and non-controlling interests

In January 2009, the CICA published Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-controlling Interests" replacing Section 1600. Section 1601 carries forward guidance from Section 1600 with the exception of non-controlling interests, which are addressed in a separate section. This standard requires the Corporation to report non-controlling interests within equity, separately from the equity of the owners of the parent, and transactions between an entity and non-controlling interests as equity transactions. These standards become effective January 1, 2011 and early adoption is permitted. All of the consolidated subsidiaries are currently 100% owned by the Company and therefore the application of this new standard is not expected to have any impact on the financial statements of the Company.

12. Subsequent Events

Subsequent to the nine months ended June 30, 2011, the Company:

a) issued 20,000 common shares pursuant to the exercise of an equivalent number of stock options for cash proceeds of $4,000.