

Financial Statements of

**URACAN RESOURCES LTD.**

Years ended July 31, 2009 and 2008

**URACAN RESOURCES LTD.****Balance Sheets****as at July 31***(expressed in Canadian dollars)*

	<u>2009</u>	<u>2008</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 270,483	\$ 1,053,867
Short-term investments (Note 3)	2,506,000	-
Receivables	263,480	312,078
Prepays and deposits	8,567	103,729
	<u>3,048,530</u>	<u>1,469,674</u>
<b>Property, plant and equipment</b> (Note 4)	150,900	101,369
<b>Equipment under capital lease</b> (Note 5)	34,162	43,273
<b>Mineral properties</b> (Note 6)	22,084,251	18,861,043
	<u>\$ 25,317,843</u>	<u>\$ 20,475,359</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,975,949	\$ 1,172,663
Current portion of obligation under capital lease (Note 7)	21,764	17,837
	<u>1,997,713</u>	<u>1,190,500</u>
<b>Obligation under capital lease</b> (Note 7)	-	21,764
<b>Future income tax liability</b> (Note 11)	2,099,125	1,297,252
<b>Asset Retirement Obligation</b>	50,000	-
	<u>4,146,838</u>	<u>2,509,516</u>
<b>Shareholders' equity</b>		
Share capital (Note 8)	21,821,479	17,894,534
Contributed surplus (Note 8)	5,151,109	4,182,240
Deficit	(5,801,583)	(4,110,931)
	<u>21,171,005</u>	<u>17,965,843</u>
	<u>\$ 25,317,843</u>	<u>\$ 20,475,359</u>

**Nature of operations and going concern** (Note 1)**Subsequent events** (Note 15)

Approved by the Board of Directors:

"Gordon Keep" Director"Jay Sujir" Director*See accompanying notes to the financial statements*

**URACAN RESOURCES LTD.**  
**Statements of Operations, Comprehensive Loss and Deficit**  
**for the years ended July 31**  
*(expressed in Canadian dollars)*

	<u>2009</u>	<u>2008</u>
<b>Expenses</b>		
Consulting	\$ 326,224	\$ 261,692
Depreciation	57,866	22,866
Flow-through penalties and interest	148,526	-
Marketing and advertising	105,685	118,521
Office and administration	222,071	87,614
Professional fees	107,594	131,797
Recruitment Fees	72,000	39,500
Regulatory and transfer agent	25,655	37,461
Salaries and benefits	212,316	77,610
Shareholder services	168,003	203,107
Stock-based compensation (Note 8(e))	548,647	770,301
Travel, meals and entertainment	82,957	82,919
	<u>2,077,544</u>	<u>1,833,388</u>
<b>Other Items</b>		
Interest income	43,952	177,067
Write-off of leasehold improvements (Note 10)	(8,104)	-
Loss on disposal of property, plant, and equipment (Note 10)	(8,334)	-
<b>Loss before income taxes</b>	(2,050,030)	(1,656,321)
Future income tax recovery (Note 11)	<u>359,378</u>	<u>1,298,811</u>
<b>Net loss and comprehensive loss for the year</b>	(1,690,652)	(357,510)
<b>Deficit, beginning of year</b>	<u>(4,110,931)</u>	<u>(3,753,421)</u>
<b>Deficit, end of year</b>	<u>\$ (5,801,583)</u>	<u>\$ (4,110,931)</u>
<b>Basic and diluted loss per share</b>	<u>\$ (0.02)</u>	<u>\$ (0.01)</u>
<b>Weighted average number of common shares outstanding</b>	<u>85,278,303</u>	<u>62,047,641</u>

*See accompanying notes to the financial statements*

**URACAN RESOURCES LTD.**  
**Statements of Cash Flows**  
**for the years ended July 31, 2009 and 2008**  
*(expressed in Canadian dollars)*

	<u>2009</u>	<u>2008</u>
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (1,690,652)	\$ (357,510)
Items not involving cash:		
Depreciation	57,866	22,866
Stock-based compensation	569,876	788,667
Write-off of leasehold improvements and deferred rent (Note 10)	8,104	-
Loss on disposal of property, plant and equipment	8,334	-
Future income taxes	(359,378)	(1,298,811)
Changes in non-cash working capital items:		
Receivables	51,443	136,423
Prepays and deposits	95,162	(23,244)
Accounts payable and accrued liabilities	63,364	(731,509)
Cash used in operating activities	<u>(1,195,881)</u>	<u>(1,463,118)</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of shares	5,727,500	7,732,000
Share issue costs	<u>(373,401)</u>	<u>(146,940)</u>
Cash provided by financing activities	<u>5,354,099</u>	<u>7,585,060</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of short-term investments	(4,506,000)	-
Proceeds on redemption of short-term investments	2,000,000	-
Purchase of property, plant and equipment	(135,517)	(58,608)
Proceeds on sale of property, plant and equipment	2,500	-
Equipment under capital lease, net	(17,837)	(5,949)
Mineral property costs	(6,273,636)	(10,704,085)
Recovery of mineral property costs	<u>3,988,888</u>	<u>371,216</u>
Cash used in investing activities	<u>(4,941,602)</u>	<u>(10,397,426)</u>
<b>Change in cash and cash equivalents during the year</b>	<b>(783,384)</b>	<b>(4,275,484)</b>
<b>Cash and cash equivalents, beginning of year</b>	<u>1,053,867</u>	<u>5,329,351</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 270,483</u>	<u>\$ 1,053,867</u>
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 270,483	\$ 553,949
Short-term deposits	<u>-</u>	<u>499,918</u>
	<u>\$ 270,483</u>	<u>\$ 1,053,867</u>
<b>Interest paid</b>	<b>\$ 6,408</b>	<b>\$ 2,119</b>
<b>Taxes paid</b>	<b>\$ -</b>	<b>\$ -</b>

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Uracan Resources Ltd. (the "Company"), formerly UFM Ventures Ltd., was originally incorporated as 583860 B.C. Ltd. in the province of British Columbia on April 21, 1999. The Company changed its name to UFM Ventures Ltd. on March 4, 2004 and to Uracan Resources Ltd. on July 27, 2006.

The Company's principal business activity is the acquisition and exploration of properties in the uranium industry, with a focus in Quebec and Saskatchewan. The Company has not generated revenues from operations and is considered to be in the exploration stage.

While these financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business, there are conditions that cast significant doubt on the validity of this assumption. As at July 31, 2009, the Company had working capital of \$1,050,817. The Company has incurred negative cash flows from operations, recorded a loss of \$1,690,652 for the year ended July 31, 2009 and had an accumulated deficit of \$5,801,583 as at July 31, 2009. In addition to its ongoing operating requirements, the Company must secure sufficient funding for existing commitments including minimum exploration expenditures amounting to approximately \$4.05 million over a period ending August 28, 2013. The Company's ability to continue as a going concern is dependent on management's capacity to identify additional sources of capital and to raise sufficient resources in order to fund ongoing operating expenditures and the Company's development plan. These interim financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The principal accounting policies followed by the Company, which have been consistently applied, are outlined below:

**(a) Cash and Cash Equivalents**

Cash and cash equivalents comprise highly liquid investments with original maturities of three months or less.

**(b) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is calculated annually using the straight-line method over the following terms:

Computer equipment – hardware	3 years
Computer equipment – software	1 year
Furniture and fixtures	5 years
Office equipment	5 years
Leasehold improvements	Life of the lease

The cost of maintenance and repairs is charged to expense as incurred. The cost of significant renewals and improvements is added to the carrying amount of the respective asset.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(b) Property, Plant and Equipment** (continued)

When assets are retired or otherwise disposed of, the cost and related accumulated amortization are removed from the accounts, and any resulting gain or loss is reflected in the statement of operations and deficit.

**(c) Mineral Properties**

All costs directly related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations.

A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Management regularly reviews the net carrying value of each mineral property. Where events or changes in circumstances suggest impairment, estimated future cash flows are calculated using estimated future prices, proven and probable reserves, value beyond proven and probable reserves, probability weighted outcomes and operating capital reclamation costs on an undiscounted basis. If it is determined that the future cash flows are less than the carrying value, a write down to the estimated fair value is expensed in the period. The Company presently has no proven or probable reserves. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses if carrying values are recoverable. If the carrying values exceed fair value, then the property is written-down to estimated fair value, with the write down expensed in the period.

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

**(d) Leases**

Leases entered into are classified as either capital or operating leases. Leases that transfer substantially all of the benefits and risks of ownership of property to the lessee are accounted for as capital leases. At the time a capital lease is entered into, an asset is recorded together with the related obligation. Equipment acquired under capital leases is being depreciated on the same basis as equipment in similar asset classes.

**(e) Stock-based compensation and share purchase warrants**

All stock-based awards made to employees and non-employees are measured and recognized using a fair value based method. The fair value of stock options and share purchase warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility and the expected life of the options or warrants. Compensation expense for stock options granted to employees and warrants issued are measured at fair value on the grant date. Compensation for stock options granted to consultants is initially measured at fair value on the grant date and revalued on each balance sheet date until fully vested. Forfeitures are recorded based on actual occurrences.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) Stock-based compensation and share purchase warrants** (continued)

The fair value of granted options is accrued and charged to operations or capitalized, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. If stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

**(f) Loss per Share**

Basic loss per share is calculated using the weighted average number of common shares issued and outstanding during the period.

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. For the years presented, this calculation proved to be anti-dilutive.

**(g) Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Company's management to make estimates and assumptions that affect the amounts reported in these financial statements and accompanying notes. Significant areas where estimates are used relate to the impairment of mineral properties and related deferred exploration costs, determinations as to whether costs are expensed or deferred, stock-based compensation and share purchase warrant valuation assumptions and the future income tax asset valuation allowance. Actual results could differ from those estimates. By their nature, these estimates are subject to measurement uncertainty, and the impact on the financial statements of future changes in such estimates could be material.

**(h) Income Taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**(i) Asset Retirement Obligation**

The Company recognizes, when the legal obligation is incurred, the fair value of an estimated liability for the future cost of restoring a site upon cessation of exploration activities. The Company records a corresponding increase in the carrying value of the related long-lived asset, which is amortized into the statement of operations over time. The liability is adjusted at the end of each period to reflect changes in the estimated future cash flows underlying the obligation.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(j) Financial Instruments**

The Company's financial instruments consist of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities. Cash and cash equivalents, and short term investments are classified as held-for-trading and recorded at fair value. Accounts receivable are classified as loans and receivables and recorded at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and recorded at amortized cost.

**(k) Flow-through common shares**

Under Canadian income tax legislation, the Company is permitted to issue shares whereby the Company agrees to incur qualifying expenditures (as defined under the Canadian *Income Tax Act*) and renounce the related income tax deductions to the investors. The Company records future income tax liabilities on the date that the Company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made. At the time of recognition of the resulting future income tax liability a corresponding reduction to share capital is made. When the Company renounces flow-through expenditures that give rise to a temporary difference, a portion of the Company's future income tax assets not recognized in previous years may be recognized as a recovery of future income taxes in the statement of operations.

**(l) Changes in accounting policies**

General Standards of Financial Statement Presentation - Going Concern

CICA Handbook Section 1400, General Standards of Financial Statement Presentation has been amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This standard is effective for interim and annual financial statements beginning on or after January 1, 2008. This standard requires that management make an assessment of the Company's ability to continue as a going concern and to use the going concern basis in the preparation of the financial statements unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, those uncertainties should be disclosed. The Company adopted this new standard on August 1, 2008.

Capital disclosures and financial instruments - disclosure and presentation

CICA Section 1535 Capital Disclosures specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The Company adopted Section 1535 on August 1, 2008 and management has evaluated the impact of this standard and the necessary disclosures are included in note 13.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(l) Changes in accounting policies (continued)**

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC - 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. Adoption of this section has had no impact on the consolidated financial statements

Mining Exploration Costs- EIC 174

In March 2009 the CICA approved EIC 174, Mining Exploration Costs. The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The guidance is applicable to fiscal periods ending after the issuance date.

**(m) Recent Canadian Accounting Pronouncements**

Recent Canadian accounting pronouncements that have been issued but are not yet effective, and which may affect the company's financial reporting are summarized below:

Goodwill and Intangible Assets

In February 2008, the CICA issued CICA Handbook Section 3064, Goodwill and Intangible Assets, which 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. The new Section will be applicable to the Company's consolidated financial statements for its fiscal year beginning August 1, 2009. The Company does not expect that the adoption of this section will have a material impact on its consolidated financial statements.

Business Combinations

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. In addition, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-Controlling Interests, which replace the existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements, while section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These statements apply 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.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**3. SHORT TERM INVESTMENTS**

As at July 31, 2009, short-term investments consisted of term deposits held at a large international financial institution with the following terms:

<u>Principal</u>	<u>Interest rate</u>	<u>Maturity</u>
\$ 2,006,000	1.35%	January 22, 2010
<u>500,000</u>	0.80%	March 17, 2010
<u>\$ 2,506,000</u>		

**4. PROPERTY, PLANT AND EQUIPMENT**

As at July 31, the Company's property, plant and equipment consisted of the following:

	<u>2009</u>		
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net book value</u>
Computer equipment	\$ 41,178	\$ 20,958	\$ 20,220
Furniture and fixtures	100,717	18,692	82,025
Office equipment	15,376	4,430	10,946
Leasehold improvements	4,684	558	4,126
Exploration equipment	<u>46,775</u>	<u>13,192</u>	<u>33,583</u>
	<u>\$ 208,730</u>	<u>\$ 57,830</u>	<u>\$ 150,900</u>

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**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

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**5. EQUIPMENT UNDER CAPITAL LEASE**

The following table summarizes information about the Company's equipment under capital lease as at July 31:

	<u>2009</u>	<u>2008</u>
Equipment (cost)	\$ 45,550	\$ 45,550
Accumulated depreciation	<u>(11,388)</u>	<u>(2,277)</u>
Net book value	<u>\$ 34,162</u>	<u>\$ 43,273</u>

The equipment under capital lease is amortized on a straight-line basis over its economic life of 5 years.

**6. MINERAL PROPERTIES**

**North Shore Properties (Quebec)**

On July 27, 2006, the Company signed an option agreement with Sheridan Platinum Group Limited ("Sheridan") whereby the Company has purchased a 100% interest in the Lac Turgeon, Wee Gee, Pontbriand and Costabelle properties (the "North Shore Properties") located along the Quebec North Shore of the Gulf of St. Lawrence (the "Acquisition"). The Company has paid Sheridan \$2,000,000 and has issued Sheridan 350,000 common shares of the Company. The Company granted Sheridan a Net Smelter Royalty ("NSR") of 3% in the first 2 years after commencement of commercial production, increasing to 5% thereafter. With a payment of \$3,000,000 within the first 30 days after commencement of commercial production, the Company has the right to reduce the NSR to 1.5% for the entire term. Effective January 1, 2008, the Company began making advance royalty payments of \$25,000 per quarter. As at July 31, 2009, the Company had paid Sheridan a total of \$175,000 in advance royalty payments.

**Saskatchewan Properties**

**a) Pipewrench Lake and Narrows Lake Properties**

In 2006, the Company staked two claim blocks in the Pipewrench Lake and Narrows Lake areas in Saskatchewan. The Company has a 100% interest in these properties.

**b) Foster Lake Property**

On August 5, 2008, the Company entered into an option agreement with Bonaventure Enterprises Inc. ("Bonaventure") whereby the Company can acquire up to a 75% interest in a number of mineral claims in northern Saskatchewan (the "Foster Lake Property"). In order to earn its 75% interest, the Company must:

- make staged payments to Bonaventure totaling approximately \$299,000 over a three year period, which was reduced from \$870,000 during the year as the Company allowed certain non-core claims to lapse;
- issue a total of 1,250,000 common shares of the Company to Bonaventure over a four year period; and
- incur a minimum of \$5,000,000 in exploration expenditures on the Foster Lake Property over a period of five years.

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

**6. MINERAL PROPERTIES (continued)**

**b) Foster Lake Property (continued)**

As at July 31, 2009, the Company had paid Bonaventure \$130,688, had issued 250,000 common shares with a market value of \$55,000 to Bonaventure and had incurred \$945,261 in exploration expenditures on the Foster Lake Property. Subsequent to year end, the Company paid Bonaventure \$49,450 and issued 250,000 shares. The next payment is due on August 5, 2010 in the amount of \$59,340. The next issuance of 250,000 shares is due on August 5, 2010.

The Foster Lake Property sits adjacent to the Company's Pipewrench Lake property. All payments, share issuances and exploration expenditures can be accelerated at the Company's option. Areas deemed non-prospective as a result of exploration work would be returned to Bonaventure. If the Company earns its interest, a joint venture will be formed to operate the mining project. If either party dilutes to a 10% interest or less, the interest will be converted to a 2% NSR, with an option for the Company to purchase 1% of the NSR for \$2,500,000.

The following table summarizes the capitalized costs associated with the Company's mineral properties:

	Quebec	Saskatchewan		
	North Shore Properties	Pipewrench and Narrows Properties	Foster Lake Property	Total
<b>Acquisition costs:</b>				
Balance, July 31, 2008	\$ 2,242,650	\$ 42,009	\$ -	\$ 2,284,659
Cash paid	100,000	-	130,688	230,688
Shares issued	-	-	55,000	55,000
License renewal fees	78,219	110	25	78,354
Balance, July 31, 2009	<u>2,420,869</u>	<u>42,119</u>	<u>185,713</u>	<u>2,648,701</u>
<b>Exploration costs:</b>				
Balance, July 31, 2008	13,577,928	3,369,672	-	16,947,600
Air support and fuel	921,291	401	297,490	1,219,182
Assaying and analysis	580,315	26,894	-	607,209
Consultants	1,868,531	97,331	404,754	2,370,616
Drilling	1,335,692	-	-	1,335,692
Environmental	50,000	-	-	50,000
Field supplies	806,902	30,645	222,297	1,059,844
Office and salaries	125,782	10,355	20,720	156,857
Travel and accomodation	45,156	3,498	-	48,654
Balance, July 31, 2009	<u>19,311,597</u>	<u>3,538,796</u>	<u>945,261</u>	<u>23,795,654</u>
<b>Recovered costs:</b>				
Balance, July 31, 2008	(371,216)	-	-	(371,216)
Quebec exploration tax credits	(3,988,888)	-	-	(3,988,888)
Balance, July 31, 2009	<u>(4,360,104)</u>	<u>-</u>	<u>-</u>	<u>(4,360,104)</u>
<b>Total costs, July 31, 2009</b>	<u><u>\$ 17,372,362</u></u>	<u><u>\$ 3,580,915</u></u>	<u><u>\$ 1,130,974</u></u>	<u><u>\$ 22,084,251</u></u>

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
**for the years ended July 31, 2009 and 2008**

**6. MINERAL PROPERTIES (continued)**

	North Shore Properties	Saskatchewan Properties	Total
<b>Acquisition costs:</b>			
Balance, July 31, 2007	\$ 1,167,650	\$ 42,009	\$ 1,209,659
Cash paid	1,075,000	-	1,075,000
Balance, July 31, 2008	2,242,650	42,009	2,284,659
<b>Exploration costs:</b>			
Balance, July 31, 2007	5,643,947	520,590	6,164,537
Air support and fuel	841,815	510,905	1,352,720
Assaying and analysis	685,654	124,111	809,765
Consultants	1,677,365	1,029,303	2,706,668
Drilling	3,868,230	532,415	4,400,645
Field supplies	714,087	617,891	1,331,978
Geophysical survey	2,400	-	2,400
Office and salaries	35,027	27,064	62,091
Renewal fees	55,911	1,411	57,322
Travel and accommodation	53,492	5,982	59,474
Recovered costs	(371,216)	-	(371,216)
Balance, July 31, 2008	13,206,712	3,369,672	16,576,384
<b>Total costs, July 31, 2008</b>	<b>\$ 15,449,362</b>	<b>\$ 3,411,681</b>	<b>\$ 18,861,043</b>

**7. OBLIGATION UNDER CAPITAL LEASE**

The following table summarizes information about the Company's obligation under capital lease as at July 31:

	2009	2008
Capital lease obligation with imputed interest rate of 20% per annum	\$ 21,764	\$ 39,601
Less: current portion	(21,764)	(17,837)
	<u>\$ -</u>	<u>\$ 21,764</u>

The following is a schedule of future minimum lease payments under the capital lease expiring August 27, 2010, together with the balance of the obligation under capital lease:

Year 2010 total minimum lease payments	\$ 24,203
Amount representing interest at 20%	(2,439)
Balance of the obligation	<u>\$ 21,764</u>

**URACAN RESOURCES LTD.**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

**(a) Authorized**

Unlimited number of common shares with no par value  
 Unlimited number of preferred shares with no par value

**(b) Issued and fully paid common shares**

	Number of Shares	Amount	Contributed surplus
Balance, July 31, 2007	54,157,532	12,788,529	2,468,315
Issued pursuant to private placement	12,860,000	6,851,992	864,008
Share issue costs	-	(130,486)	(16,454)
Exercise of warrants	20,000	16,000	-
Stock-based compensation (Note 7(e))	-	-	866,371
Income tax effect on flow-through share renouncement (Note 10)	-	(1,631,501)	-
Balance, July 31, 2008	67,037,532	17,894,534	4,182,240
Issued pursuant to private placements	23,010,000	5,378,801	311,199
Share issue costs	298,725	(346,847)	(23,709)
Warrants issued to brokers	-	(69,246)	69,246
Issued to Bonaventure	250,000	55,000	-
Exercise of stock options	375,000	50,247	(12,747)
Stock-based compensation (Note 8(e))	-	-	624,880
Income tax effect on flow-through share renouncement (Note 11)	-	(1,141,010)	-
Balance, July 31, 2009	<u>90,971,257</u>	<u>\$ 21,821,479</u>	<u>\$ 5,151,109</u>

The Company completed non-brokered private placements on October 24, 2008 and October 30, 2008, totaling 19,220,000 flow-through units at a price of \$0.25 per flow-through unit and 1,250,000 non flow-through units at a price of \$0.20 per non flow-through unit for gross proceeds of \$5,055,000. Each flow-through unit consisted of one flow-through common share and one half of a common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.50, with an expiry date 18 months from each of the private placements' respective closing dates. Each non flow-through unit consisted of one non flow-through common share and one half of a common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.40, with an expiry date of April 24, 2010.

In connection with the private placements, the Company incurred finders' fees totaling \$321,050, which included \$50,550 paid to Endeavour Financial Ltd. (Endeavour) in accordance with an advisory agreement. The Company issued 1,026,000 warrants as finders' fees to purchase common shares of the Company at a price of \$0.25 per share with expiry dates 18 months from each of the private placements' respective closing dates. The finders' fee warrants had a fair value of \$51,035 calculated using the Black-Sholes model.

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**(b) Issued and fully paid common shares (continued)**

The Company completed non-brokered private placements on November 7, 2008 and November 21, 2008, totaling 2,540,000 flow-through units at a price of \$0.25 per flow-through unit for gross proceeds of \$635,000. Each flow-through unit consisted of one flow-through common share and one half of a common share purchase warrant, with each whole common share purchase warrant entitling the holder to acquire one common share of the Company at a price of \$0.50, with an expiry date 18 months from each of the private placements' respective closing dates.

In connection with the private placements and in accordance with an advisory agreement, Endeavour earned a fee of \$6,350 in the form of 33,338 common shares of the Company. Total finders' fees were \$43,850, which includes the fee earned by Endeavour. The Company also issued 150,000 warrants as finders' fees to purchase common shares of the Company at a price of \$0.25 per share with expiry dates 18 months from each of the private placements' respective closing dates. The finders' fee warrants had a fair value of \$18,211 calculated using the Black Scholes model.

The warrants issued as part of the above noted private placements and the warrants issued to the finders were valued using the Black-Scholes pricing model using the following weighted average assumptions:

Risk-free interest rate	2.66%
Expected life	1.5 years
Annualized volatility	75%
Dividend rate	0.00%

**(c) Stock options**

The Company has established a "rolling" Stock Option Plan (the "Plan"). Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly basis. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant.

A summary of the changes in stock options is presented below:

	<u>Outstanding</u>	<u>Weighted average exercise price</u>
Balance, July 31, 2007	3,785,000	\$ 0.66
Granted	3,490,000	0.46
Cancelled	(1,325,000)	1.15
Expired	(350,000)	0.70
	<u>5,600,000</u>	<u>0.42</u>
Balance, July 31, 2008	5,600,000	\$ 0.42
Granted	2,825,000	0.30
Exercised	(375,000)	0.10
Forfeited	(25,000)	0.53
	<u>8,025,000</u>	<u>0.39</u>
Balance, July 31, 2009	<u>8,025,000</u>	<u>\$ 0.39</u>

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**(c) Stock options (continued)**

The following table summarizes information about the stock options outstanding and exercisable at July 31, 2009:

<u>Outstanding</u>	<u>Exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>	<u>Remaining contractual life</u>
350,000	350,000	\$ 0.53	July 11, 2010	0.9 years
1,735,000	1,735,000	0.40	March 30, 2011	1.7 years
2,965,000	2,965,000	0.45	March 19, 2013	3.6 years
150,000	75,000	0.45	June 25, 2013	3.9 years
150,000	37,500	0.30	January 27, 2014	4.5 years
2,375,000	2,375,000	0.30	January 27, 2019	9.5 years
300,000	-	0.30	June 25, 2019	9.9 years
<u>8,025,000</u>	<u>7,537,500</u>			

**(d) Warrants**

A summary of the changes in warrants is presented below:

	<u>Number of warrants</u>	<u>Weighted average exercise price</u>
Balance, July 31, 2007	6,678,500	\$ 0.95
Issued	6,430,000	1.00
Exercised	<u>(20,000)</u>	<u>0.80</u>
Balance, July 31, 2008	13,088,500	\$ 0.97
Issued	12,681,000	0.47
Expired	<u>(6,658,500)</u>	<u>0.95</u>
Balance, July 31, 2009	<u>19,111,000</u>	<u>\$ 0.65</u>

In connection with the private placements noted in Note 8(b), the Company issued a total of 11,505,000 warrants to the unit holders, with 10,880,000 warrants exercisable at \$0.50 per common share and 625,000 warrants exercisable at \$0.40 per common share.

In connection with the private placements noted in Note 8(b), the Company issued a total of 1,176,000 warrants exercisable at \$0.25 per common share as finders' fees.

**URACAN RESOURCES LTD.**  
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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

**(d) Warrants (continued)**

The following table summarizes information about the warrants outstanding at July 31, 2009:

<u>Outstanding &amp; exercisable</u>	<u>Exercise price</u>	<u>Expiry date</u>
6,430,000	1.00	December 21, 2009
9,110,000	0.50	April 24, 2010
625,000	0.40	April 24, 2010
966,000	0.25	April 24, 2010
500,000	0.50	April 30, 2010
60,000	0.25	April 30, 2010
1,220,000	0.50	May 7, 2010
144,000	0.25	May 7, 2010
50,000	0.50	May 21, 2010
<u>6,000</u>	0.25	May 21, 2010
<u><u>19,111,000</u></u>		

**(e) Stock-based compensation**

Using the fair value method for stock-based compensation, the value of the portion of the stock options that vested during the year ended July 31, 2009 was \$624,880 (2008: \$866,371), of which \$548,647 (2008: \$770,301) was recorded as stock-based compensation and \$21,229 (2008: \$Nil) as shareholder services in the statement of operations. The remaining \$55,004 (2008: \$77,704) was capitalized to mineral properties.

The following assumptions were used for the Black-Scholes valuation of stock options:

	<u>2009</u>	<u>2008</u>
Risk-free interest rate	1.24% - 3.09%	3.00% - 4.38%
Expected life	1 - 10 years	2 - 5 years
Annualized volatility	75%	50% - 75%
Dividend rate	0.00%	0.00%

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**9. RELATED PARTY TRANSACTIONS**

- (a) During the year ended July 31, the Company incurred the following costs with companies or individuals related by way of directors and/or officers in common:

	<u>2009</u>	<u>2008</u>
Mineral properties	\$ 7,963	\$ 216,245
Consulting fees	164,000	137,000
Professional fees	16,522	17,007
Share issue costs	29,318	24,410

Included in consulting fees was an amount of \$140,000 (2008: \$115,000) paid to Global Vision Capital Corp. ("GVCC"), whereby GVCC provides the Company with the services of Gregg J. Sedun, and an amount of \$24,000 (2008: \$22,000) paid to JJS JR Enterprises Ltd. ("JJS"), whereby JJS provides the Company with the services of John Sutherland. An amount of \$7,963 (2008: \$216,245) was paid to an individual who was employed by a company in which an officer is a director of the Company.

- (b) Included in accounts payable and accrued liabilities at July 31 were the following amounts which were payable to companies or individuals related by way of directors and/or officers in common:

	<u>2009</u>	<u>2008</u>
Professional fees	\$ 551	\$ 5,919
Consulting fees	-	10,858

- (c) Included in accounts receivable at July 31, 2009 was an amount of \$3,829 (July 31, 2008: \$4,252) due from Goldgroup Resources Inc. This amount relates to 50% of the rent, administration staff salary and general office expenses. The office is shared by both companies and expenses are shared evenly.

These transactions, occurring in the normal course of operations, are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**10. COMMITMENTS**

During the year ended July 31, 2009, the Company moved its office to a new location and the lease agreement that was in place for the previous office was terminated as at September 30, 2008. All unamortized leasehold improvements associated with the previous lease were written off, which resulted in a charge to earnings of \$26,396. In addition, the Company wrote off its remaining deferred rent associated with the previous lease, which resulted in an amount of \$18,292 being recognized into income.

Effective October 1, 2008, Global Vision has entered into a 7 year lease agreement for its office premises. As noted in 9(c), Goldgroup Resources Inc. and the Company share all office expenses evenly. The Company's approximate portion of the minimum annual lease commitments are as follows:

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**Notes to the Financial Statements**  
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**10. COMMITMENTS** (continued)

2010	100,100
2011	102,500
2012	103,000
2013	105,500
2014	106,000
2015	108,400
2016	18,200
Total	<u>643,700</u>

**11. INCOME TAXES**

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory rate of 31% (2008: 31.4%) to earnings before income taxes as shown in the following table:

	<u>2009</u>	<u>2008</u>
Combined Canadian federal and provincial taxes at expected rate	\$ (642,015)	\$ (519,588)
Permanent and other differences	184,009	270,647
Change in tax rates	98,597	(21,159)
Change in valuation allowance	31	(87,023)
Quebec tax deductions allowed in excess of federal tax deductions		<u>(941,688)</u>
	<u>\$ (359,378)</u>	<u>\$ (1,298,811)</u>

The composition of the future tax assets and liabilities are as follows:

	<u>2009</u>	<u>2008</u>
<i>Future income tax assets</i>		
Operating loss carry forwards	\$ 195,266	\$ 125,996
Share issue costs	134,518	80,201
Capital losses	206,799	206,831
Other	38,000	22,452
Total gross future tax assets	574,583	435,480
Valuation allowance	<u>(332,858)</u>	<u>(332,827)</u>
Net future income tax assets	<u>241,725</u>	<u>102,653</u>
<i>Future income tax liabilities</i>		
Resource Property costs	<u>(2,340,850)</u>	<u>(1,399,905)</u>
Future income tax liability, net	<u>\$ (2,099,125)</u>	<u>\$ (1,297,252)</u>

**URACAN RESOURCES LTD.**  
**Notes to the Financial Statements**  
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**11. INCOME TAXES** (continued)

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible.

As at July 31, 2009, the Company had issued 35,590,000 common shares on a flow-through basis for gross proceeds of \$16,029,000. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. As at July 31, 2009, the Company had renounced the tax benefits on all 35,590,000 flow-through common shares and the related \$16,029,000 of gross proceeds.

During the year ended July 31, 2009, the Company renounced the tax benefits on 21,760,000 flow-through common shares and the related \$5,440,000 of the gross proceeds resulting in an increase to the income tax liability of \$1,242,523, with a corresponding amount reducing share capital. As a result of the Company incurring operating losses and the income tax liability being revalued at each period end, the liability from renunciation of flow-through shares was reduced. As at July 31, 2009, the future income tax liability was \$2,168,332. A future income tax recovery of \$367,558 was also recorded during the year ended July 31, 2009 upon reversal of the valuation allowance on future income tax assets.

As at July 31, 2009, the Company had non-capital loss carry forwards of approximately \$725,897 (2008: \$468,000) that may be available for tax purposes. These tax losses are in respect of Canadian operations and expire in the following years:

2010	\$ 138,527
2014	166,894
2015	163,200
2029	<u>257,276</u>
	<u>\$ 725,897</u>

**12. FINANCIAL INSTRUMENTS**

***Financial Risk Management***

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities.

The fair values of cash and cash equivalents, receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments.

***Financial Instrument Risk Exposure***

The Company is exposed in varying degrees to a variety of financial instrument related risks.

**URACAN RESOURCES LTD.**  
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**12. FINANCIAL INSTRUMENTS** (continued)

***Credit Risk***

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's exposure to credit risk includes cash and cash equivalents and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets. The Company's cash is invested in business accounts which are available on demand.

***Liquidity Risk***

The Company ensures that it has sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. Additional information regarding liquidity risk is provided in note 1.

***Market Risk***

*Interest Rate Risk* - The Company's bank accounts earn interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

**13. CAPITAL MANAGEMENT**

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to pursue the exploration and development of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the company includes the components of shareholders' equity.

In order to facilitate the management of its capital requirements, the company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the company may attempt to issue new shares, issue debt or acquire or dispose of assets.

**14. SEGMENTED INFORMATION**

The Company currently operates in one business segment, being the acquisition and exploration of natural resource properties exclusively in Canada.

**15. SUBSEQUENT EVENTS**

- a) On September 10, 2009, the Company granted 250,000 stock options with an exercise price of \$0.30, expiring September 10, 2014.
- b) On November 16, 2009, the Company completed a private placement of 16,318,666 flow-through units and 663,666 non flow-through units, for gross proceeds of \$5,094,699. Each unit consists of one share and one half of a warrant, exercisable until May 16, 2011 at \$0.50 per share.