

Financial statements of

**URACAN RESOURCES LTD.**

Years ended July 31, 2010 and 2009

To the Shareholders of Uracon Resources Ltd.

We have audited the balance sheet of **Uracon Resources Ltd.** (the “Company”) as at July 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit, and cash flows for each of 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 “PricewaterhouseCoopers”*

**Chartered Accountants**  
Vancouver, British Columbia  
November 18, 2010

# URACAN RESOURCES LTD.

## Balance Sheets

as at July 31

(expressed in Canadian dollars)

	2010	2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 2,722,117	\$ 270,483
Short-term investments	-	2,506,000
Receivables	120,856	263,480
Prepays and deposits	91,991	8,567
	<b>2,934,964</b>	<b>3,048,530</b>
Property, plant and equipment (Note 3)	121,843	150,900
Equipment under capital lease (Note 4)	25,052	34,162
Mineral properties (Note 5)	19,866,572	22,084,251
	<b>\$ 22,948,431</b>	<b>\$ 25,317,843</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 820,802	\$ 1,975,949
Current portion of obligation under capital lease	-	21,764
	<b>820,802</b>	<b>1,997,713</b>
Future income tax liability (Note 9)	955,633	2,099,125
Asset retirement obligation	75,000	50,000
	<b>1,851,435</b>	<b>4,146,838</b>
<b>Shareholders' equity</b>		
Share capital (Note 6(b))	25,647,209	21,821,479
Contributed surplus (Note 6(b))	5,992,926	5,151,109
Deficit	(10,543,139)	(5,801,583)
	<b>21,096,996</b>	<b>21,171,005</b>
	<b>\$ 22,948,431</b>	<b>\$ 25,317,843</b>

Nature of operations and going concern (Note 1)

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  
years ended July 31  
(expressed in Canadian dollars)

	2010	2009
<b>Expenses</b>		
Consulting	\$ 407,352	\$ 326,224
Depreciation	57,886	57,866
Interest and penalties	(72)	148,526
Marketing and advertising	241,914	105,685
Office and administration	267,023	222,071
Professional fees	101,479	107,594
Recruitment fees	-	72,000
Regulatory and transfer agent	24,394	25,655
Repairs and maintenance	3,672	-
Salaries and benefits	153,341	212,316
Shareholder services	138,734	168,003
Stock-based compensation (Note 6(c))	297,600	548,647
Travel, meals and entertainment	40,653	82,957
	<b>1,733,976</b>	<b>2,077,544</b>
<b>Other Items</b>		
Interest income	14,193	43,952
Write-down of mineral properties (Note 5)	(4,700,729)	-
Loss on disposal of equipment	-	(8,334)
Write-off of leasehold improvements	-	(26,396)
Write-off of deferred rent	-	18,292
Loss before income taxes	(6,420,512)	(2,050,030)
Future income tax recovery (Note 9)	1,678,956	359,378
<b>Net loss and comprehensive loss for the year</b>	<b>(4,741,556)</b>	<b>(1,690,652)</b>
Deficit, beginning of year	(5,801,583)	(4,110,931)
<b>Deficit, end of year</b>	<b>\$ (10,543,139)</b>	<b>\$ (5,801,583)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.05)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of common shares outstanding</b>	<b>103,290,815</b>	<b>85,278,303</b>

See accompanying notes to the financial statements

# URACAN RESOURCES LTD.

## Statements of Cash Flows

years ended July 31

(expressed in Canadian dollars)

	2010	2009
<b>Operating activities</b>		
Net loss for the year	\$ (4,741,556)	\$ (1,690,652)
Items not involving cash:		
Depreciation	57,886	57,866
Future income taxes	(1,678,956)	(359,378)
Loss on sale of property, plant and equipment	-	8,334
Stock-based compensation	326,500	569,876
Write-down of mineral properties	4,700,729	-
Write-off of leasehold improvements	-	26,396
Write-off of deferred rent	-	(18,292)
Changes in non-cash working capital items:		
Receivables	142,623	51,443
Prepays and deposits	(83,424)	95,162
Accounts payable and accrued liabilities	(1,788,816)	63,364
	<b>(3,065,012)</b>	<b>(1,195,881)</b>
<b>Financing activities</b>		
Issuance of shares (Note 6(b))	5,094,700	5,727,500
Share issue costs	(47,817)	(373,401)
	<b>5,046,883</b>	<b>5,354,099</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(19,719)	(135,517)
Proceeds on sale of property, plant and equipment	-	2,500
Purchase of short-term investments	-	(4,506,000)
Proceeds on redemption of short-term investments	2,506,000	2,000,000
Equipment under capital lease, net	(21,764)	(17,837)
Mineral property costs, net of accounts payable	(3,784,181)	(6,273,636)
Recovery of mineral property costs (Note 5)	1,789,427	3,988,888
	<b>469,763</b>	<b>(4,941,602)</b>
Change in cash and cash equivalents during the year	2,451,634	(783,384)
Cash and cash equivalents, beginning of year	270,483	1,053,867
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,722,117</b>	<b>\$ 270,483</b>
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 409,968	\$ 270,483
Short-term deposits	2,312,149	-
	<b>\$ 2,722,117</b>	<b>\$ 270,483</b>
Interest paid	\$ -	\$ 6,408
Taxes paid	\$ -	\$ -

Supplemental disclosure with respect to cash flows (Note 12)

*See accompanying notes to the financial statements*

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Uracan Resources Ltd. (the "Company") 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 Uranium properties, 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, 2010, the Company had working capital of \$2,114,162. The Company has incurred negative cash flows from operations, recorded a loss of \$4,741,556 for the year ended July 31, 2010 and had an accumulated deficit of \$10,543,139 as at July 31, 2010. As at July 31, 2010, the Company has sufficient cash to finance its operations; however to proceed with its intended exploration programs it will need to secure the necessary financing.

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. Although management has been successful in the past, there is no assurance these initiatives will be successful in the future. These 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. BASIS OF PRESENTATION AND 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

July 31, 2010 and 2009

(expressed in Canadian dollars)

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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

July 31, 2010 and 2009

(expressed in Canadian dollars)

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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

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) *Financial Instruments*

The Company's financial instruments consist of cash and cash equivalents, receivables and accounts payable and accrued liabilities. Cash and cash equivalents are classified as held-for-trading and recorded at fair value. Receivables 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 and Initial Adoption of Accounting Policies*

##### Goodwill and Intangible Assets

On August 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, which replaced 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 adoption of this standard did not have a material impact on the Company's financial statements.

##### Financial Instruments – Disclosures

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures that includes additional disclosure requirements about fair value measurements for financial instruments and liquidity risk disclosures. These amendments entail a three level hierarchy that takes into account the significance of the inputs used in making the fair value measurements. The adoption of this standard did not have a material impact on the Company's financial statements. The required disclosures are included in note 10.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(m) Recent Accounting Pronouncements*

##### Business Combinations

In December 2008, 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.

### 3. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes information about the Company's property, plant and equipment:

	July 31, 2010		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 60,896	\$ 36,490	\$ 24,406
Furniture and fixtures	100,717	38,836	61,881
Office equipment	15,376	7,505	7,871
Leasehold improvements	4,684	1,227	3,457
Exploration equipment	46,775	22,547	24,228
	<u>\$ 228,448</u>	<u>\$ 106,605</u>	<u>\$ 121,843</u>

  

	July 31, 2009		
	Cost	Accumulated amortization	Net book value
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	46,775	13,192	33,583
	<u>\$ 208,730</u>	<u>\$ 57,830</u>	<u>\$ 150,900</u>

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 4. EQUIPMENT UNDER CAPITAL LEASE

The following table summarizes information about the Company's equipment under capital lease:

	July 31, 2010	July 31, 2009
Equipment (cost)	\$ 45,550	\$ 45,550
Accumulated depreciation	(20,498)	(11,388)
Net book value	\$ 25,052	\$ 34,162

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

### 5. 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 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 paid Sheridan \$2,000,000 and 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, 2010, the Company had paid Sheridan a total of \$275,000 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"), subsequently amended on July 28, 2010, 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 five year period, which was reduced from \$870,000 during the year ended July 31, 2009 as the Company allowed certain claims to lapse;
- issue a total of 1,250,000 common shares of the Company to Bonaventure over a six year period; and
- incur a minimum of \$5,000,000 in exploration expenditures on the Foster Lake Property over a period of seven years.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 5. MINERAL PROPERTIES (continued)

#### Saskatchewan Properties (continued)

##### b) Foster Lake Property (continued)

As at July 31, 2010, the Company had paid Bonaventure \$180,138, had issued 500,000 common shares with a market value of \$150,000 to Bonaventure and had incurred \$1,131,172 in exploration expenditures on the Foster Lake Property.

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.

No work was carried out on the Saskatchewan properties during fiscal 2010 or 2009, and the properties are currently on care and maintenance. The Company plans to continue to maintain its interest in these properties. As such, the Company wrote down the properties to their acquisition cost amount of \$372,332. The exploration costs to date of \$4,700,729 were recorded as a write-down of mineral properties in the statement of operations, comprehensive loss and deficit for the year ended July 31, 2010.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 5. MINERAL PROPERTIES (continued)

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

	North Shore Properties	Pipewrench and Narrows Properties	Foster Lake Property	Total
<b>Acquisition costs:</b>				
Balance, July 31, 2009	\$ 2,420,869	\$ 42,119	\$ 185,713	\$ 2,648,701
Cash paid	100,000	-	49,450	149,450
Shares issued	-	-	95,000	95,000
License renewal fees	19,993	50	-	20,043
Balance, July 31, 2010	2,540,862	42,169	330,163	2,913,194
<b>Exploration costs:</b>				
Balance, July 31, 2009	19,311,597	3,538,796	945,261	23,795,654
Air support and fuel	983,287	-	-	983,287
Assaying and analysis	338,685	-	-	338,685
Consultants	1,369,939	1,660	-	1,371,599
Drilling	528,952	-	-	528,952
Environmental	25,000	-	-	25,000
Field supplies	638,984	1,077	-	640,061
Office and salaries	176,267	5,743	2,111	184,121
Staking	-	21,556	183,800	205,356
Travel and accomodation	54,951	725	-	55,676
Future income taxes	(324,753)	-	-	(324,753)
Write-down of Saskatchewan	-	(3,569,557)	(1,131,172)	(4,700,729)
Balance, July 31, 2010	23,102,909	-	-	23,102,909
<b>Recovered costs:</b>				
Balance, July 31, 2009	(4,360,104)	-	-	(4,360,104)
Quebec exploration tax credits	(1,789,427)	-	-	(1,789,427)
Balance, July 31, 2010	(6,149,531)	-	-	(6,149,531)
<b>Total costs, July 31, 2010</b>	<b>\$ 19,494,240</b>	<b>\$ 42,169</b>	<b>\$ 330,163</b>	<b>\$ 19,866,572</b>

During the year ended July 31, 2010, the Company received refunds of \$1,789,427 from the Quebec government relating to the Company's exploration expenses incurred during fiscal 2007 to 2009.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 5. MINERAL PROPERTIES (continued)

	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	2,420,869	42,119	185,713	2,648,701
<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	-	607,208
Consultants	1,868,531	97,331	404,754	2,370,617
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	156,858
Travel and accomodation	45,156	3,498	-	48,654
Balance, July 31, 2009	19,311,596	3,538,797	945,261	23,795,654
<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	(4,360,104)	-	-	(4,360,104)
<b>Total costs, July 31, 2009</b>	<b>\$ 17,372,361</b>	<b>\$ 3,580,916</b>	<b>\$ 1,130,974</b>	<b>\$ 22,084,251</b>

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 6. 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, 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 (Note 5)	250,000	55,000	-
Exercise of stock options	375,000	50,247	(12,747)
Stock-based compensation	-	-	624,880
Income tax effect on flow-through share renouncement	-	(1,141,010)	-
Balance, July 31, 2009	90,971,257	\$ 21,821,479	\$ 5,151,109
Issued pursuant to private placement	16,982,332	4,618,320	476,380
Share issue costs, net of future income taxes	-	(30,483)	(4,471)
Issued to Bonaventure (Note 5)	250,000	95,000	-
Stock-based compensation (Note 6(c))	-	-	369,908
Income tax effect on flow-through share renouncement (Note 9)	-	(857,107)	-
Balance, July 31, 2010	108,203,589	\$ 25,647,209	\$ 5,992,926

*Private placement*

On November 16, 2009, the Company completed a private placement for gross proceeds of \$5,094,700. Pursuant to the private placement the Company issued 16,982,332 units (of which 16,318,666 were flow-through) at \$0.30 per unit. Each unit consisted of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share at \$0.50 until May 16, 2011.

(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.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

#### (c) Stock options (continued)

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

	Outstanding		exercise price
Balance, July 31, 2008	5,600,000	\$	0.42
Granted	2,825,000		0.30
Exercised	(375,000)		(0.10)
Expired	(25,000)		(0.53)
Balance, July 31, 2009	8,025,000	\$	0.39
Granted	2,455,000		0.21
Expired	(350,000)		(0.53)
Cancelled	(150,000)		(0.40)
Balance, July 31, 2010	9,980,000	\$	0.34

During the year ended July 31, 2010, the Company granted 2,455,000 stock options to directors, officers, employees and consultants. Using the fair value method for stock-based compensation, the value of the portion of stock options that vested during the year ended July 31, 2010 was \$369,908 (2009: \$624,880), of which \$297,600 (2009: \$548,647) was recorded as stock-based compensation in the statement of operations, \$28,900 (2009: \$21,229) as shareholder services in the statement of operations, and \$43,408 (2009: \$55,004) capitalized to mineral properties on the balance sheet.

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

	2010	2009
Risk-free interest rate	0.80% - 3.78%	1.24% - 3.09%
Expected life	4.0 - 10 years	1 - 10 years
Annualized volatility	75%	75%
Dividend rate	0.00%	0.00%

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 6. 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, 2010:

Outstanding	Exercisable	Exercise price	Expiry Date	Remaining contractual life (years)
1,735,000	1,735,000	0.40	March 30, 2011	0.7
2,865,000	2,865,000	0.45	March 19, 2013	2.6
150,000	150,000	0.45	June 25, 2013	2.9
150,000	150,000	0.30	January 27, 2014	3.5
250,000	187,500	0.30	September 10, 2014	4.1
130,000	-	0.20	April 1, 2015	4.7
2,325,000	2,325,000	0.30	January 27, 2019	8.5
300,000	150,000	0.30	June 25, 2019	8.9
2,075,000	2,075,000	0.20	March 23, 2020	9.7
9,980,000	9,637,500			

#### (d) Share purchase warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted average exercise price
Balance, July 31, 2008	13,088,500	\$ 0.97
Issued	12,681,000	0.47
Expired	(6,658,500)	(0.95)
Balance, July 31, 2009	19,111,000	\$ 0.65
Issued	8,491,166	0.50
Expired	(19,111,000)	(0.65)
Balance, July 31, 2010	8,491,166	\$ 0.50

In connection with the private placement noted in note 6(b), the Company issued a total of 8,491,166 warrants to the unit holders, exercisable at \$0.50 per common share until May 16, 2011. A fair value of \$476,380 was calculated using the Black-Scholes pricing model and included in contributed surplus, using the following assumptions:

Risk-free interest rate	0.96%
Expected life	1.5 years
Annualized volatility	75%
Dividend rate	0.00%

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 6. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

#### (d) Warrants (continued)

The following table summarizes information about the warrants outstanding at July 31, 2010:

Outstanding and exercisable	Exercise price	Expiry date
8,491,166	\$ 0.50	May 16, 2011

### 7. RELATED PARTY TRANSACTIONS

(a) During the year ended July 31, 2010 and 2009, the Company incurred the following costs with companies or individuals related by way of directors and/or officers in common:

	2010	2009
Consulting fees	\$ 184,000	\$ 164,000
Legal	31,032	29,318
Mineral properties	-	7,963
Professional fees	-	16,522

Included in consulting fees was an amount of \$160,000 (2009: \$140,000) 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 (2009: \$24,000) paid to JJS JR Enterprises Ltd. ("JJS"), whereby JJS provides the Company with the services of John Sutherland.

(b) Included in accounts payable at July 31, 2010 was an amount of \$23,563 (July 31, 2009: receivable of \$3,829) due to (from) Goldgroup Resources Inc. ("Goldgroup"). 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.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

### 8. COMMITMENTS

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

2011	102,500
2012	103,000
2013	105,500
2014	106,000
2015	108,400
2016	18,200
<b>Total</b>	<b>543,600</b>

### 9. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory rate of 30% (2009: 31%) to earnings before income taxes as shown in the following table:

	2010	2009
Combined Canadian federal and provincial taxes at expected rate	<b>\$ (1,947,983)</b>	\$ (642,015)
Permanent and other differences	<b>59,570</b>	184,009
Change in tax rates	<b>209,458</b>	98,597
Change in valuation allowance	<b>(37,264)</b>	31
Expiry of losses	<b>37,263</b>	-
	<b>\$ (1,678,956)</b>	\$ (359,378)

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

	2010	2009
Future income tax assets		
Non-capital losses	<b>\$ 185,087</b>	\$ 195,266
Share issue costs	<b>106,156</b>	134,518
Capital losses	<b>206,799</b>	206,799
Other	<b>59,443</b>	38,000
	<b>557,485</b>	574,583
Valuation allowance	<b>(295,595)</b>	(332,858)
	<b>261,890</b>	241,725
Future income tax liabilities		
Resource Property costs	<b>1,217,523</b>	2,340,850
Future income tax liability, net	<b>\$ 955,633</b>	\$ 2,099,125

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 9. 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, 2010, the Company had issued a total of 55,908,666 common shares on a flow-through basis for gross proceeds of \$20,924,600. 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, 2010, the Company had renounced the tax benefits on all 51,908,666 flow-through common shares and the related \$20,924,600 of gross proceeds.

During the year ended July 31, 2010, the Company renounced the tax benefits on 16,318,666 flow-through common shares and the related \$4,895,600 gross proceeds resulting in an increase to the income tax liability of \$857,107, 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, 2010, the future income tax liability was \$955,633. A future income tax recovery of \$1,678,956 was also recorded during the year ended July 31, 2010 to reflect the future tax benefit associated with the Company's operating losses for the period, as well as the write-down of mineral properties as discussed in note 5.

As at July 31, 2010, the Company had non-capital loss carry forwards of approximately \$688,000 (2009: \$726,000) that may be available for tax purposes. These tax losses are in respect of Canadian operations and, if not utilized, will expire in the following years:

2014	167,000
2015	163,000
2029	167,000
2030	191,000
	<u>688,000</u>

### 10. 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.

Cash and cash equivalents are designated as held-for-trading and therefore carried at fair value, with the unrealized gain or loss recorded in the statement of operations. Receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

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

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### 10. FINANCIAL INSTRUMENTS (continued)

#### *Fair Value Measurement*

The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862 "Financial Instruments Disclosures" requires disclosure of a three-level hierarchy for fair value measurements based upon the significance of inputs used in making fair value measurements as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – 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).
- Level 3 – inputs for the asset or liability that are not based on observable market data.

At July 31, 2010, cash and cash equivalents of \$2,722,117 and other less significant financial instruments were categorized as level 1.

#### *Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

##### *Credit Risk*

Credit risk arises from the potential for 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 and term deposits at large international financial institutions. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

##### *Liquidity Risk*

The Company's cash and cash equivalents are held in bank accounts and term deposits and are available on demand. Management has concluded that the company has adequate financial resources to settle obligations as at July 31, 2010. Additional information regarding liquidity risk is disclosed in note 1.

##### *Market Risk*

The only significant market risk to which the Company is exposed is interest rate risk. The Company's bank accounts earn interest at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest is exposed to short-term rate fluctuations.

##### *Commodity Price Risk*

Although the Company is an exploration company, it is subject to price risk from fluctuations in market prices of natural resource commodities since its future profitability is dependent on the market price of these commodities. The prices of commodities are affected by numerous factors beyond the Company's control. Fluctuations in the commodities' prices could result in future commercial production that is impracticable to the Company. Therefore, management regularly monitors natural resource commodity prices to determine the appropriate course of action to be taken by the Company.

# **URACAN RESOURCES LTD.**

## **Notes to the Financial Statements**

July 31, 2010 and 2009

(expressed in Canadian dollars)

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### **11. 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. Additional information regarding capital management is disclosed in note 1.

### **12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the year ended July 31, 2010, the Company issued 250,000 shares to Bonaventure with a fair value of \$95,000, as discussed in note 5.