

Interim financial statements of

URACAN RESOURCES LTD.

Three and six months ended
January 31, 2011 and 2010
(Unaudited)

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102, the Company discloses that its auditors have not reviewed the Company's unaudited interim financial statements for the three and six month periods ended January 31, 2011 and 2010.

URACAN RESOURCES LTD.

Balance Sheets

(expressed in Canadian dollars)

(unaudited)

	January 31, 2011	July 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$ 6,395,659	\$ 2,722,117
Receivables	140,567	120,856
Prepays and deposits	137,799	91,991
	6,674,025	2,934,964
Property, plant and equipment (Note 3)	124,930	121,843
Equipment under capital lease	-	25,052
Mineral properties (Note 4)	21,337,154	19,866,572
	\$ 28,136,109	\$ 22,948,431
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 198,625	\$ 820,802
	198,625	820,802
Future income tax liability (Note 8)	798,790	955,633
Asset retirement obligation	75,000	75,000
	1,072,415	1,851,435
Shareholders' equity		
Share capital (Note 5(b))	31,953,454	25,647,209
Contributed surplus (Note 5(b))	6,108,493	5,992,926
Deficit	(10,998,253)	(10,543,139)
	27,063,695	21,096,996
	\$ 28,136,109	\$ 22,948,431

Nature of operations and going concern (Note 1)

Commitments (Note 7)

Approved by the Board of Directors:

"Gordon Keep" Director

"Jay Sujir" Director

See accompanying notes to the unaudited interim financial statements

URACAN RESOURCES LTD.

Statements of Operations, Comprehensive Loss and Deficit

(expressed in Canadian dollars)

(unaudited)

	Three months ended		Six months ended	
	January 31,		January 31,	
	2011	2010	2011	2010
Expenses				
Consulting	\$ 88,998	\$ 103,721	\$ 176,295	\$ 206,317
Depreciation	15,458	14,663	30,440	28,290
Exploration costs	2,487	-	16,313	-
Interest and penalties	-	(55,855)	-	(50,308)
Marketing and advertising	73,871	49,173	137,358	103,391
Office and administration	55,089	60,744	119,493	119,998
Professional fees	5,396	3,008	20,016	41,832
Regulatory and transfer agent	5,811	4,555	7,193	7,012
Repairs and maintenance	-	3,672	-	3,672
Salaries and benefits	37,983	41,668	68,346	107,347
Shareholder services	2,213	44,443	6,299	75,054
Stock-based compensation (Note 5(c))	23,651	9,349	26,417	18,690
Travel, meals and entertainment	4,941	5,181	12,584	11,428
	315,898	284,322	620,754	672,723
Other Items				
Interest income	4,023	2,306	8,797	4,501
Loss before income taxes	(311,875)	(282,016)	(611,957)	(668,222)
Future income tax recovery (Note 8)	76,896	68,276	156,843	168,812
Net loss and comprehensive				
loss for the period	(234,979)	(213,740)	(455,114)	(499,410)
Deficit, beginning of period	(10,763,274)	(6,087,253)	(10,543,139)	(5,801,583)
Deficit, end of period	\$ (10,998,253)	\$ (6,300,993)	\$ (10,998,253)	\$ (6,300,993)
Basic and diluted loss per share	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
Weighted average number of				
common shares outstanding				
basic and diluted	118,332,126	105,945,024	113,267,857	98,458,140

See accompanying notes to the unaudited interim financial statements

URACAN RESOURCES LTD.

Statements of Cash Flows
(expressed in Canadian dollars)
(unaudited)

	Three months ended		Six months ended	
	January 31,		January 31,	
	2011	2010	2011	2010
Operating activities				
Net loss for the period	\$ (234,979)	\$ (213,740)	\$ (455,114)	\$ (499,410)
Items not involving cash:				
Depreciation	15,458	14,664	30,440	28,290
Future income taxes	(76,896)	(68,276)	(156,843)	(168,812)
Stock-based compensation (Note 5(c))	35,220	27,426	37,986	38,446
Changes in non-cash working capital items:				
Receivables	(1,769)	(755,712)	(19,711)	(699,736)
Prepays and deposits	(51,478)	(8,624)	(45,808)	(33,820)
Accounts payable and accrued liabilities	(680,333)	(1,913,264)	(688,569)	(1,850,830)
	(994,777)	(2,917,526)	(1,297,619)	(3,185,872)
Financing activities				
Issuance of shares	6,727,490	4,994,700	6,727,490	5,094,700
Share issue costs	(343,664)	(47,817)	(343,664)	(47,817)
	6,383,826	4,946,883	6,383,826	5,046,883
Investing activities				
Purchase of property, plant and equipment	(1,664)	(8,227)	(8,475)	(8,227)
Proceeds on redemption of short-term investments	-	-	-	2,506,000
Equipment under capital lease, net	-	(5,299)	-	(10,340)
Mineral property costs, net of accounts payable	(388,836)	(165,662)	(1,404,190)	(2,039,138)
Recovery of mineral property costs	-	906,919	-	906,919
	(390,500)	727,731	(1,412,665)	1,355,214
Change in cash and cash equivalents during the period	4,998,549	2,757,088	3,673,542	3,216,225
Cash and cash equivalents, beginning of period	1,397,110	729,620	2,722,117	270,483
Cash and cash equivalents, end of period	\$ 6,395,659	\$ 3,486,708	\$ 6,395,659	\$ 3,486,708
Cash and cash equivalents is comprised of:				
Cash	\$ 6,395,659	\$ 186,628	\$ 6,395,659	\$ 186,628
Short-term deposits	-	3,300,080	-	3,300,080
	\$ 6,395,659	\$ 3,486,708	\$ 6,395,659	\$ 3,486,708
Interest paid	\$ -	\$ -	\$ -	\$ -
Taxes paid	\$ -	\$ -	\$ -	\$ -

See accompanying notes to the unaudited interim financial statements

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

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. The Company has not generated revenues from operations and is considered to be in the exploration stage.

While these unaudited interim 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 January 31, 2011, the Company had working capital of \$6,475,400. The Company has incurred negative cash flows from operations, recorded a loss of \$455,114 for the six months ended January 31, 2011 and had an accumulated deficit of \$10,998,253 as at January 31, 2011. As at January 31, 2011, the Company has sufficient cash to finance its operations and proceed with its intended exploration programs over the next twelve months.

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 unaudited 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. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

These unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. The preparation of interim financial statements is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. These interim period statements are unaudited and should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual filing. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Changes in and Initial Adoption of Accounting Policies

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.

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

2. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Changes in and Initial Adoption of Accounting Policies (continued)

Business Combinations (continued)

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. Effective August 1, 2010, the Company early adopted all of these sections, with no impact to the unaudited interim financial statements.

3. PROPERTY, PLANT AND EQUIPMENT

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

	January 31, 2011		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 62,561	\$ 44,745	\$ 17,815
Furniture and fixtures	100,717	48,908	51,810
Office equipment	15,376	9,042	6,334
Leasehold improvements	4,684	1,561	3,123
Exploration equipment	77,119	31,270	45,849
	<u>\$ 260,457</u>	<u>\$ 135,527</u>	<u>\$ 124,930</u>

	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>

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

4. 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 January 31, 2011, the Company had paid Sheridan a total of \$325,000 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.

As at January 31, 2011, 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 \$1,132,053 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.

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

4. MINERAL PROPERTIES (continued)

Saskatchewan Properties (continued)

No work was carried out on the Saskatchewan properties since the beginning of fiscal 2009 and the properties are currently on care and maintenance. As such, the Company wrote down the properties to their acquisition cost amount of \$372,332. Exploration costs of \$4,700,729 were recorded as a write-down of mineral properties in the statement of operations, comprehensive loss and deficit during Q4 2010 and an additional \$16,313 was recorded as exploration costs in the statement of operations, comprehensive loss and deficit during the six months ended January 31, 2011.

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
Acquisition costs:				
Balance, July 31, 2010	\$ 2,540,862	\$ 42,169	\$ 330,163	\$ 2,913,194
Cash paid	50,000	-	-	50,000
Shares issued	-	-	-	-
License renewal fees	16,464	-	-	16,464
Balance, January 31, 2011	2,607,326	42,169	330,163	2,979,658
Exploration costs:				
Balance, July 31, 2010	23,102,909	-	-	23,102,909
Air support and fuel	360,875	-	-	360,875
Assaying and analysis	150,393	-	-	150,393
Consultants	348,962	-	-	348,962
Drilling	201,954	-	-	201,954
Field supplies	224,369	-	-	224,369
Office and salaries	92,240	-	-	92,240
Travel and accomodation	25,325	-	-	25,325
Balance, January 31, 2011	24,507,027	-	-	24,507,027
Recovered costs:				
Balance, July 31, 2010 and January 31, 2011	(6,149,531)	-	-	(6,149,531)
Total costs, January 31, 2011	\$ 20,964,822	\$ 42,169	\$ 330,163	\$ 21,337,154

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

5. 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, 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	-	(30,483)	(4,471)
Issued to Bonaventure (Note 4)	250,000	95,000	-
Stock-based compensation (Note 5(c))	-	-	369,908
Income tax effect on flow-through share renouncement	-	(857,107)	-
Balance, July 31, 2010	108,203,589	\$ 25,647,209	\$ 5,992,926
Issued pursuant to private placements	24,595,634	6,645,733	81,757
Share issue costs	-	(339,488)	(4,176)
Stock-based compensation (Note 5(c))	-	-	37,986
Balance, January 31, 2011	132,799,223	\$ 31,953,454	\$ 6,108,493

On December 24, 2010, the Company closed a non-brokered private placement of 22,595,634 units for gross proceeds of \$6,227,490. 11,571,634 units are flow-through units at a price of \$0.30 per unit, each unit consisting of one flow-through common share and one half of a common share purchase warrant, each whole warrant entitling the warrant holder to purchase one common share of the Company at a price of \$0.40 per share until December 23, 2012. 11,024,000 units are non-flow-through units at \$0.25 per unit, each unit consisting of one common share and one common share purchase warrant, entitling the warrant holder to purchase one common share of the Company at a price of \$0.40 per share until December 23, 2012.

On January 18, 2011, the Company closed an additional 2,000,000 units at \$0.25 per unit for additional proceeds of \$500,000. Each unit consists of one common share and one common share purchase warrant, each warrant entitling the warrant holder to purchase one common share of the Company at a price of \$0.40 per share until January 18, 2013.

(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 interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(c) Stock options (continued)

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

	Outstanding	Weighted average exercise price
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
Cancelled	(250,000)	(0.30)
Granted	300,000	0.29
Balance, January 31, 2011	10,030,000	\$ 0.34

During the six months ended January 31, 2011, 300,000 stock options were granted to consultants. The grant date fair value of the options using the Black-Scholes pricing model was \$51,900 using the following inputs:

Risk-free interest rate	2.57%
Expected life	5 years
Annualized volatility	75%
Dividend rate	0.00%

The value of the outstanding stock options that vested during the six months ended January 31, 2011 was \$37,986 (2010: \$38,446), of which \$26,417 (2010: \$18,690) was recorded as stock-based compensation and \$nil (2010: \$19,756) as shareholder services in the statement of operations, and \$11,569 (2010: \$nil) capitalized to mineral properties on the balance sheet.

The following table summarizes information about the stock options outstanding and exercisable at January 31, 2011:

Outstanding	Exercisable	Weighted average exercise price	Expiry Date	Weighted average remaining contractual life (years)
1,735,000	1,735,000	0.40	March 30, 2011	0.2
2,865,000	2,865,000	0.45	March 19, 2013	2.1
150,000	150,000	0.45	June 25, 2013	2.4
150,000	150,000	0.30	January 27, 2014	3.0
130,000	32,500	0.20	April 1, 2015	4.2
300,000	-	0.29	December 3, 2015	4.8
2,325,000	2,325,000	0.30	January 27, 2019	8.0
300,000	225,000	0.30	June 25, 2019	8.4
2,075,000	2,075,000	0.20	March 23, 2020	9.1
10,030,000	9,557,500	0.34		4.9

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

5. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

(c) Stock options (continued)

Subsequent to period end, on March 22, 2011, 2,575,000 stock options were granted to directors, officers, employees and consultants of the Company. The options are exercisable at a price of \$0.21 per share until March 22, 2021.

(d) Share purchase warrants

A summary of the changes in warrants is presented below:

	Number of warrants	Weighted average exercise price
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
Issued	18,809,817	0.40
Balance, January 31, 2011	27,300,983	\$ 0.43

During the six months ended January 31, 2011, 18,809,817 share purchase warrants were issued pursuant to the private placements as discussed in note 5(b). The warrants were valued using the Black-Scholes model, with an amount of \$77,581, net of issue costs, allocated to contributed surplus, using the following inputs:

Risk-free interest rate	1.81%
Expected life	2 years
Annualized volatility	25.00%
Dividend rate	0.00%

The following table summarizes information about the warrants outstanding at January 31, 2011:

Outstanding and exercisable	Exercise price	Expiry date
8,491,166	\$ 0.50	May 16, 2011
16,809,817	0.40	December 23, 2012
2,000,000	0.40	January 18, 2013
27,300,983	\$ 0.44	

6. RELATED PARTY TRANSACTIONS

- (a) During the six months ended January 31, 2011, the Company incurred consulting fees of \$70,000 (2010: \$96,000) with companies or individuals related by way of directors and/or officers in common.

Included in consulting fees was an amount of \$60,000 (2010: \$84,000) paid to Global Vision Capital Corp. ("GVCC"), whereby GVCC provides the Company with the services of Gregg J. Sedun, and an amount of \$10,000 (2010: \$12,000) paid to JJS JR Enterprises Ltd. ("JJS"), whereby JJS provides the Company with the services of John Sutherland. Included in accounts payable at January 31, 2011 was an amount of \$11,854 (July 31, 2010: nil) due to GVCC.

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

6. RELATED PARTY TRANSACTIONS (continued)

(b) During the six months ended January 31, 2011, the Company incurred expenses of \$141,909 (2010: \$124,156) to Goldgroup Mining Inc. ("Goldgroup"), a company with an officer in common. 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.

Included in accounts payable at January 31, 2011 was an amount of \$17,036 (July 31, 2010: \$23,563) due to Goldgroup.

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.

7. COMMITMENTS

Effective October 1, 2008, GVCC has entered into a 7 year lease agreement for the Company's office premises. As noted in 6(b), Goldgroup and the Company share all office expenses evenly. The Company's approximate portion of the remaining minimum annual lease commitments per fiscal year are as follows:

2011	51,500
2012	103,000
2013	105,500
2014	106,000
2015	108,400
2016	18,200
Total	492,600

8. INCOME TAXES

As at January 31, 2011, the Company had issued a total of 67,480,300 common shares on a flow-through basis for gross proceeds of \$24,396,090. 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 January 31, 2011, the Company had renounced the tax benefits on 55,908,666 flow-through common shares and the related \$20,924,600 of gross proceeds.

As at January 31, 2011, the future income tax liability was \$798,790. A future income tax recovery of \$156,843 was recorded during the six months ended January 31, 2011 (2009: \$168,812) to reflect the future tax benefit associated with the Company's operating losses for the period.

Subsequent to January 31, 2011, the Company renounced the tax benefits on the remaining 11,571,634 flow-through common shares and the related \$3,471,490 gross proceeds.

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

9. 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.

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 January 31, 2011, cash and cash equivalents 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 January 31, 2011. 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.

URACAN RESOURCES LTD.

Notes to the interim financial statements

January 31, 2011 and 2010

(expressed in Canadian dollars)

(unaudited)

9. FINANCIAL INSTRUMENTS (continued)

Financial Instrument Risk Exposure (continued)

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.

10. 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.