

Financial Statements of

**Uracan Resources Ltd.**

Years ended July 31, 2011 and 2010



November 18, 2011

## **Independent Auditor's Report**

### **To the Shareholders of Uracan Resources Ltd.**

We have audited the accompanying financial statements of Uracan Resources Ltd., which comprise the balance sheets as at July 31, 2011 and 2010 and the statement of operations, comprehensive loss and deficit for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Uracan Resources Ltd. as at July 31, 2011 and 2010 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 LLP"*

#### **Chartered Accountants**

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# URACAN RESOURCES LTD.

## Balance Sheets

As at July 31, 2011 and 2010

(expressed in Canadian dollars)

	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,596,854	\$ 2,722,117
Amounts receivable (Note 4)	3,730,320	120,856
Prepaid expenses and deposits	75,394	91,991
	<b>7,402,568</b>	2,934,964
Property, plant and equipment (Note 3)	111,369	121,843
Equipment under capital lease	-	25,052
Mineral properties (Note 4)	20,809,942	19,866,572
	<b>\$ 28,323,879</b>	<b>\$ 22,948,431</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 1,074,441	\$ 820,802
	<b>1,074,441</b>	820,802
Future income tax liability (Note 8)	611,091	955,633
Asset retirement obligation	75,000	75,000
	<b>1,760,532</b>	1,851,435
<b>Shareholders' equity</b>		
Share capital (Note 5(b))	31,475,066	25,647,209
Contributed surplus (Note 5(b))	6,540,866	5,992,926
Deficit	(11,452,585)	(10,543,139)
	<b>26,563,347</b>	21,096,996
	<b>\$ 28,323,879</b>	<b>\$ 22,948,431</b>

Commitments (Note 7)

Approved by the Board of Directors:

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"Gordon Keep" Director

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"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, 2011 and 2010

(expressed in Canadian dollars)

	2011	2010
<b>Expenses</b>		
Consulting	\$ 339,805	\$ 407,352
Depreciation	61,961	57,886
Exploration costs (Note 4)	16,722	-
Interest and penalties (Note 8)	143,020	(72)
Marketing and advertising	291,730	241,914
Office and administration	199,184	267,023
Professional fees	73,135	101,479
Regulatory and transfer agent	30,067	24,394
Repairs and maintenance	-	3,672
Salaries and benefits	126,717	153,341
Shareholder services	12,375	138,734
Stock-based compensation (Note 5(c))	347,009	297,600
Travel, meals and entertainment	42,342	40,653
	<b>(1,684,067)</b>	<b>(1,733,976)</b>
<b>Other Items</b>		
Interest income	39,020	14,193
Write-down of mineral properties	-	(4,700,729)
	<b>39,020</b>	<b>(4,686,536)</b>
Loss before income taxes	<b>(1,645,047)</b>	<b>(6,420,512)</b>
Future income tax recovery (Note 8)	735,601	1,678,956
<b>Net loss and comprehensive loss</b>	<b>(909,446)</b>	<b>(4,741,556)</b>
Deficit, beginning of year	<b>(10,543,139)</b>	<b>(5,801,583)</b>
<b>Deficit, end of year</b>	<b>\$ (11,452,585)</b>	<b>\$ (10,543,139)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of common shares outstanding basic and diluted</b>	<b>122,953,274</b>	<b>103,290,815</b>

See accompanying notes to the financial statements

# URACAN RESOURCES LTD.

## Statements of Cash Flows

For the years ended July 31, 2011 and 2010

(expressed in Canadian dollars)

	2011	2010
<b>Operating activities</b>		
Net loss for the period	\$ (909,446)	\$ (4,741,556)
Items not involving cash:		
Depreciation	61,961	57,886
Future income taxes	(735,601)	(1,678,956)
Stock-based compensation (Note 5(c))	347,009	326,500
Write-down of mineral properties	-	4,700,729
Changes in non-cash working capital items:		
Amounts receivable	(57,905)	142,623
Prepaid expenses and deposits	16,597	(83,424)
Accounts payable and accrued liabilities	(689,015)	(1,788,814)
	<b>(1,966,400)</b>	<b>(3,065,012)</b>
<b>Financing activities</b>		
Issuance of shares (Note 5(b))	6,727,490	5,094,700
Share issue costs (Note 5(b))	(405,269)	(47,817)
	<b>6,322,221</b>	<b>5,046,883</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(26,435)	(19,719)
Proceeds on redemption of short-term investments	-	2,506,000
Equipment under capital lease, net	-	(21,764)
Mineral property costs	(3,647,901)	(3,784,181)
Recovery of mineral property costs	193,252	1,789,427
	<b>(3,481,084)</b>	<b>469,763</b>
Change in cash and cash equivalents during the year	874,737	2,451,634
Cash and cash equivalents, beginning of year	2,722,117	270,483
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,596,854</b>	<b>\$ 2,722,117</b>
<b>Cash and cash equivalents is comprised of:</b>		
Cash	\$ 596,854	\$ 409,968
Short-term deposits	3,000,000	2,312,149
	<b>\$ 3,596,854</b>	<b>\$ 2,722,117</b>
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

See accompanying notes to the financial statements

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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### 1. NATURE OF OPERATIONS

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.

### 2. BASIS OF PRESENTATION AND RECENT ACCOUNTING PRONOUNCEMENTS

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. 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.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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.

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.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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.

#### (j) *Financial Instruments*

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

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

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

### 3. PROPERTY, PLANT AND EQUIPMENT

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

	July 31, 2011		
	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 57,116	\$ 39,781	\$ 17,335
Computer software	20,100	13,670	6,430
Furniture and fixtures	100,717	58,979	41,738
Office equipment	15,376	10,580	4,796
Leasehold improvements	7,989	2,021	5,968
Exploration equipment	77,119	42,017	35,102
	<u>\$ 278,417</u>	<u>\$ 167,048</u>	<u>\$ 111,369</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>

### 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 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, 2011, the Company had paid Sheridan a total of \$375,000 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.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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### 4. MINERAL PROPERTIES (continued)

#### Saskatchewan Properties (continued)

##### 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 July 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 \$1,132,384 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.

The Saskatchewan properties are currently on care and maintenance. The Company wrote down the properties to their acquisition cost amount of \$372,332 during the year ended July 31, 2010. 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 2010 and an additional \$16,722 was recorded as exploration costs in the statement of operations, comprehensive loss and deficit during the year ended July 31, 2011.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

### 4. MINERAL PROPERTIES (continued)

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, 2010	\$ 2,540,862	\$ 42,169	\$ 330,163	\$ 2,913,194
Cash paid	100,000	-	-	100,000
Shares issued	-	-	-	-
License renewal fees	117,716	-	-	117,716
<b>Balance, July 31, 2011</b>	<b>2,758,578</b>	<b>42,169</b>	<b>330,163</b>	<b>3,130,910</b>
<b>Exploration costs:</b>				
Balance, July 31, 2010	23,102,909	-	-	23,102,909
Air support and fuel	1,185,372	-	-	1,185,372
Assaying and analysis	307,477	-	-	307,477
Consultants	1,234,470	-	-	1,234,470
Drilling	644,574	-	-	644,574
Field supplies	830,706	-	-	830,706
Future income taxes	(25,724)	-	-	(25,724)
Office and salaries	240,851	-	-	240,851
Travel and accomodation	52,739	-	-	52,739
<b>Balance, July 31, 2011</b>	<b>27,573,374</b>	<b>-</b>	<b>-</b>	<b>27,573,374</b>
<b>Recovered costs:</b>				
Balance, July 31, 2010	(6,149,531)	-	-	(6,149,531)
Quebec exploration tax credits	(3,744,811)	-	-	(3,744,811)
<b>Balance, July 31, 2011</b>	<b>(9,894,342)</b>	<b>-</b>	<b>-</b>	<b>(9,894,342)</b>
<b>Total costs, July 31, 2011</b>	<b>\$ 20,437,610</b>	<b>\$ 42,169</b>	<b>\$ 330,163</b>	<b>\$ 20,809,942</b>

During the year ended July 31, 2011, the Company recorded Quebec exploration tax credits of \$3,744,811 relating to the Company's exploration expenses incurred during fiscal 2010 to 2011. Of this amount, \$193,252 was received during the year ended July 31, 2011 and \$3,551,559 is due from the Quebec government and has been recorded as a component of amounts receivable on the balance sheet.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

### 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
Future 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	-	(401,093)	(4,176)
Future income tax effect on share issue costs	-	109,020	-
Stock-based compensation (Note 5(c))	-	-	470,359
Future Income tax effect on flow-through share renouncement (Note 8)	-	(525,803)	-
Balance, July 31, 2011	132,799,223	\$ 31,475,066	\$ 6,540,866

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 Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

### 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
Granted	2,875,000		0.22
Expired	(1,985,000)		(0.39)
Balance, July 31, 2011	10,870,000	\$	0.30

During the year ended July 31, 2011, 2,875,000 stock options were granted to directors, officers, employees and consultants. The grant date fair value of the options using the Black-Scholes pricing model was \$477,276 using the following inputs:

Risk-free interest rate	2.57% - 3.65%
Expected life	5-10 years
Annualized volatility	75%
Dividend rate	0.00%

The value of the stock options that vested during the year ended July 31, 2011 was \$470,359 (2010: \$369,908), of which \$347,009 (2010: \$297,600) was recorded as stock-based compensation, \$nil (2010: \$28,900) as shareholder services in the statement of operations, and \$123,350 (2010: \$43,408) capitalized to mineral properties on the balance sheet.

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

Outstanding	Exercisable	Weighted average exercise price	Expiry Date	Weighted average remaining contractual life (years)
2,865,000	2,865,000	\$ 0.45	March 19, 2013	1.6
150,000	150,000	0.45	June 25, 2013	1.9
150,000	150,000	0.30	January 27, 2014	2.5
130,000	65,000	0.20	April 1, 2015	3.7
300,000	150,000	0.29	December 3, 2015	4.3
2,325,000	2,325,000	0.30	January 27, 2019	7.5
300,000	300,000	0.30	June 25, 2019	7.9
2,075,000	2,075,000	0.20	March 23, 2020	8.7
2,575,000	2,575,000	0.21	March 22, 2021	9.6
10,870,000	10,655,000	\$ 0.30		6.4

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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

#### (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
Expired	(8,491,166)	(0.50)
Balance, July 31, 2011	18,809,817	\$ 0.40

During the year ended July 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 July 31, 2011:

Outstanding and exercisable	Weighted average exercise price	Expiry date	Weighted average remaining contractual life (years)
16,809,817	\$ 0.40	December 23, 2012	1.40
2,000,000	0.40	January 18, 2013	1.47
18,809,817	\$ 0.40		1.41

### 6. RELATED PARTY TRANSACTIONS

- (a) During the year ended July 31, 2011, the Company incurred consulting and legal fees of \$202,694 (2010: \$215,032) with companies or individuals related by way of directors and/or officers in common.

Included in consulting fees was an amount of \$120,000 (2010: \$160,000) 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: \$24,000) paid to JJS JR Enterprises Ltd. ("JJS"), whereby JJS provides the Company with the services of John Sutherland.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

(expressed in Canadian dollars)

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### 6. RELATED PARTY TRANSACTIONS (continued)

(b) During the year ended July 31, 2011, the Company incurred net expenses of \$182,442 (2010: \$176,335) to Goldgroup Mining Inc. ("Goldgroup"), a company with officers in common. This amount relates to the Company's portion of the rent, administration staff salary and general office expenses.

Included in accounts payable at July 31, 2011 was an amount of \$32,973 (July 31, 2010: \$22,483) 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. The Company's approximate portion of the remaining minimum annual lease commitments per fiscal year are as follows:

2012	\$ 61,800
2013	63,300
2014	63,600
2015	65,100
2016	10,900
<u>Total</u>	<u>\$ 264,700</u>

### 8. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the Canadian federal and provincial statutory rate of 29% (2010: 30%) to earnings before income taxes as shown in the following table:

	2011	2010
Combined Canadian federal and provincial taxes at expected rate	\$ (477,557)	\$ (1,947,983)
Permanent and other differences	100,072	59,570
Change in long term income tax rates and provincial allocation	(358,802)	209,458
Change in valuation allowance	686	(37,264)
Expiry of losses	-	37,263
<u>Income tax recovery</u>	<u>\$ (735,601)</u>	<u>\$ (1,678,956)</u>

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

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### 8. INCOME TAXES (continued)

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

	2011	2010
Future income tax assets		
Non-capital losses	\$ 279,164	\$ 185,087
Share issue costs	149,140	106,156
Capital losses	206,799	206,799
Other	89,851	59,443
	<b>724,954</b>	<b>557,485</b>
Valuation allowance	<b>(296,280)</b>	<b>(295,595)</b>
	<b>428,674</b>	<b>261,890</b>
Future income tax liabilities		
Resource Property costs	<b>1,039,765</b>	<b>1,217,523</b>
Future income tax liability, net	<b>\$ 611,091</b>	<b>\$ 955,633</b>

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, 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 specified Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants. As at July 31, 2011, the Company had renounced the tax benefits on all 67,480,300 flow-through common shares and the related \$24,396,090 of gross proceeds.

During the year ended July 31, 2011, the Company renounced the tax benefits on 11,571,364 flow-through common shares and the related \$3,471,490 gross proceeds resulting in an increase to the future income tax liability of \$525,803, with a corresponding amount reducing share capital. During the year ended July 31, 2011, the Company incurred Part XII.6 taxes and penalties in the amount of \$143,020 (2010: credit of \$32,176) based on the amount of unspent flow-through funds renounced under the look-back rule.

As a result of the Company having incurred operating losses and the future income tax liability being revalued at each period end, the liability from renunciation of flow-through shares was reduced. As at July 31, 2011, the future income tax liability was \$611,091. A future income tax recovery of \$735,601 was also recorded during the year to reflect the future tax benefit associated with the Company's operating losses for the year.

As at July 31, 2011, the Company had non-capital loss carry forwards of approximately \$1,038,000 (2010: \$688,000) that may be available for tax purposes.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

July 31, 2011 and 2010

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### 8. INCOME TAXES (continued)

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		215,000
2031		326,000
	\$	<u>1,038,000</u>

### 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, amounts receivable 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. Amounts receivable 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, amounts receivable 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 July 31, 2011, cash and cash equivalents were categorized as level 1.

# URACAN RESOURCES LTD.

## Notes to the Financial Statements

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(expressed in Canadian dollars)

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### 9. FINANCIAL INSTRUMENTS (continued)

#### *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 amounts receivable. The Company reduces its credit risk on cash and cash equivalents by maintaining its bank accounts and term deposits at large international financial institutions. Amounts receivable consists mainly of tax credits on exploration expenditures due from the Quebec government. As such, Management has concluded that the company has no significant credit risk. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

#### *Liquidity Risk*

Cash and cash equivalents are held in bank accounts and term deposits and are available on demand. Amounts receivable consists mainly of tax credits on exploration expenditures due from the Quebec government, the amount of which is subject to adjustment and the timing of which is uncertain. At July 31, 2011, the Company has cash and cash equivalents of \$3,596,854 to settle current liabilities of \$1,074,441. Management has concluded that the company has adequate financial resources to settle obligations as at July 31, 2011.

#### *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.

### 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.