

**AMERICAN MANGANESE INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2011**

**and**

**JULY 31, 2010**

## Management's Responsibility

To the Shareholders of American Manganese Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

November 25, 2011

*Larry W. Reaugh*

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Chief Executive Officer

*Ken Wright*

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Chief Financial Officer

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of **American Manganese Inc.**:

We have audited the accompanying consolidated financial statements of American Manganese Inc. and its subsidiary, which comprise the consolidated balance sheet as at July 31, 2011, and the consolidated statements of loss and comprehensive loss, deficit and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of American Manganese Inc. and its subsidiary as at July 31, 2011, and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that American Manganese Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicate the existence of a material uncertainty which may cast doubt about the ability of American Manganese Inc. to continue as a going concern.

### *Other Matter*

The consolidated financial statements of American Manganese Inc. as at July 31, 2010 and for the year then ended were audited by a firm of chartered accountants who expressed an unmodified opinion on those statements in their audit report dated November 24, 2010.

The image shows a handwritten signature in black ink that reads "MNP LLP". The letters are bold and slightly slanted, with a casual, professional appearance.

November 25, 2011

Vancouver, British Columbia

Chartered Accountants

**AMERICAN MANGANESE INC.**  
**Consolidated Balance Sheets**  
**As at July 31,**

	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 788,533	\$ 129,004
Short-term investment	6,700,000	-
Amounts receivable	159,017	40,614
Due from related parties (Note 5)	16,563	8,717
Marketable securities (Note 6)	16,875	-
Prepaid expenses	94,988	45,000
Project advances	334,995	-
	<b>8,110,971</b>	<b>223,335</b>
Equipment (Note 8)	5,580	7,957
Reclamation deposits	35,021	35,021
Mineral property interests (Note 9)	6,690,423	4,375,162
	<b>\$ 14,841,995</b>	<b>\$ 4,641,475</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 384,583	\$ 87,990
Due to related parties (Note 5)	-	35,962
	<b>384,583</b>	<b>123,952</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 10)	\$ 22,958,206	13,048,514
Value assigned to options and warrants (Note 10)	4,647,827	1,881,936
Deficit	(13,135,496)	(10,412,927)
Accumulated other comprehensive income (Note 6)	(13,125)	-
	<b>14,457,412</b>	<b>4,517,523</b>
	<b>\$ 14,841,995</b>	<b>\$ 4,641,475</b>

**Nature and continuance of operations** (Note 1)

**Contingency** (Note 15)

**Subsequent events** (Note 16)

Approved on Behalf of the Board of Directors:

*Larry W. Reaugh*

Director

*Edward C. Lee*

Director

See accompanying notes to consolidated financial statements

**AMERICAN MANGANESE INC.**  
**Consolidated Statements of Operations and Deficit**  
**For the Years Ended July 31,**

	<u>2011</u>	<u>2010</u>
<b>Administrative Expenses</b>		
Amortization	\$ 2,377	\$ 3,392
Bank charges and interest	4,880	2,850
Consulting fees	468,112	134,563
Management fees	29,012	22,854
Office expenses	140,084	66,315
Professional fees	78,496	102,050
Shareholder communications	562,464	321,317
Office rent and property taxes	17,205	15,960
Repairs and maintenance	17,975	1,506
Filing and transfer agent fees	75,955	62,926
Telephone	17,202	16,938
Travel	116,150	48,298
Wages and benefits	602,705	378,057
Loss on foreign exchange	52,216	9,070
Stock-based compensation	187,511	439,391
Research and development	<u>373,496</u>	<u>123,540</u>
<b>Loss before other items</b>	<b>(2,745,840)</b>	<b>(1,749,027)</b>
<b>Other income:</b>		
Recovery of previously accrued contingency (Note 15)	-	358,742
Interest income	<u>23,271</u>	<u>331</u>
	<u>23,271</u>	<u>359,073</u>
<b>Net Loss for the Year</b>	<b>(2,722,569)</b>	<b>(1,389,954)</b>
<b>Deficit - Beginning of Year</b>	<b>(10,412,927)</b>	<b>(9,022,973)</b>
<b>Deficit - End of Year</b>	<b>\$ (13,135,496)</b>	<b>\$ (10,412,927)</b>
<b>Basic and Diluted Loss per Share</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b><u>81,908,320</u></b>	<b><u>54,841,123</u></b>

See accompanying notes to consolidated financial statements

**AMERICAN MANGANESE INC.**  
**Consolidated Statements of Comprehensive Loss and Accumulated Other Comprehensive Loss**  
**For the Years Ended July 31,**

	<b>2011</b>	<b>2010</b>
Net loss for the year	\$ (2,722,569)	\$ (1,389,954)
Other comprehensive loss (Note 6)	(13,125)	-
Comprehensive loss for the year	(2,735,694)	(1,389,954)
Accumulated other comprehensive loss, beginning of the year	-	-
Unrealized loss on marketable securities (Note 6)	(13,125)	-
Accumulated other comprehensive loss, end of the year	\$ (13,125)	\$ -

See accompanying notes to consolidated financial statements

**AMERICAN MANGANESE INC.**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended July 31,**

	<b>2011</b>	<b>2010</b>
<b>Cash Provided By (Used For):</b>		
<b>Operating Activities</b>		
Net loss for the year	\$ (2,722,569)	\$ (1,389,954)
Non-cash items:		
Amortization	2,377	3,392
Recovery of accrued contingency	-	(358,742)
Stock-based compensation	187,511	439,391
	<b>(2,532,681)</b>	<b>(1,305,913)</b>
<b>Net change in non-cash and working capital items:</b>		
Amounts receivable	(118,403)	164,731
Accounts payable and accruals	296,593	27,629
Due to/from related parties	(43,808)	63,933
Prepaid expenses	(49,998)	(5,416)
Project advances	(334,995)	-
	<b>(2,783,292)</b>	<b>(1,055,036)</b>
<b>Investing Activities</b>		
Reclamation deposits	-	(3,500)
Mineral property expenditures	(2,233,261)	(1,271,053)
Purchase of short-term investment	(6,700,000)	-
	<b>(8,933,261)</b>	<b>(1,274,553)</b>
<b>Financing Activities</b>		
Shares issued for cash	9,630,319	2,208,817
Share issuance costs	(863,809)	(253,735)
Proceeds from warrants exercised	3,405,840	168,000
Proceeds from options exercised	203,732	28,620
	<b>12,376,082</b>	<b>2,151,702</b>
<b>Increase / (Decrease) in Cash</b>	<b>659,529</b>	<b>(177,887)</b>
<b>Cash – Beginning of Year</b>	<b>129,004</b>	<b>306,891</b>
<b>Cash – End of Year</b>	<b>\$ 788,533</b>	<b>\$ 129,004</b>
<b>Supplementary Cash Flow Information:</b>		
Interest paid	\$ -	\$ -
Income taxes paid	-	-

See accompanying notes to consolidated financial statements

**AMERICAN MANGANESE INC.**  
**Notes to the Consolidated Financial Statements**  
July 31, 2011 and 2010

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

American Manganese Inc. (the “Company”) was incorporated under the laws of British Columbia on July 8, 1987. The name of the Company was changed from Rocher Deboule Minerals Corp. to American Manganese Inc. on January 20, 2010. The Company is in the exploration stage of developing mineral property interests in British Columbia, Canada and Arizona, USA.

The Company has incurred losses since inception and as at July 31, 2011 has working capital of \$7,726,388 (2010 - \$99,383) and an accumulated operating deficit of \$13,135,496 (2010 - \$10,412,927). The Company does not generate cash flow from operations to fund its exploration activities and has therefore relied principally upon the issuance of equity securities for financing. The Company intends to continue relying upon the issuance of these securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. Accordingly, the Company’s financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. Management believes that the going concern assumption is appropriate for these financial statements based on their continuing ability to raise financing through share issuance. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) issued by the Accounting Standards Board and include the following significant accounting policies:

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Rocher Manganese Inc., incorporated in the State of Nevada, U.S. All intercompany balances and transactions have been eliminated upon consolidation.

**Measurement uncertainty**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses incurred during the periods.

Significant estimates made by management relate to the measurement of stock-based compensation, valuation of warrants granted, the recoverability of mineral properties, the determination of reclamation obligations, and future income tax assets and liabilities and associated reserves. Actual results could differ from those estimated.



## 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Mineral properties and deferred costs**

The cost of mineral properties and their related direct exploration costs are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the properties following the commencement of production, or written off if the properties are sold or abandoned. Cost includes the cash consideration and the fair market value of shares issued on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The proceeds from options granted are applied to the cost of the related property, and any excess is included in income for the year. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values. The ultimate recovery of such capitalized costs is dependent on the discovery and development of economic ore reserves or the sales of mineral rights.

### **Mining exploration tax credits**

Mining exploration tax credits refunded by the Province of British Columbia are recorded as a reduction of the cost of the respective mineral property in the period in which the eligible expenditures are incurred.

### **Cash and cash equivalents**

Cash and cash equivalents include balances held with banks.

### **Marketable securities**

Marketable securities are classified as available for sale. They consist of equities traded in public markets and are recorded at fair value, with changes to fair value recorded as other comprehensive income or loss. These equities were received in 2011 as proceeds of mineral property option transactions.

### **Share capital**

Share capital issued for non-monetary consideration is recorded at the fair market value of the shares based on their trading price on the TSX Venture Exchange on the date the agreement to issue the shares was entered into as determined by the Board of Directors of the Company. Costs incurred to issue shares are deducted from share capital.

### **Equipment**

Equipment is initially recorded at cost and is amortized over its estimated useful economic life using the declining balance method at annual rates ranging from 20% to 100%. In the year of acquisition, amortization is taken at one half of the annual rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### **Impairment of long-lived assets**

Long-lived assets consist of equipment and mineral property interests. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies. Long-lived assets are assessed for impairment when events and circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted future net cash flow from use and disposal value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

### **Stock-based compensation**

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus. If and when the stock options are exercised the applicable amounts of contributed surplus are credited to share capital.

### **Financial instruments**

Financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred.

### **Comprehensive income**

CICA Handbook Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company's other comprehensive loss for the year ended July 31, 2011 represents adjustments to the fair value of available for sale assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

### **Short-term investment**

Short-term investment is comprised of a guaranteed investment certificate, earning interest at the financial institution's prime rate less 1.8% and maturing May 2012.

### **Future income taxes**

The Company accounts 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 substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance has been applied to all potential income tax assets of the Company as at July 31, 2011 and 2010.

### **Foreign currency translation**

Translation amounts denominated in foreign currencies are translated into their Canadian dollar equivalent at exchange rates prevailing at the transaction dates. Carrying values or monetary assets and liabilities reflect exchange rates at the balance sheet date. Gains and losses on translation or settlement are included in the determination of net loss/ earnings for the period.

The Company translates the financial statements of Rocher Manganese Inc, an integrated foreign subsidiary using the temporal method. Monetary assets and liabilities are translated at the rate of exchange in effect as at the balance sheet date and for non-monetary assets and liabilities at their historical exchange rates. Revenues and expenses are translated at the average rates prevailing for the year, except for amortization which is translated at the historical rate of the related assets.

Foreign exchange gains and losses from the translation of foreign operations are recognized in the current period.

### **Loss per share**

Basic loss per share has been calculated using the weighted-average number of common shares issued and outstanding during each fiscal year. For the year ended July 31, 2011 and 2010 diluted loss per share has not been calculated as it is anti-dilutive.

### **Asset retirement obligations**

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operations, including provisions relating to property reclamation. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it previously had an interest. The Company conducts its exploration and development activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in a material liability to the Company.

## 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

The Company recognizes the estimated fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate such costs can be made based on expected future cash outflows discounted to present value. The associated asset retirement costs are capitalized as part of the carrying amount of long lived assets. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over its estimated remaining useful life. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the related capitalized asset retirement cost.

Both the likelihood of new regulations and their overall effect on the Company vary greatly and are not predictable. It is possible that estimates of any reclamation and site restoration liabilities could change as a result in changes in regulations, the assessment of the probability of abandonment of projects or cost estimates. The effect of changes in estimated costs is recognized on a prospective basis.

As at July 31, 2011 and 2010, the Company has not accrued any asset retirement obligations.

### **Reclamation deposit**

The Company maintains cash deposits, as required by regulatory bodies as assurance for the funding of reclamation costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled. Reclamation deposits are designated as available for sale, are recorded at fair value and are classified as non-current assets.

### **Segmented reporting**

The Company conducts its operations through one reportable segment: exploration and development of mineral property interests. This segment has been established by senior management to facilitate the achievement of the Company's long-term objectives, to aid in resource allocation, and to assess operational performance.

### **Research and development**

Expenditures on research activities undertaken to develop a hydrometallurgical process to extract and recover high purity manganese from lower grade domestic resources within North America are recognized in profit or loss when incurred.

Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. As the Company's hydrometallurgical process has not yet met all of the criteria for development, no expenditures have been capitalized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### **Government assistance**

The Company is in receipt of funding from the National Research Council of Canadian Industrial Research Assistance Program ("NRC-IRAP) to continue the research and development of its hydrometallurgical process. Funds received under the NRC-IRAP program are credited to research and development expenses in the statement of operations. Total government assistance received and credited to the statement of operations is \$48,000 (2010 - \$106,800).

### **Future changes in accounting standards:**

#### International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) has confirmed that International Financial Reporting Standards will replace current Canadian GAAP for fiscal years beginning on or after January 1, 2011, for publicly accountable enterprises. For the Company, financial statements, including comparative information, for annual and interim periods beginning on or after January 1, 2011 will be prepared in accordance with IFRS. Management is required to provide progress updates on the entity's IFRS changeover plan at each interim and annual reporting period up until the changeover date. The Company is developing a changeover plan to adopt IFRS on date of transition, August 1, 2010. The key elements of the plan include assessing the impact of adopting IFRS and taking preparatory action for transition. The Company does not anticipate significant amendments to its accounting policies, IT and data systems, internal controls over financial reporting or business activities as a result of the changeover to IFRS and does not specifically identify key elements warranting progress update disclosure.

## 3. CAPITAL MANAGEMENT

The Company classifies its share capital and value assigned to options and warrants as capital, which at July 31, 2011 totalled \$27,606,033 (2010 - \$14,930,450). When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the years ended July 31, 2011 and 2010.

The Company is not subject to externally imposed capital requirements.

#### 4. FINANCIAL RISK FACTORS

The Company as a part of its operations carries a number of financial instruments. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments except as otherwise disclosed.

##### a) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, amounts due from/to related parties, reclamation bonds, project advances, marketable securities, accounts payable and accrued liabilities. Short-term investments consist of guaranteed investment certificates, the investment terms of which are one year or less at the time of acquisition. The Company holds no asset-backed commercial paper. The fair values of amounts receivable, amounts due from/to related parties, accounts payable and accruals approximate their amortized cost due to their short-term nature. Marketable securities are recorded at their fair values, determined by reference to published bid price quotations in an active market.

##### b) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The Company's cash is held primarily through large Canadian and international banks. Short-term investments consist of guaranteed investment certificates which have an original maturity of one year or less from the date of purchase and are readily convertible into a known amount of cash. The Company considers its exposure to credit risk to be minimal.

##### c) Market risk

The Company's primary market risk is in the areas of metal prices and foreign exchange risk on financial instruments other than Canadian dollars. At July 31, 2011, the Company had no hedging agreements in place with respect to metal prices or exchange rates.

##### i) Commodity price risk

The value of the Company's primary mineral property is dependent on the price of manganese and the outlook for this mineral. The value of exploration stage manganese is also dependent on the price of manganese and the outlook for the mineral. Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control including but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, as well as certain other factors related specifically to manganese.

The profitability of the Company's primary property is highly correlated to the market by the price of manganese. If manganese prices decline for a prolonged period below the cost of production it may not be economically feasible to continue to over towards production.

The Company has not entered into any hedging or commodity based risk instruments.

##### ii) Currency risk

A portion of the Company's financial assets and liabilities is denominated in USD, giving rise to risks from changes in foreign exchange rates. The Company does not use derivative financial instruments to reduce its foreign exchange exposure. At July 31, 2011, \$239,028 (2010 - \$11,567) of the

#### **4. FINANCIAL RISK FACTORS (continued)**

Company's cash and \$62,338 (2010 - \$64) of the Company's accounts payable and accruals was denominated in U.S. dollars. A 5% strengthening (weakening) of the Canadian dollar would result in a \$8,835 decrease (increase) in net income.

##### iii) Equity price risk

Equity price risk arises from available-for-sale equity securities. The Company's exposure at July 31, 2011 was \$16,875 (2010 - \$nil). The shares are publicly traded; market-prices are readily available, and their carrying value is equal to the market value at July 31, 2011.

##### iv) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on short-term investments. The risk that the Company will realize a loss as a result of a decline in the fair value of the short term investments included in cash and cash equivalents is limited because these instruments, although available for sale, are generally held to maturity. The Company manages its cash according to its operational needs and to optimize revenues from interest.

#### **5. RELATED PARTY TRANSACTIONS**

The Company shares its office premises with Goldrea Resources Corp., and Molycor Gold Corp., public companies which share common directors with the Company. In addition, certain personnel are shared between the three companies.

Expenses relating to the common office facilities are shared among the companies are allocated according to the relative amount of space used by each of the companies. The salary and related costs of common personnel are allocated according to the time expended by the personnel in question.

At the year ended July 31, 2011, a total amount of \$ 4,103 is owed from these companies (2010 - a net amount of \$35,962 was owing to these companies).

At July 31, 2011, the Company had advanced a net amount of \$12,460 (2010 - \$8,717) to the President and CEO for expenses. The amount does not bear interest, is unsecured and has no fixed term of repayment.

#### **6. MARKETABLE SECURITIES**

In January 2011, the Company granted an option to Rara Terra Capital Corp. ("Rara Terra") to acquire 60% of the right, title and interest in the Lonnie Brent mineral property (see Note 9 – Mineral Property Interests). As consideration for the option, Rara Terra issued the Company 75,000 shares of Rara Terra common stock. Upon initial recognition of the marketable securities, the shares were classified as available for sale and measured at their trading price on the option agreement date for total consideration of \$30,000. At July 31, 2011, the shares were remeasured at their fair value, \$16,875, resulting in other comprehensive losses of \$13,125.

## 7. PROJECT ADVANCES

During the year ended July 31, 2011, the Company advanced funds to conduct a feasibility study, to perform a market study, and to continue development of the Company's metallurgical process. These projects are expected to be completed in the year ended July 31, 2012 and have accordingly been classified as current advances.

## 8. EQUIPMENT

	Amortization Rate	Cost	Accumulated Amortization	July 31, 2011 Net Book Value	July 31, 2010 Net Book Value
Office Equipment	20%	\$ 1,426	\$ 1,345	\$ 81	\$ 101
Motor Vehicle	30%	18,829	13,339	5,490	7,843
Computer Equipment	30%	1,851	1,842	9	13
Software	100%	7,444	7,444	-	-
		<u>\$ 29,550</u>	<u>\$ 23,970</u>	<u>\$ 5,580</u>	<u>\$ 7,957</u>

## 9. MINERAL PROPERTY INTERESTS

### a) Rocher Debole property, British Columbia

The Rocher Debole property consists of mineral claims covering 10,230 hectares near Hazelton, British Columbia. The Company initially acquired 4 staked claims consisting of 1,325 hectares in May 2011, and expanded the area of the property through additional staking. The Company owns a 100% interest in the Rocher Debole property.

Activity in the Rocher Debole property is as follows:

	Balance, July 31, 2009	Expenditures	Balance, July 31, 2010	Expenditures	Balance, July 31, 2011
Acquisition and staking	\$ 135,258	\$ 10,789	\$ 146,047	\$ 4,265	\$ 150,312
Assays and analysis	31,463	13,848	45,311	10,261	55,572
Camp and supplies	59,504	-	59,504	-	59,504
Drilling	146,826	-	146,826	-	146,826
Geological and geophysical	426,545	67,546	494,091	25,000	519,091
Geologist travel and accommodation	15,284	656	15,940	4,274	20,214
Freight and transport	76,476	3,686	80,162	419	80,581
BCMETS recoverable	(226,963)	(5,966)	(232,929)	-	(232,929)
	<u>\$ 664,393</u>	<u>\$ 90,559</u>	<u>\$ 754,952</u>	<u>\$ 44,219</u>	<u>\$ 799,171</u>



9. MINERAL PROPERTY INTERESTS (continued)

b) Black Prince, Junction Creek, and Olson Properties, British Columbia

These manganese exploration properties were staked by the Company, and cover approximately 704 hectares located in the Alberni and Clinton Mining divisions of British Columbia. The Company owns a 100% interest in each of these properties.

Activity on these properties is as follows:

	Balance, July 31, 2009	Expenditures	Balance, July 31, 2010	Expenditures	Balance, July 31, 2011
Acquisition and staking	\$ 4,197	\$ -	\$ 4,197	\$ 3,073	\$ 7,270
Geological and geophysical	946	-	946	-	946
	<u>\$ 5,143</u>	<u>\$ -</u>	<u>\$ 5,143</u>	<u>\$ 3,073</u>	<u>\$ 8,216</u>

c) Lonnie Property, British Columbia

The Lonnie property is a niobium exploration property which covers approximately 3,477 hectares in the Omineca Mining Division of British Columbia. The Company initially staked mineral claims covering an area of approximately 692 hectares. In October 2007, the Company acquired additional claims covering approximately 2,735 hectares at a cost of \$10,000 and 100,000 shares of the Company.

In May 2011, the Company entered into an option agreement with Rara Terra Capital Corp. ("Rara Terra") where Rare Terra has the right to earn a 60% interest in the Lonnie property. Rara Terra paid \$60,000 and issued 285,000 shares to the Company. To acquire the 60% interest, Rara Terra must also spend \$500,000 in exploring the property.

Activity on the Lonnie property is as follows:

	Balance, July 31, 2009	Expenditures	Balance, July 31, 2010	(Proceeds) Expenditures	Balance, July 31, 2011
Acquisition and staking	\$ 58,727	\$ -	\$ 58,727	\$ -	\$ 58,727
Assays and analysis	-	20	20	4,508	4,528
Drilling	-	60,074	60,074	-	60,074
Geological and geophysical	-	40,615	40,615	5,300	45,915
Geologist travel and accommodation	-	-	-	188	188
Rara Terra option payments	-	-	-	(50,000)	(50,000)
	<u>\$ 58,727</u>	<u>\$ 100,709</u>	<u>\$ 159,436</u>	<u>\$ (40,004)</u>	<u>\$ 119,432</u>

## 9. MINERAL PROPERTY INTERESTS (continued)

### d) Pond Property, British Columbia

The Pond property is a magnesium exploration property and covers approximately 913 hectares located in the Golden Mining Divisions of British Columbia. The two claims were acquired during the fiscal year ended July 31, 2008 by the Company for cash consideration of \$10,000 and by issuing 50,000 common shares of the Company. The Company owns a 100% interest in the property.

Activity on the Pond property is as follows:

	<u>Balance, July 31, 2009</u>	<u>Expenditures</u>	<u>Balance, July 31, 2010</u>	<u>Expenditures</u>	<u>Balance, July 31, 2011</u>
Acquisition and staking	\$ 17,500	\$ -	\$ 17,500	\$ 330	\$ 17,830
	<u>\$ 17,500</u>	<u>\$ -</u>	<u>\$ 17,500</u>	<u>\$ 330</u>	<u>\$ 17,830</u>

### e) SoCal Property, California

In May 2011, the Company entered into a purchase agreement with Elemental Solutions, LLC as to 50% and Lodestar Management Group, LLC as to 50% to purchase a 100% interest in the SoCal manganese unpatented lode mining claims. The total purchase price was US\$20,000 and 200,000 shares of the Company. The property is subject to a net smelter royalty ("NSR"), of which the Company has the right to repurchase 1% for US\$2,000,000.

Activity on the SoCal property is as follows:

	<u>Balance, July 31, 2009</u>	<u>Expenditures</u>	<u>Balance, July 31, 2010</u>	<u>Expenditures</u>	<u>Balance, July 31, 2011</u>
Acquisition and staking	\$ -	\$ -	\$ -	\$ 141,096	\$ 141,096
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,096</u>	<u>\$ 141,096</u>

### f) Artillery Peak Project, Arizona, U.S.A.

The Artillery Peak project includes 356 unpatented mineral claims covering approximately 7,120 acres, 80 patented mineral claims covering approximately 1,499 acres, and 8 fee simple parcels covering approximately 1,280 acres. The Company acquired 262 of the unpatented claims by staking. The remaining claims were acquired pursuant to the agreements described below.

#### (i) Purchase Agreement with Primus Resources, L.C.

Pursuant to a purchase agreement dated May 31, 2007, the Company purchased 90 unpatented lode claims from Primus Resources, L.C. for US\$96,000 and 1,000,000 shares of the Company. The purchase agreement also provides for a 2% NSR in favour of the vendors. The Company has the right to repurchase 1% of the NSR for US\$2,000,000.

## 9. MINERAL PROPERTY INTERESTS *(continued)*

### **(ii) Mining Lease and Option Agreements with David Huffman**

Pursuant to a mining lease and option to purchase agreement dated June 15, 2008, the Company agreed to lease 7 unpatented claims from David Huffman for a term of 10 years. The agreement provides for annual payments of US\$10,000, and the Company has an option to purchase the claims for an initial purchase price of US\$1,000,000, increasing by \$20,000 each year. The Company must exercise the option to purchase prior to commencing commercial mining operations on the property.

Pursuant to a further mining lease and option to purchase agreement dated July 15, 2008, the Company agreed to lease 19 patented claims and 4 unpatented claims from David Huffman for a term of 10 years. The agreement provides for annual payments of US\$20,000, and the Company has an option to purchase the claims for an initial purchase price of US\$2,225,000, increasing by 2% each year. The Company must exercise the option to purchase prior to commencing commercial mining operations on the property.

### **(iii) Lease agreement with James Lake, Barton Noone, and Peter Noone**

Pursuant to the Artillery Peak agreement dated August 1, 2008, the Company acquired a lease over 5 fee simple parcels and 10 patented claims from James Lake, Barton Noone and Peter Noone. The lease has a 10 year initial term and provides for the following payments:

- a. \$60,000 US upon execution of the lease agreement (paid);
- b. \$80,000 US upon 1st anniversary of the lease agreement (paid);
- c. \$100,000 US upon 2nd anniversary of the lease agreement (paid);
- d. \$120,000 US upon 3rd anniversary of the lease agreement (paid);
- e. \$140,000 US upon 4th anniversary of the lease agreement;
- f. \$160,000 US upon 5th anniversary of the lease agreement;
- g. \$180,000 US upon 6th anniversary of the lease agreement; and
- h. \$200,000 US upon 7th and each subsequent anniversary of the lease agreement.

The leased properties are also subject to a royalty of US\$0.04/lb for manganese, and a NSR of 1.5% on all other minerals. The lease payments described above constitute an advance on any royalty payments due to the lessors. The lease is renewable for up to 8 additional 10 year terms provided that the royalty payments of at least US\$500,000 are made during each preceding term.

### **(iv) Mining Lease Agreement with Arizona Manganese Corporation**

Pursuant to a mineral lease agreement dated September 29, 2009, the Company acquired a lease over 43 patented mining claims from Arizona Manganese Corporation. During the initial 20 year term, the mineral lease agreement provides for payments equal to the greater of a 2.25% NSR and the following annual amounts:

- (a) \$50,000 US in year one (paid);
- (b) \$55,000 US in each of years 2 through 4 (paid years 2 and 3);
- (c) \$65,000 US in each of years 5 through 10; and
- (d) \$70,000 US in year 11 and each year thereafter.

## 9. MINERAL PROPERTY INTERESTS *(continued)*

The lease can be renewed for two additional 20 year terms on payment of US\$75,000, adjusted for inflation, for each renewal term.

### **(v) Lease Agreement with James Lake and Steven Lake**

Pursuant to a lease agreement dated March 15, 2010, the Company leased 3 fee simple parcels and one patented claim from James Lake and Steven Lake. The lease agreement provides for the following annual payments:

- (a) \$21,000 US upon execution of the lease Agreement (\$14,000 paid);
- (b) \$27,000 US upon the 1<sup>st</sup> anniversary (\$18,000 paid);
- (c) \$33,000 US upon the 2<sup>nd</sup> anniversary;
- (d) \$39,900 US upon the 3<sup>rd</sup> anniversary;
- (e) \$46,500 US upon the 4<sup>th</sup> anniversary;
- (f) \$53,100 US upon the 5<sup>th</sup> anniversary;
- (g) \$59,700 US upon the 6<sup>th</sup> anniversary; and
- (h) \$66,300 US upon the 7<sup>th</sup> and each subsequent anniversary.

The leased properties are also subject to a royalty of US\$0.04/lb for manganese, and a NSR of 1.5% on all other minerals. The lease payments described above constitute an advance on any royalty payments due to the lessors. The lease is renewable for additional 10 year terms provided that advance royalty payments as described above continue to be made.

The lease agreement for this property was signed by only two of the three property owners. As a result, the Company has paid only two thirds of the above payments. Should an agreement not be reached with the third property owner, one third of net profits relating to minerals extracted from the Lake Bros. property would be payable to the third property owner.

### **(vi) Additional Royalty Obligations**

In addition to the royalties and other payments listed above, the Artillery Peak properties are subject to the following royalty interests, which arise under “area of interest” agreements with the vendors of certain of the properties:

- (a) Primus Resources, L.C. is entitled to a 2% NSR on all of the Company’s other unpatented claims, in addition to those acquired from Primus Resources, L.C.;
- (b) James Lake, Barton Noone and Peter Noone are entitled to a royalty of US\$0.04/lb of manganese produced from all of the unpatented claims of the Company, apart from the four unpatented claims options from David Huffman; and
- (c) James Lake is entitled to a royalty of US\$0.01/lb of manganese produced from all the Company’s Artillery Peak properties as described above.

## 9. MINERAL PROPERTY INTERESTS (continued)

Activity in the Artillery Peak properties is as follows:

	Balance, July 31, 2009	Expenditures	Balance, July 31, 2010	Expenditures	Balance, July 31, 2011
Acquisition and staking	\$ 1,081,719	\$ 219,987	\$ 1,301,706	\$ 562,552	\$ 1,864,258
Assays and analysis	140,712	15,668	156,380	96,045	252,425
Drilling	646,092	526,780	1,172,872	810,862	1,983,734
Equipment and rentals	-	-	-	63,740	63,740
Geological and geophysical	340,714	294,652	635,366	519,620	1,154,986
Geologist travel and accommodation	53,268	44,982	98,250	113,728	211,978
Property maintenance	68,898	4,659	73,557	-	73,557
	<u>\$ 2,331,403</u>	<u>\$ 1,106,728</u>	<u>\$ 3,438,131</u>	<u>\$ 2,166,547</u>	<u>\$ 5,604,678</u>

## 9. SHARE CAPITAL

### a) Authorized

Authorized share capital comprises of unlimited number of common shares without par value.

### b) Issued and outstanding

	Number of Shares	Amount	Contributed Surplus
Balance, July 31, 2009	51,137,225	\$ 10,987,074	\$ 1,352,281
Private placement	5,969,595	1,193,919	-
Short form prospectus	4,613,184	1,014,900	-
Cost of issuance	-	(364,413)	110,678
Exercise of warrants	1,120,000	168,000	-
Exercise of options	238,500	28,620	-
Fair value of options exercised	-	20,414	(20,414)
Stock based compensation	-	-	439,391
Balance - July 31, 2010	63,078,504	\$ 13,048,514	\$ 1,881,936
Private placement	2,290,174	250,511	161,720
Private placement	13,926,961	2,569,255	1,608,834
Private placement	7,200,000	4,288,913	751,087
Cost of issuance	-	(1,146,064)	282,244
Shares for mineral property	200,000	112,000	-
Exercise of warrants	16,758,200	3,412,771	(6,931)
Exercise of options	1,484,766	422,306	(218,574)
Stock based compensation	-	-	187,511
Balance - July 31, 2011	<u>104,938,605</u>	<u>\$ 22,958,206</u>	<u>\$ 4,647,827</u>

## 10. SHARE CAPITAL *(continued)*

- c) In February 2010, the Company closed its non-brokered private placement raising gross proceeds of \$1,193,919 comprised of 5,969,595 units at a price of \$0.20 per unit, with each unit comprised of one common share plus one-half of a two year share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 per share by February 16, 2012. All of the securities issued pursuant to this private placement will have a hold period expiring four months and one day after the closing date.

In June 2010, the Company completed a short form prospectus offering raising gross proceeds of \$1,014,900 comprised of 4,613,184 units at a price of \$0.22 per unit, with each unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.30 per share before June 16, 2012.

In August 2010, the Company closed its non-brokered private placement raising gross proceeds of \$412,231 comprised of 2,290,174 units at a price of \$0.18 per unit, with each unit comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share until August 11, 2012. All of the securities issued pursuant to this private placement have a hold period expiring four months and one day after the closing date. The relative fair value of the warrants, using the Black Scholes valuation model, was estimated to be \$161,720. The Company paid finder's fees of \$15,293 related to this private placement.

In February 2011, the Company completed its non-brokered private placement, raising gross proceeds of \$4,178,089 which was comprised of 13,926,961 units at a price of \$0.30 per unit, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.40 per share until February 9, 2013. The relative fair value of the warrants, using the Black Scholes valuation model, was estimated to be \$1,608,834. The Company paid finders fees of \$301,377 in cash and 120,244 warrants with the same terms and conditions which were valued at \$43,665.

In March 2011, the Company closed its bought-deal private placement, raising gross proceeds of \$5,040,000 which was comprised of 7,200,000 units at a price of \$0.70 per unit, with each unit comprised of one common share and one half purchase warrant. Each whole warrant entitles the holder to purchase on common share at a price of \$0.90 per share until September 8, 2012. If at any time after the period ending four months plus one day after the closing Date, the 20-day volume weighted average trading price of the Common shares on the TSX Venture Exchange is equal to or greater than \$1.10, the Company shall have the right, at its option, to accelerate the time of expiry of the warrants to a date not less than 30 days following the date of notice being given to each holder of warrants of such early expiry. The relative fair value of the warrants was estimated to be \$751,087 using the Black Scholes valuation model. The Company paid finders fees of \$460,469 in cash and 576,000 warrants valued at \$238,579, with each warrant enabling the holder to purchase one common share for \$0.70 until March 8, 2013.

On June 8, 2011, the Company issued 200,000 shares on acquisition of the SoCal property (Note 9b)(vi)). The shares issued were valued at their trading price on the agreement date, for a total value of \$112,000.

## 10. SHARE CAPITAL *(continued)*

### d) Stock options

The Company has adopted an incentive stock option plan (the “SOP”), as amended, under the rules of the TSX-V pursuant to which it is authorized to grant options to executive officers, directors, employees and consultants, enabling them to acquire up to 13,708,155 shares of the Company. Under the SOP, the option exercise price of any option granted shall not be less than the discounted market price of the Company’s common shares. If options are granted within 90 days of a distribution by prospectus, the minimum exercise price per share is the greater of the discounted market price and the share price paid by investors pursuant to the distribution. For the purposes of the SOP, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of grant of the options. The options may be granted for a maximum term of 5 years and vest 25% on the date of grant and 25% every 6 months thereafter for 18 months. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4 month period subsequent to the exercise of the options.

Stock option transactions in 2010 & 2011 are summarized as follows:

	<u>Number of Options</u>		<u>Weighted Average Exercise Price</u>
Balance at July 31, 2009	6,025,000	\$	0.26
Granted	2,745,000		0.20
Exercised	(238,500)		(0.12)
Cancelled/forfeited	(560,000)		(0.17)
Balance at July 31, 2010	<b>7,971,500</b>		<b>0.16</b>
Granted	<b>533,333</b>		<b>0.26</b>
Exercised	<b>(1,484,766)</b>		<b>(0.14)</b>
Cancelled/forfeited	<b>(80,000)</b>		<b>(0.15)</b>
Balance at July 31, 2011	<b>6,940,067</b>	\$	<b>0.18</b>

As at July 31, 2011 the following options were outstanding:

Expiry date	Number of Options	Exercise Price (\$CDN)	Weighted Average Remaining Contractual Life (Years)
September 4, 2012	1,201,500	\$ 0.200	1.10
October 27, 2013	2,596,234	0.120	2.24
August 19, 2014	1,799,000	0.200	3.05
March 8, 2015	810,000	0.210	3.61
November 1, 2015	533,333	\$ 0.255	4.26
	<b>6,940,067</b>		<b>2.57</b>

The weighted average grant date fair value of options granted during fiscal 2011 was \$0.26 (2010 - \$0.22).

## 10. SHARE CAPITAL (continued)

In August 2009, the Company granted incentive stock options, pursuant to the Company's Stock Option Plan, to purchase an aggregate of 1,935,000 shares in the capital stock of the Company. The options will be granted for a period of five years commencing August 19, 2009 at \$0.20 per share.

In August 2009, the Company amended the exercise price of 1,615,000 options granted on September 4, 2007 from \$0.58 to \$0.20. The expiration dates of the options will remain September 4, 2012.

In November 2010, the Company retained an investor relations firm for a term of one year at a fee of \$10,000 per month, plus reasonable expenses and the appointment is renewable at the option of the Company for an additional one year. The Company granted 533,333 incentive stock options, which will vest in accordance with the Company's Incentive Stock Option Plan. These options have an exercise price of \$0.255 and expire in 5 years from the grant date. The total value of this grant was estimated to be \$120,907 using the Black Scholes valuation model, \$98,154 of which was recognized as stock-based compensation in 2011.

During the fiscal year ended July 31, 2011 \$89,358 (2010 - \$439,391) in compensation expense was recorded for the vesting of options granted to directors, officers, employees and consultants in prior periods.

The fair value of the stock options granted in 2011 and 2010 were estimated on the date of the grant using Black-Scholes option pricing model using the assumptions shown in the following table:

	<u>2011</u>	<u>2010</u>
Dividend yield	0%	0%
Expected volatility	140.3%	147.7 – 153.8%
Risk-free interest rate	2.0%	2.76 – 2.79%
Expected life	5 years	5 years
Exercise price of options	\$0.255	\$0.20-\$0.21

### e) Warrants

Share purchase warrant transactions are summarized as follows:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance at July 31, 2009	19,500,440	\$ 0.35
Granted – Private Placement	2,984,797	0.30
Granted – Private Placement	4,613,184	0.30
Expired/Cancelled	(4,274,640)	0.49
Exercised/Released	(1,120,000)	0.15
Balance at July 31, 2010	<b>21,703,781</b>	<b>\$ 0.26</b>
Granted – Private Placement	<b>2,290,174</b>	<b>0.25</b>
Granted – Private Placement	<b>13,926,961</b>	<b>0.40</b>
Granted – Private Placement	<b>3,600,000</b>	<b>0.90</b>
Exercised/Released	<b>(16,488,200)</b>	<b>0.20</b>
Expired/Cancelled	<b>(755,000)</b>	<b>0.30</b>
Balance at July 31, 2011	<b>24,277,716</b>	<b>\$ 0.47</b>



**10. SHARE CAPITAL (continued)**

As at July 31, 2011 the following warrants were outstanding:

Expiry date	Number of Warrants	Exercise Price (\$CDN)	Weighted Average Remaining Contractual Life (Years)
February 16, 2012	1,892,797	\$ 0.30	0.55
June 16, 2012	2,627,784	0.30	0.88
August 11, 2012	2,290,174	0.25	1.03
September 8, 2012	3,600,000	0.90	1.11
February 9, 2013	13,866,961	0.40	1.53
	<b>24,277,716</b>	<b>\$ 0.44</b>	<b>1.27</b>

The following assumptions were used in the Black Scholes valuation of warrants issued in private placements during the year:

	<u>2011</u>
Dividend yield	<b>0%</b>
Expected volatility	<b>102.39% - 135.97%</b>
Risk-free interest rate	<b>1.34% - 1.88%</b>
Expected life	<b>1.5 – 2 years</b>
Exercise price of warrants	<b>\$0.22 - \$0.74</b>

**f) Broker Warrants**

Excluded from Note 10(e) is the following broker warrant activity during the year:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>
Balance at July 31, 2009	-	\$ -
Granted – Private Placement	120,000	0.30
Granted – Short form prospectus	369,054	0.30
Granted – Short form prospectus	369,054	0.22
Balance at July 31, 2010	<b>858,108</b>	<b>0.25</b>
Granted – Private Placement	<b>120,224</b>	<b>0.40</b>
Granted – Private Placement	<b>576,000</b>	<b>0.70</b>
Exercised	<b>(270,000)</b>	<b>0.30</b>
Balance at July 31, 2011	<b>1,284,332</b>	<b>\$ 0.47</b>

## 10. SHARE CAPITAL *(continued)*

At July 31, 2011, the following broker warrants were outstanding:

Expiry date	Number of Warrants	Exercise Price (\$CDN)	Weighted Average Remaining Contractual Life (Years)
February 16, 2012	120,000	\$ 0.30	0.55
June 16, 2012	99,054	0.30	0.88
June 16, 2012	369,054	0.22	0.88
February 9, 2013	120,224	0.40	1.53
March 8, 2013	576,000	\$ 0.70	1.61
	<b>1,284,332</b>		<b>1.24</b>

The fair values of broker warrants granted were estimated on the date of the grant using Black-Scholes option pricing model using the assumptions shown in the following table:

	<u>2011</u>	<u>2010</u>
Dividend yield	0%	0%
Expected volatility	<b>103.7% - 104.1%</b>	147.71 – 194.23%
Risk-free interest rate	<b>1.87% - 1.88%</b>	1.39-2.79%
Expected life	<b>2 years</b>	2 years
Exercise price	<b>\$0.40 - \$0.70</b>	\$0.22 - \$0.30

## 11. INCOME TAXES

The provision for income taxes reported differs from amount computed by applying the Canadian basic statutory rate to loss before income taxes for the following reasons:

	<u>2011</u>	<u>2010</u>
Loss from operations	\$ (2,722,569)	\$ (1,389,954)
Statutory income tax rate	<b>27.33%</b>	29.13%
Income tax recovery computed at statutory rate	<b>(744,078)</b>	(404,824)
Effect of reduction in tax rates	<b>57,339</b>	36,460
Effect of lower tax rate in subsidiary	<b>(1,028)</b>	(3,512)
Stock based compensation not deductible for tax purposes	<b>51,247</b>	127,973
Tax benefit from share issuance costs not recognized	<b>(286,617)</b>	(91,103)
Other non-deductible permanent differences	<b>11</b>	13
Expiry of non-capital losses	-	14,935
Increase (decrease) in valuation allowance	<b>923,126</b>	320,058
Income tax recovery	\$ <u>-</u>	\$ <u>-</u>

## 11. INCOME TAXES (continued)

Temporary differences that give rise to the following future tax assets as at July 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Non capital losses carried forward	\$ 1,706,885	\$ 983,571
Tax value of share issuance costs in excess of book value	300,478	101,487
Tax value of equipment in excess of book value	10,545	9,724
Tax value of resource properties in excess of book value	<u>557,752</u>	<u>557,752</u>
Total gross future income tax asset	2,575,660	1,652,534
Less valuation allowance	<u>(2,575,660)</u>	<u>(1,652,534)</u>
Net future income tax assets	\$ -	\$ -

Estimated taxable income for the period is \$nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. The estimated valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

As at July 31, 2011, the Company has accumulated Canadian and United States non-capital losses of approximately \$6,748,664 (2010 - \$3,916,531) which may be carried forward to apply against future years' income tax, subject to final determination by taxation authorities, and expiring as follows:

	Canada	United States	Total
2014	\$ 76,834	\$ -	\$ 76,834
2015	126,496	-	126,496
2026	95,816	-	95,816
2027	257,669	4,089	261,758
2028	1,194,406	26,299	1,220,705
2029	977,367	41,429	1,018,796
2030	989,814	56,486	1,046,300
2031	2,830,796	71,163	2,901,959
	<u>\$ 6,549,198</u>	<u>\$ 199,466</u>	<u>\$ 6,748,664</u>

## 12. FINANCIAL INSTRUMENTS

In accordance with Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available for sale and other financial liabilities. The Company has designated its cash as held-for-trading, which is measured at fair value, and amounts receivable and due from related parties are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and due to related parties are classified as other financial liabilities. Marketable securities and reclamation bonds are classified as available for sale, which are measured at their fair value. The Company does not have held-to-maturity instruments during the fiscal years ended July 31, 2011 and 2010.

## 12. FINANCIAL INSTRUMENTS *(continued)*

CICA section 3862 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

- i) Level 1- Quoted prices in active markets for identical assets or liabilities;
- ii) 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. from derived prices); and
- iii) Level 3- Inputs for the asset or liability that are not based upon observable market data.

The following table sets forth the levels in the fair value hierarchy into which the Company's financial assets and liabilities carried at fair value are measured and recognized in the balance sheet. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Level 1</b>	
	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 788,553	\$ 129,004
Short-term investments	6,700,000	-
Reclamation bonding	35,021	35,021
Marketable securities	16,875	-
	<u>\$ 7,540,449</u>	<u>\$ 164,025</u>

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At July 31, 2011 and 2010, there were no financial assets or liabilities measured and recognized on the balance sheet at fair value that would be categorized as Level 2 and 3 in the fair value hierarchy above.

## 13. SEGMENT DISCLOSURES

The Company operates in one segment – the exploration for and development of mineral property interests.

Geographic information for the Company is as follows:

	<b>2011</b>		<b>2010</b>	
	Canada	United States	Canada	United States
Equipment	\$ 5,580	-	\$ 7,957	-
Mineral property interests	\$ 944,649	\$ 5,745,774	\$ 914,069	\$ 3,438,131

## 14. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year. \$21,021 previously reported as mineral property interests have been reclassified as long term reclamation bonds.

**15. CONTINGENCY**

A former lawyer for the Company had claimed for past legal fees, for which the Company had accrued \$358,742 in accounts payable, an amount which the Company disputed. During the prior year, with no claim having been made for this amount in many years, it was reversed and the Company recorded a recovery in respect to it. The Company does not expect any payment to be made with respect to this contingency.

**16. SUBSEQUENT EVENTS**

In August 2011, the Company announced that the board of directors has authorized the grant of 4,253,000 incentive stock options pursuant to its stock option plan to directors, officers, employees and consultants of the Company. These options are exercisable at a price of \$0.58 per share for a period of five years and are subject to vesting provisions in accordance with the Company's stock option plan.

Subsequent to the year ended July 31, 2011, the Company issued 814,896 shares for a total value of \$244,958 on exercise of warrants and options.

In July 2011, the Company awarded a contract to Kemetco Research Inc. to develop a pilot plant to test the Company's proposed treatment process for ore from the Artillery Peak property. Operation of the pilot plan commenced in August 2011.