

GOLD CANYON RESOURCES INC.

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

NINE MONTH PERIOD ENDED
AUGUST 31, 2010

NOTICE TO READER

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the period ended August 31, 2010.

GOLD CANYON RESOURCES INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

| | August 31, 2010 | November 30, 2009 (Audited) |
|---|----------------------|-----------------------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | \$ 1,404,497 | \$ 890,488 |
| Receivables | 100,205 | 12,622 |
| Marketable securities (Note 4) | 200,000 | 270,000 |
| Prepaid expenses | 12,380 | 24,708 |
| Exploration advance | <u>200,000</u> | <u>-</u> |
| | 1,917,082 | 1,197,818 |
| Restricted cash (Note 8) | 17,250 | 17,250 |
| Equipment (Note 5) | 4,933 | 3,130 |
| Reclamation bond (Note 6) | 14,772 | 14,772 |
| Mineral properties and deferred exploration costs (Note 6) | <u>21,421,986</u> | <u>18,433,984</u> |
| | <u>\$ 23,376,023</u> | <u>\$ 19,666,954</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 852,387 | \$ 280,723 |
| Due to related parties (Note 10) | <u>7,192</u> | <u>6,437</u> |
| | 859,579 | 287,160 |
| Future income tax liability | <u>1,192,000</u> | <u>1,192,000</u> |
| | <u>2,051,579</u> | <u>1,479,160</u> |
| Shareholders' equity | | |
| Capital stock (Note 9) | 29,860,505 | 26,184,110 |
| Contributed surplus (Note 9) | 3,794,442 | 3,386,438 |
| Deficit | <u>(12,330,503)</u> | <u>(11,382,754)</u> |
| | <u>21,324,444</u> | <u>18,187,794</u> |
| | <u>\$ 23,376,023</u> | <u>\$ 19,666,954</u> |

Nature and continuance of operations (Note 2)

Subsequent events (Note 15)

On behalf of the Board:

"Akiko Levinson"

Director

"Ron Schmitz"

Director

The accompanying notes are an integral part of these consolidated financial statements.

GOLD CANYON RESOURCES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – Prepared by Management)

| | Three month Period ended August 31, 2010 | Three month Period ended August 31, 2009 | Nine month Period ended August 31, 2010 | Nine month Period ended August 31, 2009 |
|---|---|---|--|--|
| ADMINISTRATION EXPENSES | | | | |
| Amortization | \$ 335 | \$ 285 | \$ 751 | \$ 811 |
| Consulting | - | - | 11,049 | 14,926 |
| Foreign exchange (gain) | (3,419) | 2,154 | (44) | 10,547 |
| Insurance | 947 | 2,126 | 11,313 | 12,646 |
| Interest | - | - | - | 688 |
| Investor relations | 35,024 | 3,786 | 77,558 | 36,459 |
| Management fees | 30,768 | 28,426 | 83,362 | 95,001 |
| Office and miscellaneous (recovery) | (2) | 9,181 | 26,415 | 25,247 |
| Printing | 84 | - | 1,141 | 4,249 |
| Professional fees | 83,093 | 43,404 | 206,003 | 121,029 |
| Property investigation (Note 7) | 58,253 | 20,390 | 119,440 | 69,151 |
| Regulatory fees | 2,863 | 368 | 11,658 | 8,644 |
| Salaries and benefits | 13,379 | 13,379 | 39,946 | 36,778 |
| Shareholder costs | 3,978 | 57 | 32,463 | 10,644 |
| Stock-based compensation (Note 9) | 92,677 | 67,956 | 395,795 | 196,359 |
| Telephone | 2,208 | 2,327 | 6,428 | 6,537 |
| Transfer agent fees | 1,940 | 1,244 | 10,933 | 7,880 |
| Travel and promotion | 7,445 | 14,548 | 54,090 | 43,921 |
| Website design and maintenance | 380 | 840 | 3,391 | 2,520 |
| | <u>(329,953)</u> | <u>(210,471)</u> | <u>(1,091,692)</u> | <u>(704,037)</u> |
| OTHER ITEMS | | | | |
| Interest income | 2,286 | 1,669 | 9,344 | 10,817 |
| Management income | 26,479 | 8,908 | 48,739 | 40,891 |
| Other income | 155,860 | - | 155,860 | - |
| Rights of first refusal fee | - | 150,000 | - | 150,000 |
| Unrealized gain (loss) of marketable securities (Note 4) | - | (70,000) | (70,000) | 200,000 |
| | <u>184,625</u> | <u>90,577</u> | <u>143,943</u> | <u>401,708</u> |
| Net loss for the period | (145,328) | (119,894) | (947,749) | (302,329) |
| Deficit, beginning of period | <u>(12,176,175)</u> | <u>(10,464,269)</u> | <u>(11,382,754)</u> | <u>(10,281,834)</u> |
| Deficit, end of period | <u>\$(12,330,503)</u> | <u>\$(10,584,163)</u> | <u>\$(12,330,503)</u> | <u>\$(10,584,163)</u> |
| Basic and diluted earnings (loss) per common share | \$ (0.01) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| Weighted average number of common shares outstanding | 71,579,183 | 54,103,562 | 66,121,511 | 53,850,864 |

The accompanying notes are an integral part of these consolidated financial statements.

GOLD CANYON RESOURCES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

| | Three month Period ended August 31, 2010 | Three month Period ended August 31, 2009 | Nine month Period ended August 31, 2010 | Nine month Period ended August 31, 2009 |
|--|---|---|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | \$ (145,328) | \$ (119,894) | \$ (947,749) | \$ (302,329) |
| Items not affecting cash: | | | | |
| Amortization | 335 | 285 | 751 | 811 |
| Stock-based compensation | 92,677 | 67,956 | 395,795 | 196,359 |
| Unrealized (gain) loss of marketable securities | - | 70,000 | 70,000 | (200,000) |
| Changes in non-cash working capital items: | | | | |
| (Increase) decrease in receivables | 13,722 | 999 | (87,583) | (4,605) |
| (Increase) decrease in prepaids | 9,587 | (482) | 12,328 | (482) |
| Increase (decrease) in accounts payable and accrued liabilities | 47,300 | 72,969 | (10,894) | 67,875 |
| Increase (decrease) in amounts due to related parties | <u>(22,485)</u> | <u>(2,247)</u> | <u>755</u> | <u>(3,762)</u> |
| Net cash used in operating activities | <u>(4,192)</u> | <u>89,586</u> | <u>(566,597)</u> | <u>(246,133)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Common shares issued | 2,080,000 | 250,000 | 3,955,000 | 250,000 |
| Share issue costs | <u>(189,975)</u> | <u>(2,000)</u> | <u>(293,396)</u> | <u>(2,000)</u> |
| Net cash provided by financing activities | <u>1,890,025</u> | <u>248,000</u> | <u>3,661,604</u> | <u>248,000</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisition of equipment | (2,554) | - | (2,554) | (1,287) |
| Acquisition of mineral properties | - | - | - | (83,475) |
| Exploration advance | (200,000) | - | (200,000) | - |
| Deferred exploration costs | (1,141,367) | (168,463) | (2,378,444) | (382,238) |
| Recovery of mineral property and deferred exploration costs | <u>-</u> | <u>13,949</u> | <u>-</u> | <u>101,817</u> |
| Net cash used in investing activities | <u>(1,343,921)</u> | <u>(154,514)</u> | <u>(2,580,998)</u> | <u>(365,183)</u> |
| Change in cash and cash equivalents for the period | 541,912 | 183,072 | 514,009 | (363,316) |
| Cash and cash equivalents, beginning of the period | <u>862,585</u> | <u>1,115,082</u> | <u>890,488</u> | <u>1,661,470</u> |
| Cash and cash equivalents, end of the period | <u>\$ 1,404,497</u> | <u>\$ 1,298,154</u> | <u>\$ 1,404,497</u> | <u>\$ 1,298,154</u> |
| Cash, end of period | \$ 1,404,497 | \$ 1,298,154 | \$ 1,404,497 | \$ 1,298,154 |
| Cash equivalents, end of period | - | - | - | - |

Supplemental disclosures with respect to cash flows (Note 11)

The accompanying notes are an integral part of these consolidated financial statements.

GOLD CANYON RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
AUGUST 31, 2010

1. BASIS OF PRESENTATION

The consolidated financial statements contained herein include the accounts of Gold Canyon Resources Inc. and its wholly owned subsidiaries, Gold Canyon Resources USA Inc. and Gold Canyon Kratz Spring, LLC (the "Company").

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period consolidated statements should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended November 30, 2009. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

The Company is considered to be in the exploration stage with respect to its interests in mineral properties. Based on the information available to date, the Company has not yet determined whether the mineral properties and deferred exploration costs contain economically recoverable ore reserves.

The recoverability of the amounts comprising mineral properties and deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Its ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financings, or generating profitable operations in the future.

There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

| | August 31, 2010 | November 30, 2009 |
|-----------------|--------------------|----------------------|
| Working capital | \$ 1,057,503 | \$ 910,658 |
| Deficit | (12,330,503) | (11,382,754) |

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of the Company and of its wholly owned subsidiaries, Gold Canyon Resources U.S.A. Inc. (“GCU USA”) and Gold Canyon Kratz Spring, LLC (“Kratz Spring LLC”). GCU USA was incorporated on June 21, 2001 in the State of Nevada (continued to the State of Colorado on December 17, 2009). Kratz Spring LLC was incorporated on January 9, 2009 in the State of Colorado. All significant inter-company accounts and transactions have been eliminated upon consolidation.

Recent accounting pronouncements

Business combinations, non-controlling interest and consolidated financial statements

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

International financial reporting standards (“IFRS”)

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be December 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

4. MARKETABLE SECURITIES

The Company holds 1,000,000 shares with a cost of \$182,500 (November 30, 2009 – 1,000,000 shares with a cost of \$182,500) in Shoreham Resources Ltd., a public company listed on the TSX Venture Exchange. The Company received these shares pursuant to a mineral property agreement on the Favourable Lake Project (Note 6). During the nine month period ended August 31, 2010, the Company recognized an unrealized loss of \$70,000 as result of a change in fair value of the marketable securities.

GOLD CANYON RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
AUGUST 31, 2010

5. EQUIPMENT

| | August 31, 2010 | | | November 30, 2009 | | |
|----------------------------------|--------------------|-----------------------------|-------------------|----------------------|-----------------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 8,461 | \$ 4,441 | \$ 4,020 | \$ 5,908 | \$ 3,851 | \$ 2,057 |
| Office furniture and fixtures | <u>1,288</u> | <u>375</u> | <u>913</u> | <u>1,288</u> | <u>215</u> | <u>1,073</u> |
| | \$ 9,749 | \$ 4,816 | \$ 4,933 | \$ 7,196 | \$ 4,066 | \$ 3,130 |

GOLD CANYON RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
AUGUST 31, 2010

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

| 2010 | Springpole Project | Favourable Lake Project | Horseshoe Island Project | Cordero Gallium Project | Total |
|---|-----------------------|-------------------------------|--------------------------------|-------------------------------|----------------------|
| Acquisition costs | \$ 2,603,492 | \$ - | \$ 138,467 | \$ 164,678 | \$ 2,906,670 |
| Additions | <u>22,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>22,500</u> |
| Total, acquisition costs | <u>2,625,992</u> | <u>-</u> | <u>138,500</u> | <u>164,678</u> | <u>2,929,170</u> |
| Deferred exploration | | | | | |
| Opening balance | <u>11,785,999</u> | <u>1,574</u> | <u>400,887</u> | <u>3,338,854</u> | <u>15,527,314</u> |
| Assaying and data analysis | 135,028 | - | - | - | 135,028 |
| Camp costs | 159,194 | - | - | - | 159,194 |
| Drilling | 949,670 | - | - | - | 949,670 |
| Equipment rental | 69,094 | - | - | - | 69,094 |
| First nations consulting | 14,322 | - | - | - | 14,322 |
| Geological consulting | 461,222 | 38 | 890 | 771 | 462,921 |
| Labor | 198,539 | - | - | - | 198,539 |
| Land royalty payments | 220,748 | - | - | 14,691 | 235,439 |
| Material and supplies | 60,495 | - | - | - | 60,495 |
| Meals and lodging | 6,096 | - | - | - | 6,096 |
| Mobilization and demobilization | 206,168 | - | - | - | 206,168 |
| Repairs and maintenance | 10,690 | - | - | - | 10,690 |
| Reproduction and copying | 1,029 | - | - | - | 1,029 |
| Sample storage | 7,802 | - | 581 | 4,918 | 13,301 |
| Staking and maintenance fees | 4,206 | - | - | 40,166 | 44,372 |
| Telephone and communications | 3,571 | - | - | - | 3,571 |
| Travel, transport and shipping | <u>395,573</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>395,573</u> |
| | <u>2,903,447</u> | <u>38</u> | <u>1,471</u> | <u>60,546</u> | <u>2,965,502</u> |
| Total, deferred exploration costs | <u>14,689,446</u> | <u>1,612</u> | <u>402,358</u> | <u>3,399,400</u> | <u>18,492,816</u> |
| Total, mineral properties and deferred exploration costs | <u>\$ 17,315,438</u> | <u>\$ 1,612</u> | <u>\$ 540,858</u> | <u>\$ 3,564,078</u> | <u>\$ 21,421,986</u> |

GOLD CANYON RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
AUGUST 31, 2010

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Springpole Project

The Company controls a 100% interest, in certain properties, on the Springpole Project located in the Red Lake Mining Division of Ontario.

During the nine month period ended August 31, 2010, the Company entered into an agreement with Jubilee Gold Inc. (“Jubilee”) to transfer legal ownership of five patented claims forming part of the Company’s Springpole Gold Project and to amend substantially the terms of the royalties associated with the claims under the original agreement dated June 30, 1986. Legal title of the five patented claims was transferred from Jubilee to the Company and the claims will be subject to a 3% net smelter royalty (“NSR”) (a 5% NSR was set out in the original agreement), 1% of such royalty redeemable by the Company at any time upon payment of \$1 Million to Jubilee. The Company will also pay Jubilee an annual advanced royalty of \$70,000 which will be adjusted by the Consumer Price Index each year. On July 12, 2010, the TSX-V approved the transaction as between the Company and Jubilee and the original agreement has been terminated and will have no further force and effect. In consideration of the renegotiated royalties, the Company paid to Jubilee the sum of US\$50,000 and issued an aggregate of 100,000 common shares in the capital of the Company to Jubilee. The Company will issue a further 100,000 common shares in the capital of the Company to Jubilee upon each of the first to fifth anniversaries of the TSX-V approval.

Subsequent to the period, the Company amended another lease agreement with the owner of ten patented claims forming part of the Company’s Springpole Gold Project. See Note 15.

In an option agreement dated May 9, 2005, with 1544230 Ontario Inc. the Company acquired new mineral units bordering the Springpole Project. Total consideration consists of cash payments totaling \$136,000 and the issuance of 120,000 common shares, payable as follows:

| | <u>Cash</u> | <u>Shares</u> |
|--------------------------------|------------------|-----------------|
| On Exchange Approval | \$ 16,000 (Paid) | 30,000 (Issued) |
| On 1 st anniversary | 20,000 (Paid) | 30,000 (Issued) |
| On 2 nd anniversary | 25,000 (Paid) | 30,000 (Issued) |
| On 3 rd anniversary | 30,000 (Paid) | 30,000 (Issued) |
| On 4 th anniversary | 22,500 (Paid) | - |
| On March 1, 2010 | 22,500 (Paid) | - |

On April 30, 2009, the Company amended the original Mining Claim Option Agreement dated May 9, 2005, whereby now, the Company paid \$22,500 on the 4th anniversary and paid an additional \$22,500 before March 1, 2010. The original agreement had required the Company to pay \$45,000 on the 4th anniversary. As at May 31, 2010, the Company had fulfilled all the terms of the amended Mining Claim Option Agreement and has legal title to the claims.

Jipangu Inc. (“Jipangu”), a gold mining company from Japan made an investment in the Company during the year ended November 30, 2009. In consideration of a payment by Jipangu in the amount of \$400,000, the Company issued 2,500,000 common shares from treasury valued at \$250,000 and granted Jipangu certain rights of first refusal, valued at \$150,000 with respect to any sale, grant or other disposition of the Company’s interest in the Springpole Gold property or any future financing of the Company for a period of one year from the closing of the investment. The \$150,000 payment for the right of first refusal was recorded as a recovery of capitalized acquisition costs of the Springpole Project.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Favourable Lake Project

In August 2005, the Company acquired the Favourable Lake property located in Ontario. The Company paid \$15,000, and issued 40,000 shares at a value of \$0.57 per share, together with the grant of a 2% NSR, 1% of which may be repurchased by the Company for \$1,000,000 prior to production. The Company staked additional claim units surrounding the Favourable Lake claims. Pursuant to an agreement, the Company has granted a 2% NSR on these surrounding claims.

On December 22, 2005, the Company entered into a mineral property option agreement with Shoreham Resources Ltd. (“Shoreham”) with respect to its Favourable Lake claims. Pursuant to the terms of the agreement, Shoreham has paid the Company \$50,000 cash, issued an aggregate of 1,000,000 common shares in the capital of Shoreham and is required to incur expenditures in the aggregate of \$1,000,000 on the Favourable Lake property over a term of 4 years. If such payments, deliveries and expenditures are made in accordance with the option agreement, Shoreham may exercise its option to acquire a 60% undivided interest in the Company’s Favourable Lake property.

Shoreham may, at its discretion, extend the term of the option for a further one year period, pay the Company an additional \$500,000, or at the option of Shoreham, issue common shares in the capital of Shoreham with a market value of \$500,000 and incur additional expenditures in the aggregate of \$1,000,000 on the Favourable Lake property. Shoreham may, thereafter, exercise its option to acquire an 80% undivided interest in the Company’s Favourable Lake property. Upon exercise of the option, Shoreham and the Company shall be deemed to have formed a joint venture with respective joint venture interests to the initial interest of each party in the property, subject to adjustment in accordance with the terms of the joint venture.

During the year ended November 30, 2009, the Company was notified by Shoreham that it planned to exercise its option to acquire a 60% undivided interest in the Favourable Lake property. As a result, the Company and Shoreham formed a joint venture on terms set out in the joint venture agreement dated April 20, 2009, with respect to joint venture interests equal to the initial interest of each party in the Favourable Lake property, subject to adjustment in accordance with the terms of the joint venture. On March 1, 2010, Shoreham commenced an exploration program for which the Company elected not to participate in the funding and so will have its interest in the joint venture diluted accordingly.

Horseshoe Island Project

The Company acquired an assignment of an option to acquire 100% of certain contiguous mineral claims representing the Horseshoe Island Project held by Vital Resources Corp (“Vital”), on June 21, 2007.

Pursuant to the terms of the option, the Company paid to Vital \$25,000 and issued 50,000 common shares in the capital of the Company to Vital at a value of \$0.57 per share. To exercise the option, the Company paid \$85,000 over a 2 year period and incurred expenditures in the amount of \$25,000. The claims are subject to a 1.5% net smelter royalty in favour of the original optionors.

Cordero Gallium Project

i) Cordero Property

On June 22, 2001, the Company entered into an Assignment Agreement with Tech Industries Ltd. (“Tech”) in which the Company acquired all of Tech's interest with respect to all minerals, except gold and silver, on the Cordero Property, located in Humboldt County, Nevada.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Cordero Gallium Project (cont'd...)

i) Cordero Property (cont'd...)

The initial term of the Assignment Agreement is fifteen years and may be renewed for up to fifteen additional years thereafter. Pursuant to the agreement, the Company must:

- a) pay Tech US\$5,000 upon execution of the agreement (paid);
- b) grant Tech a NSR of 3%;
- c) assume a 1% NSR payable to Cordero Mine Inc.; and
- d) advance minimum royalties totaling US\$7,000 (paid) on the first anniversary of the agreement, US\$8,000 (paid) on the second anniversary, and US\$10,000 per year throughout the remaining term of the Assignment Agreement which will be credited against future NSR's payable, if any.

The Company has a refundable reclamation bond totalling \$14,772 (US\$14,702) posted with the Nevada Department of Minerals relating to the exploration of the Cordero property.

ii) Caley Property

On June 26, 2001, the Company entered into a Lease Agreement with Tech. Similar to the arrangements related to the Cordero Property, the Company has acquired all of Tech's interest with respect to all minerals, except for gold and silver, on the Caley Property located in Humboldt County, Nevada.

The initial term of the agreement is fifteen years with three additional five year renewal terms thereafter. Pursuant to the remaining terms of the agreement, the Company must:

- a) grant Tech a NSR of 3%;
- b) assume a 1% NSR payable to Cordero Mine Inc.; and
- c) advance minimum royalties totaling US\$6,000 per year throughout the remaining term of the agreement which will be credited against future NSR's payable, if any.

The amended work commitment schedule requires \$300,000 in expenditures to be incurred on the property each year thereafter until 2016.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd...)

Cordero Gallium Project (cont'd...)

ii) **Caley Property (cont'd...)**

All expenditures are cumulative and excess expenditures in one or more years will be credited against future expenditure requirements. All expenditures in respect of mining operations on the Cordero property shall be included in the calculation of the expenditure requirements.

The Company signed a Mineral Lease and Assignment Amendment Agreement with Tech on February 6, 2008. Pursuant to the amendment agreement, in consideration of a payment of US\$50,000 the Company is entitled, at any time prior to the Company or its nominee(s) commencing commercial production on the properties, to acquire up to a 1.5% NSR as set out under the terms of the original assignment agreement (with respect to the Cordero Property) and the lease agreement (with respect to the Caley Property) at a price of US\$500,000 per 0.5% of NSR.

iii) **Mining Lode and Mill Site Claims**

In March 2008, the Company staked 102 Lode Mining Claims and 48 Mill Site Claims contiguous to its Cordero Gallium Project in Humboldt County, Nevada, USA. During the period the Company renewed 57 Lode Claims and did not renew the Mill Site Claims.

Kratz Spring REE Project

In December 2008, the Company acquired 53 mineral property rights located in Franklin County, Missouri, USA by paying delinquent taxes and other costs.

The Company entered into a Joint Exploration Agreement (“JEA”) with Japan Oil, Gas and Metals National Corporation (“JOGMEC”) on January 22, 2009. Under the terms of the agreement, JOGMEC earned an 80% interest in the Kratz Spring Project by making an initial contribution of US\$75,000 and reimbursed the Company of all property expenses incurred before March 31, 2009. For the purpose of the JEA, the Company incorporated a subsidiary in the state of Colorado, USA, Gold Canyon Kratz Spring, LLC., (“Kratz Spring LLC”) on January 9, 2009.

7. JOINT EXPLORATION AGREEMENT

Pursuant to the JEA signed on January 22, 2009 (Note 6), the Company reached an agreement with JOGMEC for a property evaluation budget of US\$125,000 up to March 31, 2009 and US\$460,000 from April 2009 to March 2010. On May 11, 2010, a property evaluation budget of US\$1,084,500 was approved for the April 2010 to March 2011 period. JOGMEC contributes 80% of the funding and holds an 80% option to all of the JEA projects.

Kratz Spring LLC, as operator of the JEA, will conduct Rare Earth Element (“REE”) project identification and exploration. The objective of the JEA is to identify, analyze and perform metallurgical evaluation leading to production of REEs. All the property evaluation costs will be expensed as incurred until the Company assesses whether there is any future benefit from certain properties from possible production of REEs and then acquire the rights to the property.

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8. RESTRICTED CASH

The Company has a corporate credit card, with a credit limit of \$15,000. As collateral for the credit card, the Company has a one-year term deposit of \$17,250 maturing April 13, 2011.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

| | Number of Shares | Capital Stock | Contributed Surplus |
|--|---------------------|------------------|------------------------|
| Authorized | | | |
| Unlimited common shares without par value | | | |
| Issued | | | |
| As at November 30, 2009 | \$ 57,323,127 | \$ 26,184,110 | \$ 3,386,438 |
| Private placements | 15,107,143 | 3,860,000 | - |
| Exercise of stock options | 950,000 | 95,000 | - |
| Shares issued for mineral property | 100,000 | 27,000 | - |
| Stock based compensation | - | - | 395,795 |
| Contributed surplus on exercise of stock options | - | 53,132 | (53,132) |
| Issue costs | - | (358,737) | 65,341 |
| As at August 31, 2010 | 73,480,270 | \$ 29,860,505 | \$ 3,794,442 |

During the nine month period ended August 31, 2010 the Company:

- a) Completed a non-brokered private placement of 7,142,858 units at \$0.21 per share for gross proceeds of \$1,500,000. Each unit consists of one common share and one share purchase warrant exercisable at \$0.35 per share until January 25, 2012. The Company paid finder's fees of \$75,000 and issued 428,571 finder's warrants exercisable at \$0.265 per share until January 25, 2012. The finder's warrants were valued at \$65,341 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.28%, an expected life of 2 years, annualized volatility of 144.07% and a dividend rate of 0%).
- b) Completed a private placement of 1,714,285 units at a price of \$0.21 per unit for gross proceeds of \$360,000. Each unit is comprised of one common share and one non-transferable share purchase warrant exercisable at \$0.35 per share until February 8, 2012.
- c) Completed a private placement offering of 6,250,000 flow-through share units ("Units") at a price of \$0.32 per Unit for gross proceeds of \$2,000,000. Each Unit consists of one flow-through common share and one-half of one transferable common share purchase warrant, each whole warrant entitling the holder to acquire one additional common share at a price of \$0.42 per share expiring June 17, 2012. All securities issued are subject to a hold period expiring on October 18, 2010. The Company paid a finder's fee in cash of \$160,000, representing 8% of the gross proceeds.
- d) Issued 950,000 common shares at \$0.10 per share for gross proceeds of \$95,000 pursuant to the exercise of stock options.

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9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

- e) Issued 100,000 common shares at a value of \$0.27 to Jubilee pursuant to the amended agreement on five patented claims on the Springpole Gold Project (Note 6).

Stock options

The Company, in accordance with its stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 10% of its issued and outstanding common stock. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options granted to employees vest fully on grant. Options issued to investor relations consultants vest in stages over 12 months with one quarter of the options vesting in any three month period.

Stock options outstanding at August 31, 2010 are as follows:

| Number Of Options | Exercise Price | Expiry Date |
|----------------------|-------------------|-------------------|
| 1,450,000 | \$ 0.10 | February 13, 2011 |
| 825,000 | 0.10 | June 12, 2011 |
| 100,000 | 0.10 | August 7, 2011 |
| 820,000 | 0.31 | October 5, 2011 |
| 100,000 | 0.25 | October 23, 2011 |
| 1,945,000 | 0.24 | February 26, 2012 |
| 100,000 | 0.26 | May 31, 2012 |
| <u>290,000</u> | 0.45 | August 31, 2012 |
| 5,630,000 | | |

Warrants

Warrants outstanding at August 31, 2010 are as follows:

| Number of Warrants | Exercise Price | Expiry Date |
|-----------------------|-------------------|--------------------|
| 1,000,000 | \$ 0.40 | September 29, 2011 |
| 7,142,858 | 0.35 | January 25, 2012 |
| 428,571 | 0.265 | January 25, 2012 |
| 1,714,285 | 0.35 | February 8, 2012 |
| <u>3,125,002</u> | 0.42 | June 17, 2012 |
| 13,410,716 | | |

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9. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock-based compensation

During the nine month period ended August 31, 2010, the Company granted 2,335,000 (2009 – 3,425,000) stock options to employees, directors, officers and consultants of which 2,235,000 (2009 – 3,425,000) are fully vested at August 31, 2010. The estimated fair value of these options was \$0.17 (2009 - \$0.06). The estimated fair value of vested stock options during the period was \$395,795 (2009 - \$196,359). This amount has been expensed as stock-based compensation in the statement of operations with a corresponding amount recorded as contributed surplus in shareholders' equity.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the period:

| | August 31, 2010 | August 31, 2009 |
|--------------------------|--------------------|--------------------|
| Risk-free interest rate | 1.25% ~ 1.84% | 1.24% |
| Expected life of options | 2.0 years | 2.0 years |
| Annualized volatility | 122.68% ~ 151.75% | 126.49% |
| Dividend rate | 0.00% | 0.00% |

10. DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

During the nine month period ended August 31, 2010, the Company entered into transactions with related parties as follows:

- a) Paid or accrued management fees of \$83,362 (2009 - \$96,415) to three directors of the Company.
- b) Paid or accrued \$107,045 (2009 - \$73,725) for accounting and administrative services to a company of which a director is president.
- c) Paid or accrued \$2,500 (2009 - \$9,750) for geological consulting fees, which are included in deferred exploration costs, to an officer of the Company.
- d) Paid or accrued \$25,873 (2009 - \$68,965) for geological consulting fees, of which \$1,347 (2009 - \$24,809) are included in deferred exploration costs, to a director of the Company.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

The Company entered into a management consulting agreement effective May 1, 2007 with the president of the Company for management services and administration services expiring May 1, 2012. The Company paid a monthly fee of \$4,000 during the performance of the services up to April 30, 2008. Effective May 1, 2008, the management fee increased to \$7,000 a month.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

| | August 31, 2010 | August 31, 2009 |
|--|--------------------|--------------------|
| Cash paid during the period for income taxes | \$ - | \$ - |
| Cash paid during the period for interest | \$ - | \$ - |

The significant non-cash transaction for the nine month period ended August 31, 2010 was the incurring of mineral property and deferred exploration costs of \$695,240 through accounts payable.

The significant non-cash transaction for the nine month period ended August 31, 2009 was the incurring of mineral property and deferred exploration costs of \$81,242 through accounts payable.

12. SEGMENTED INFORMATION

The Company conducts all of its operations in North America in one business segment, being the exploration and development of mineral properties. Geographic information is as follows:

| | Equipment | Mineral Properties and Deferred Exploration Costs |
|-------------------|-----------------|--|
| August 31, 2010 | | |
| Canada | \$ 4,933 | \$ 17,857,908 |
| United States | - | 3,564,078 |
| | <u>\$ 4,933</u> | <u>\$ 21,421,986</u> |
| November 30, 2009 | | |
| Canada | \$ 3,130 | \$ 14,930,451 |
| United States | - | 3,503,533 |
| | <u>\$ 3,130</u> | <u>\$ 18,433,984</u> |

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13. FINANCIAL INSTRUMENTS

Fair value

The carrying value of receivables and accounts payable and accrued liabilities and due to related parties approximated their fair value because of the short-term nature of these instruments.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------------|----------|----------|---------------|
| Cash and cash equivalents | \$ 1,404,497 | \$ - | \$ - | \$ 1,404,519 |
| Marketable securities | 200,000 | - | - | 200,000 |
| Restricted cash | 17,250 | - | - | 17,250 |
| Reclamation bond | <u>14,772</u> | <u>-</u> | <u>-</u> | <u>14,772</u> |
| Total | \$ 1,636,519 | \$ - | \$ - | \$ 1,636,519 |

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. Management, the Board of Directors and the Audit Committee monitor risk management activities and review the adequacy of such activities.

Credit risk

Credit risk is the risk of potential loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is limited to the carrying amount on the balance sheet and arises from the Company's cash and cash equivalents, receivables, marketable securities, restricted cash, and reclamation bonds.

The Company's cash and cash equivalents, marketable securities, and restricted cash are held with high-credit quality financial institutions. The reclamation bonds are held with Nevada Bureau of Land Management. Receivables mainly consist of goods and services tax due from the Federal Government of Canada and from JOGMEC pursuant to the terms of the JEA.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations, and anticipating investing and financing activities. As at August 31, 2010, the Company had cash of \$1,404,497 to settle current liabilities of \$859,579, which have contractual maturities of less than 30 days and are subject to normal trade terms.

13. FINANCIAL INSTRUMENTS (cont'd...)

Market risk

Market risk is the risk of loss that may arise from changes in market prices, such as interest rates and foreign exchange rates.

i) Interest rate risk

The Company has cash and cash equivalents balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term certificates of deposits issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit rating of its banks.

ii) Foreign exchange rate risk

The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company funds certain operations, exploration and administrative expenses in the United States by using US dollars converted from its Canadian bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

Sensitivity analysis

The carrying values of cash and cash equivalents, receivables, marketable securities, restricted cash, reclamation bonds accounts payable and accrued liabilities, and due to related parties approximate their fair values due to the relatively short periods to maturities of these financial instruments.

Based on management's knowledge of and experience in the financial markets, management does not believe that the Company's current financial instruments will be affected by credit risk, liquidity risk or market risk.

14. CAPITAL DISCLOSURES

The Company's capital management objectives are to safeguard its ability to continue as a going concern and to have sufficient capital to be able to meet the Company's property exploration plans and to ensure the growth of activities.

In the management of capital, the Company includes shareholders' equity and working capital in the definition of capital.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue common shares through private placements. The Company is not exposed to any externally imposed capital requirements.

15. SUBSEQUENT EVENTS

Subsequent to August 31, 2010, the Company:

1. Commenced an office lease effective September 1, 2010. Payments pursuant to the terms of the lease are approximately \$27,834 per year for the first two years, approximately \$29,218 per year for the next two years and approximately \$29,915 in the final year of the lease.
2. Completed a private placement offering of 8,888,889 units (“Units”) at a price of \$0.45 per Unit for gross proceeds of \$4,000,000. Each Unit consists of one common share and one-half of one transferable common share purchase warrant, each whole warrant entitling the holder to acquire one additional common share at a price of \$0.65 per share expiring September 23, 2012. All securities issued are subject to a hold period expiring on January 24, 2010. The Company paid finder’s fees in cash of \$139,125, representing 5% of the proceeds and 371,000 (6%) non-transferable share purchase warrants exercisable at a price of \$0.45 per share expiring September 23, 2012.
3. Entered into a new twenty-one year lease agreement with the owner of ten (10) patented claims forming part of the Company’s Springpole Gold Project in the Red Lake Mining District of Ontario, Canada for the purposes of facilitating the further exploration, development of and, if deemed economically viable, production from such patented claims.

The new lease replaces the original 1986 lease agreement between the land owner and Gold Fields Canadian Mining Limited (a predecessor of interest by way of assignment to the Company) and series of amendments to that original agreement. The Company continues to have the right to explore and, when and if deemed appropriate, commence commercial production from the ten patented claims subject to the annual payment of advanced royalties. These patented claims are subject to a 3.0% net smelter royalty (“NSR”) in favour of the landowner (reduced from a 5% NSR as set out in the original agreement). This royalty can be bought down to 1% by the Company at any time upon payment of US\$1 Million per 1% royalty to the landowner.

4. Issued 75,000 common shares for gross proceeds \$18,000 pursuant to the exercise of stock options.
5. Issued 214,286 common shares for gross proceeds of \$57,786 pursuant to the exercise of finder’s warrants.
6. Granted incentive stock options to certain directors, senior officers, employees and consultants to purchase an aggregate of 2,000,000 common shares at an exercise price of \$1.00 per share expiring October 13, 2012.
7. Announced that it is offering up to 6,000,000 flow-through units (the “FT Units”) priced at \$1.00 per FT Unit with each FT Unit consisting of one flow-through common share (the “FT Share”) and one-half of a share purchase warrant (a “Warrant”) for gross proceeds of up to \$6,000,000. Each full Warrant will entitle the holder to acquire a further common share of the Company at a price of \$1.25 per common share for a period of 24 months following the closing date.