

**GOLD CANYON RESOURCES INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited – Prepared by Management)**

**SIX MONTH PERIOD ENDED**  
**MAY 31, 2011**

**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 May 31, 2011.

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

	May 31, 2011	November 30, 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 12,045,625	\$ 8,957,546
Receivables	210,019	173,469
Marketable securities (Note 4)	335,000	255,000
Prepaid expenses	12,175	34,246
Exploration advance	<u>300,000</u>	<u>-</u>
	12,902,819	9,420,261
<b>Restricted cash</b> (Note 8)	17,250	17,250
<b>Equipment</b> (Note 5)	8,221	9,468
<b>Reclamation bond</b> (Note 6)	14,772	14,772
<b>Mineral properties and deferred exploration costs</b> (Note 6)	<u>29,981,368</u>	<u>23,152,082</u>
	<u>\$ 42,924,430</u>	<u>\$ 32,613,833</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 912,980	\$ 828,467
Due to related parties (Note 10)	<u>19,030</u>	<u>8,622</u>
	932,010	837,089
<b>Future income tax liability</b>	<u>554,000</u>	<u>554,000</u>
	<u>1,486,010</u>	<u>1,391,089</u>
<b>Shareholders' equity</b>		
Capital stock (Note 9)	50,271,952	39,251,838
Subscriptions received (Note 9)	288,892	-
Contributed surplus (Note 9)	7,945,038	5,041,767
Deficit	<u>(17,067,462)</u>	<u>(13,070,861)</u>
	<u>41,438,420</u>	<u>31,222,744</u>
	<u>\$ 42,924,430</u>	<u>\$ 32,613,833</u>

**Nature and continuance of operations** (Note 2)

**Commitments** (Note 15)

**Subsequent events** (Note 16)

**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 May 31, 2011	Three month Period ended May 31, 2010	Six month Period ended May 31, 2011	Six month Period ended May 31, 2010
<b>ADMINISTRATION EXPENSES</b>				
Amortization	\$ 624	\$ 208	\$ 1,247	\$ 416
Consulting	5,833	5,507	5,833	11,049
Director's fees	9,194	-	9,194	-
Foreign exchange (gain)	1,242	3,038	(4,037)	3,375
Insurance	902	923	41,423	10,366
Investor relations	70,415	31,528	146,570	42,534
Management fees	38,805	24,737	64,854	52,594
Office and miscellaneous	9,838	16,900	30,049	27,474
Professional fees	124,348	67,101	243,262	122,910
Property investigation	57,802	28,193	78,553	61,187
Regulatory fees	15,279	3,095	43,029	8,795
Salaries and benefits	13,513	13,378	31,152	26,567
Shareholder costs	27,011	25,744	28,739	28,485
Stock-based compensation (Note 9)	3,045,890	19,633	3,342,373	303,118
Telephone	3,644	2,232	4,294	4,220
Transfer agent fees	8,451	7,272	11,961	8,993
Travel and promotion	34,987	21,293	57,665	46,645
Website design and maintenance	953	405	1,795	3,011
	<u>(3,468,731)</u>	<u>(271,187)</u>	<u>(4,137,956)</u>	<u>(761,739)</u>
<b>OTHER ITEMS</b>				
Interest income	6,921	6,387	34,907	7,058
Management income	13,023	12,815	26,448	22,260
Unrealized gain (loss) of marketable securities (Note 4)	<u>(35,000)</u>	<u>(85,000)</u>	<u>80,000</u>	<u>(70,000)</u>
	<u>(15,056)</u>	<u>(65,798)</u>	<u>141,355</u>	<u>(40,682)</u>
<b>Net loss for the period</b>	<b>(3,483,787)</b>	<b>(336,985)</b>	<b>(3,996,601)</b>	<b>(802,421)</b>
<b>Deficit, beginning of period</b>	<b><u>(13,583,675)</u></b>	<b><u>(11,848,190)</u></b>	<b><u>(13,070,861)</u></b>	<b><u>(11,382,754)</u></b>
<b>Deficit, end of period</b>	<b><u>\$(17,067,462)</u></b>	<b><u>\$(12,185,175)</u></b>	<b><u>\$(17,067,462)</u></b>	<b><u>\$(12,185,175)</u></b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding</b>	<b>93,695,952</b>	<b>66,258,531</b>	<b>92,157,825</b>	<b>63,362,688</b>

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 May 31, 2011	Three month Period ended May 31, 2010	Six month Period ended May 31, 2011	Six month Period ended May 31, 2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (3,483,787)	\$ (336,985)	\$ (3,996,601)	\$ (802,421)
Items not affecting cash:				
Amortization	624	208	1,247	415
Stock-based compensation	3,045,890	19,634	3,342,373	303,118
Unrealized (gain) loss on marketable securities	35,000	85,000	(80,000)	70,000
Changes in non-cash working capital items:				
(Increase) decrease in receivables	(118,916)	(88,840)	(36,550)	(101,305)
(Increase) decrease in prepaids	19,788	(16,336)	22,071	2,741
Increase (decrease) in accounts payable and accrued liabilities	(62,133)	(30,456)	(231,013)	(58,192)
Increase (decrease) in amounts due to related parties	<u>9,030</u>	<u>22,474</u>	<u>10,408</u>	<u>23,240</u>
Net cash used in operating activities	<u>(554,504)</u>	<u>(345,301)</u>	<u>(968,065)</u>	<u>(562,404)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Common shares issued	10,625,123	15,000	11,287,904	1,875,000
Share subscriptions received	288,892	-	288,892	-
Share issue costs	<u>(706,892)</u>	<u>-</u>	<u>(706,892)</u>	<u>(103,422)</u>
Net cash provided by financing activities	<u>10,207,123</u>	<u>15,000</u>	<u>10,869,904</u>	<u>1,771,578</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Mineral property acquisition	(97,075)	-	(97,075)	-
Deferred exploration costs	(5,012,586)	(706,577)	(6,416,685)	(1,237,077)
Exploration advance paid	<u>(300,000)</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(5,409,661)</u>	<u>(706,577)</u>	<u>(6,813,760)</u>	<u>(1,237,077)</u>
<b>Change in cash and cash equivalents for the period</b>	<b>4,242,958</b>	<b>(1,036,878)</b>	<b>3,088,079</b>	<b>(27,903)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b><u>7,802,667</u></b>	<b><u>1,899,463</u></b>	<b><u>8,957,546</u></b>	<b><u>890,488</u></b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 12,045,625</b>	<b>\$ 862,585</b>	<b>\$ 12,045,625</b>	<b>\$ 862,585</b>
Cash, end of period	\$ 12,045,625	\$ 862,585	\$ 12,045,625	\$ 862,585
Cash equivalents, end of period	-	-	-	-

**Supplemental disclosures with respect to cash flows (Note 11)**

**GOLD CANYON RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
MAY 31, 2011

---

**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, 2010. 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.

---

	May 31, 2011	November 30, 2010
Working capital	\$ 11,970,809	\$ 8,583,172
Deficit	(17,067,462)	(13,070,861)

---

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

---

**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**

*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. The Company is assessing the impact of the transition to IFRS in fiscal 2011.

**4. MARKETABLE SECURITIES**

The Company holds 1,000,000 shares with a cost of \$182,500 (November 30, 2010 – 1,000,000 shares with a cost of \$182,500) in Guyana Frontier Mining Corp. (“Guyana”), a public company listed on the TSX Venture Exchange (“TSX-V”). The Company received these shares pursuant to a mineral property agreement on the Favourable Lake Project (Note 5). During the six month period ended May 31, 2011, the Company recognized an unrealized gain of \$80,000 (2010 - \$15,000) as result of a change in fair value of the marketable securities.

**5. EQUIPMENT**

	May 31, 2011			November 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 10,942	\$ 5,842	\$ 5,100	\$ 10,942	\$ 4,942	\$ 6,000
Office furniture and fixtures	3,987	866	3,121	3,987	519	3,468
	<u>\$ 14,929</u>	<u>\$ 6,708</u>	<u>\$ 8,221</u>	<u>\$ 14,929</u>	<u>\$ 5,461</u>	<u>\$ 9,468</u>

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

**6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

	Springpole Gold Project	Favourable Lake Project	Horseshoe Island Project	Cordero Gallium Project	Total
Acquisition costs	\$ 2,705,067	\$ -	\$ 138,500	\$ 164,678	\$ 3,008,245
Additions	<u>121,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>121,275</u>
Total, mineral properties	<u>2,862,342</u>	<u>-</u>	<u>138,500</u>	<u>164,678</u>	<u>3,129,520</u>
Deferred exploration					
Opening balance	<u>16,416,721</u>	<u>1,612</u>	<u>402,560</u>	<u>3,322,944</u>	<u>20,143,837</u>
Assaying and data analysis	218,518	-	-	-	218,518
Building and structures	300,000	-	-	-	300,000
Camp costs	401,629	-	-	-	401,629
Consulting	83,597	-	-	-	83,597
Drilling	2,442,016	-	-	-	2,442,016
Environmental consulting	40,520	-	-	-	40,520
Equipment rental and leases	269,863	-	-	-	269,863
First nations consulting	47,606	-	-	-	47,606
Geological consulting	727,479	-	456	-	727,935
Insurance	4,017	-	-	-	4,017
Labour	354,448	-	-	-	354,448
Land royalty payments	48,830	-	-	1,975	50,805
Mapping and topography	91,885	-	-	-	91,885
Material and supplies	96,783	-	-	-	96,783
Meals and lodging	23,858	-	-	-	23,858
Mobilization and demobilization	146,254	-	-	-	146,254
Repairs and maintenance	43,102	-	-	-	43,102
Sample storage	7,041	-	-	4,688	7,041
Site and road access	226,153	-	-	-	226,153
Staking and maintenance fees	16,221	-	-	-	16,221
Surveying	66,638	-	-	-	66,638
Telephone and communications	24,128	-	-	-	24,128
Travel, transport and shipping	<u>1,020,306</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,020,306</u>
	<u>6,700,892</u>	<u>-</u>	<u>456</u>	<u>6,663</u>	<u>6,708,011</u>
Total, deferred exploration costs	<u>23,117,613</u>	<u>1,612</u>	<u>403,016</u>	<u>3,329,607</u>	<u>26,851,848</u>
Total, mineral properties and deferred exploration costs	\$ 25,943,955	\$ 1,612	\$ 541,516	\$ 3,494,285	\$ 29,981,368

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

**Springpole Gold Project**

The Company owns, leases and has options on 100% interest in certain mineral claims in the Springpole Gold Project located in the Red Lake Mining Division of Ontario. The properties are subject to three underlying agreements with the following obligations:

- a) Minimum annual advance royalty payments. These payments may vary from year to year due to escalation clauses.
- b) Net smelter returns royalty (“NSR”) payments varying from 1 – 3% on each of the underlying agreements upon production.

Details on the three agreements are as follows:

- i) The Company has a lease agreement on exploration and mining rights to ten patented claims. The Company paid US\$27,000 on execution of the amended agreement. The lease term is twenty-one years expiring in April 2031 with lease payments as follows:

April 15, 2010 to April 14, 2011	US\$33,000 (paid)
April 15, 2011 to April 14, 2016	US\$50,000 per year
April 15, 2016 to April 14, 2021	US\$60,000 per year
April 15, 2021 to April 14, 2031	US\$80,000 per year

The lease is subject to a 3% NSR, of which the Company has the option to acquire up to 2% of the NSR at anytime for US\$1,000,000 per 1% of NSR.

Within the first five years of the execution of the lease, and renewable for an additional five years by payment of US\$25,000, the Company can purchase the patented claims from the owner and choose one of the following two purchase prices:

- Pay US\$4,000,000 to purchase claims with the vendor retaining a 2% NSR (of original 3% NSR)
- Pay US\$5,000,000 to purchase claims with the vendor retaining a 1% NSR (of original 3% NSR)

Furthermore, if the Company commences commercial production, the vendor has the right to force the Company to purchase the property. The Company may choose one of the two buyout options listed above.

- ii) The Company has an agreement with Jubilee Gold Inc. (“Jubilee”). The Company will pay Jubilee an annual advanced royalty of \$70,000, which will be adjusted by the Consumer Price Index published by Stats Canada each year, payable within 90 days of each fiscal year end of the Company. The Company will issue 100,000 common shares to Jubilee upon each of the first to fifth anniversaries of the TSX-V approval of the agreement.

The claims are subject to a 3% NSR, 1% of such royalty redeemable by the Company at any time upon payment of \$1,000,000 to Jubilee.

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

**Springpole Project (cont'd...)**

- iii) The Company has a lease agreement with the landowner on fifteen Casummit Lake patented claims forming part of the Company's Springpole Gold Project. The annual lease payment is US\$35,000 expiring September 2014 but can be renewed for additional five year terms until September 2034 by making a renewal payment of US\$50,000 for each five year renewal. The Company has the option to purchase these claims for US\$2,000,000, subject to a 1% NSR with an option to buy back the NSR for US\$500,000.

In addition to the above agreements, the Company acquired additional claims for their mineral properties by paying \$136,000 and issuing 120,000 common shares over a five year period.

During the six month period ended May 31, 2011, the Company staked 14 additional claims at the Springpole Project adding approximately 10,000 acres of land to the project.

On May 25, 2011, the Company entered into mining claim and lease purchase agreement with the vendor of 6 mining leases at the Springpole Project. The agreement is for a period of 20 years expiring May 25, 2031. The Company paid the vendor US\$100,000 and will pay an additional US\$200,000 when legal title to the mining claims has been transferred to the Company. The agreement is subject to a 3% NSR with annual lease payments of US\$50,000. The Company has an option to buy back the NSR at US\$500,000 per each 1% NSR.

**Favourable Lake Project**

In August 2005, the Company acquired the Favourable Lake property located in Ontario. On December 22, 2005, the Company entered into a mineral property agreement with Guyana pursuant to which, Guyana may exercise its option to acquire a 60% undivided interest in the Favorable Lake property. As a result, the Company and Guyana formed a joint venture effective April 20, 2009.

In March 2010, Guyana commenced an exploration program for which the Company elected not to participate in the funding and so had its interest in the joint venture diluted down to 29.7%.

**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. The Company also paid \$85,000 over a 2 year period and incurred expenditures in the amount of \$25,000. The Company holds a 100% interest in the claims and the claims are subject to a 1.5% net smelter royalty in favour of the original optionors.

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

**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.

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.

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.

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

**Cordero Gallium Project (cont'd...)**

**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 year the Company renewed 57 Lode Claims and did not renew the Mill Site Claims. Accordingly, the Company wrote off related staking costs of \$71,067.

**Kratz Spring Rare Earth Element (“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.

No additional costs were incurred on the property during the three month period ended February 28, 2011.

**7. JOINT EXPLORATION ALLIANCE**

The Company entered into a joint exploration agreement with JEA on January 22, 2009. JOGMEC contributes 80% of the funding and holds an 80% option to all of the JEA projects. During the six month period May 31, 2011, the Company recovered \$273,063 (2010 - \$ 169,189) from JOGMEC, which is credited to project investigation costs on the consolidated statements of operations and deficit.

Kratz Spring LLC, as operator of the JEA, conducts 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 investigation 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 acquires the rights to the property.

**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 term deposit of \$17,250 maturing April 13, 2012. Subsequent to the period, the credit limit was increased to \$25,000 and the Company was required to post additional collateral of \$11,500 which has been invested in a term deposit for one year.

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 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, 2010	\$ 89,533,445	\$ 39,251,838	\$ 5,041,767
For cash			
Private placement	3,010,000	10,002,500	238,054
Exercise of stock options	3,430,000	767,000	-
Exercise of warrants	935,749	518,404	-
Stock based compensation	-	-	3,342,373
Contributed surplus on exercise of stock options and agent's warrants	-	677,156	(677,156)
Share issue costs	-	(944,946)	-
As at May 31, 2011	96,909,194	\$ 50,271,952	\$ 7,945,038

During the six month period ended May 31, 2011 the Company:

- a) Issued 3,430,000 common shares for gross proceeds of \$767,000 pursuant to the exercise of stock options.
- b) Issued 935,749 common shares for gross proceeds of \$518,404 pursuant to the exercise of warrants.
- c) Completed a private placement offering of 1,370,000 flow-through shares and 1,640,000 non flow-through shares at a price of \$3.65 per flow-through share and \$3.05 per non flow-through share for total gross proceeds of \$10,002,500. The Company paid finder's fee in cash of \$600,150 and issued 180,600 broker warrants exercisable at a price of \$3.22 per share expiring November 11, 2012. The broker warrants were valued at \$238,054 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.67%, an expected life of 18 months, annualized volatility of 87.13% and a dividend rate of 0%).

As at May 31, 2011, the Company had received \$288,892 in subscription proceeds in advance from the exercise of 444,450 warrants. The common shares were issued subsequent to the period on June 6, 2011. See Note 16.

**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.

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

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

Stock options outstanding at May 31, 2011 are as follows:

Number Of Options	Exercise Price	Expiry Date
25,000	\$ 0.10	June 12, 2011 (subsequently exercised)
515,000	0.31	October 5, 2011
100,000	0.25	October 23, 2011
40,000	0.24	December 3, 2011
985,000	0.24	February 26, 2012
40,000	0.45	August 31, 2012
1,800,000	1.00	October 12, 2012
150,000	2.28	December 20, 2012
75,000	2.45	February 2, 2013
125,000	2.76	March 16, 2013
<u>3,300,000</u>	3.50	April 18, 2013
7,155,000		

**Warrants**

Warrants outstanding at May 31, 2011 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
114,285	0.265	January 25, 2012
1,714,285	0.35	February 8, 2012
2,875,002	0.42	June 17, 2012
3,865,360	0.65	September 23, 2012
114,334	0.45	September 23, 2012
3,180,000	1.25	October 29, 2012
<u>180,600</u>	3.22	November 11, 2012
20,186,724		

**Stock-based compensation**

During the six month period ended May 31, 2011, the Company granted 3,655,000 (2010 – 2,045,000) stock options to employees, directors, officers and consultants of which, 1,373,750 (2010 – 2,045,000) are fully vested at May 31, 2011. The estimated weighted average fair value of these options was \$2.43 (2010 - \$0.15). The estimated total fair value of vested stock options during the period is \$3,342,373 (2010 - \$303,118). 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.

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

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

**Stock-based compensation (cont'd...)**

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

	May 31, 2011	May 31, 2010
Risk-free interest rate	1.53% ~ 1.72%	1.28% ~ 1.84%
Expected life of options	2.0 years	2.0 years
Annualized volatility	108.00% ~ 125.38%	138.54% ~ 151.75%
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 six month period ended May 31, 2011, the Company entered into transactions with related parties as follows:

- a) Paid or accrued management fees and employee benefits of \$64,854 (2010 - \$54,980) to two current directors and two former directors of the Company.
- b) Paid or accrued director's fees and employee benefits of \$9,194 (2010 - \$Nil) to two directors of the Company.
- c) Paid or accrued \$98,825 (2010 - \$71,875) for accounting and administrative services, included in professional fees, to a company of which a director is president.
- d) Paid or accrued \$7,391 (2010 - \$Nil) for geological consulting fees, which have been capitalized to mineral properties and deferred exploration costs, to a director of the Company.
- d) Paid or accrued \$67,636 (2010 - \$97,158) in consulting fees to a former director of the Company of which \$Nil (2010 - \$1,347) are capitalized to geological consulting fees, \$Nil (2010 - \$8,049) are expensed as consulting fees, \$13,527 (2010 - \$18,752) are expensed as property investigation cost and \$54,109 (2010 - \$69,010) were recovered from JOGMEC pursuant to the JEA.

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. Effective May 1, 2008, the management fee increased to \$7,000 a month from \$4,000 a month.

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2011	2010
Cash paid during the period for income taxes	\$ -	\$ -
Cash paid during the period for interest	\$ -	\$ -

The significant non-cash transactions for the six month period ended May 31, 2011 were as follows:

- a) Included in accounts payable accrued liabilities is \$792,563 related to deferred exploration costs.
- b) The allocation of \$677,156 for stock options and agent's warrants exercised during the period to capital stock from contributed surplus.
- c) The issuance of 180,600 warrants as finder's fees with a value of \$238,054.

The significant non-cash transaction for the six month period ended May 31, 2010 was the incurring of mineral property and deferred exploration costs of \$76,689 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
May 31, 2011		
Canada	\$ 8,221	\$ 26,487,083
United States	-	3,494,285
	<u>\$ 8,221</u>	<u>\$ 29,981,368</u>
November 30, 2010		
Canada	\$ 9,468	\$ 19,664,460
United States	-	3,487,622
	<u>\$ 9,468</u>	<u>\$ 23,152,082</u>

**GOLD CANYON RESOURCES INC.**  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited – Prepared by Management)  
MAY 31, 2011

---

**13. FINANCIAL INSTRUMENTS**

*Fair value*

The carrying value of restricted cash, reclamation bond, 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	\$ 12,045,625	\$ -	\$ -	\$ 12,045,625
Marketable securities	<u>335,000</u>	<u>-</u>	<u>-</u>	<u>335,000</u>
Total	\$ 12,380,625	\$ -	\$ -	\$ 12,380,625

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, receivables, marketable securities, restricted cash, and reclamation bonds.

The Company's cash 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 harmonized services tax due from the Federal Government of Canada.

*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 May 31, 2011, the Company had cash of \$12,045,625 to settle current liabilities of \$932,010, 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 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, receivables, 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.

**GOLD CANYON RESOURCES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited – Prepared by Management)  
MAY 31, 2011

---

**15. COMMITMENTS**

The Company extended the lease agreement for its office premises commencing September 1, 2010 and ending August 31, 2015. Minimum lease payments are as follows:

2011	\$ 7,667
2012	15,683
2013	16,728
2014	16,902
2015	<u>13,069</u>
	<u>\$70,049</u>

**16. SUBSEQUENT EVENTS**

The following events occurred subsequent to May 31, 2011:

- i) Issuance of 235,000 common shares pursuant to the exercise of stock options for gross proceeds of \$225,300.
- ii) Issuance of 489,450 common shares pursuant to the exercise of warrants for gross proceeds of \$345,142.