

GOLD CANYON RESOURCES INC.

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

**SIX MONTH PERIOD ENDED
MAY 31, 2009**

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, 2009.

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

	May 31, 2009	November 30, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 1,115,082	\$ 1,661,470
Receivables	9,666	4,062
Marketable securities (Note 4)	310,000	40,000
Prepaid expenses	<u>4,375</u>	<u>4,375</u>
	1,439,123	1,709,907
Restricted cash (Note 8)	17,250	17,250
Equipment (Note 5)	3,700	2,939
Reclamation bond (Note 6)	14,772	14,772
Mineral properties and deferred exploration costs (Note 6)	<u>17,879,023</u>	<u>17,724,782</u>
	<u>\$ 19,353,868</u>	<u>\$ 19,469,650</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 33,166	\$ 93,401
Due to related parties (Note 10)	<u>21,844</u>	<u>23,359</u>
	55,010	116,760
Future income tax liability	<u>973,000</u>	<u>973,000</u>
	<u>1,028,010</u>	<u>1,089,760</u>
Shareholders' equity		
Capital stock (Note 9)	25,680,980	25,680,980
Contributed surplus (Note 9)	3,109,147	2,980,744
Deficit	<u>(10,464,269)</u>	<u>(10,281,834)</u>
	<u>18,325,858</u>	<u>18,379,890</u>
	<u>\$ 19,353,868</u>	<u>\$ 19,469,650</u>

Nature and continuance of operations (Note 2)

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, 2009	Three month period ended May 31, 2008	Six month period ended May 31, 2009	Six month period ended May 31, 2008
ADMINISTRATION EXPENSES				
Amortization	\$ 285	\$ 299	\$ 527	\$ 560
Consulting	1,377	22,333	14,926	33,583
Foreign exchange (gain)	8,815	3,216	8,393	(243)
Insurance	9,513	870	10,520	13,408
Interest	20	6,893	688	6,893
Investor relations	23,357	73,723	43,260	128,444
Management fees	26,399	20,972	66,575	38,372
Office and miscellaneous	7,670	8,886	16,065	18,733
Printing	3,856	2,668	4,249	5,243
Professional fees	43,341	50,188	77,625	90,432
Property investigation	-	586	1,923	586
Regulatory fees	3,255	5,374	8,276	13,675
Research costs, net	28,286	-	46,838	-
Salaries and benefits	13,378	-	23,399	-
Stock-based compensation (Note 9)	-	13,907	128,403	277,508
Telephone	1,722	2,550	4,210	4,444
Transfer agent fees	4,567	6,323	6,636	11,583
Travel and promotion	16,869	33,193	29,373	54,455
Website design and maintenance	840	800	1,680	1,580
	<u>(193,550)</u>	<u>(252,783)</u>	<u>(493,566)</u>	<u>(699,255)</u>
OTHER ITEMS				
Interest income	423	9,590	9,148	16,989
Management income	16,446	-	31,983	-
Mineral property option income	-	-	-	65,000
Unrealized (depreciation) appreciation of marketable securities	<u>200,000</u>	<u>(85,000)</u>	<u>270,000</u>	<u>(135,000)</u>
	<u>216,869</u>	<u>(75,410)</u>	<u>311,131</u>	<u>(53,011)</u>
Net income (loss) for the period	23,319	(328,193)	(182,435)	(752,266)
Deficit, beginning of period	<u>(10,487,588)</u>	<u>(9,571,605)</u>	<u>(10,281,834)</u>	<u>(9,147,532)</u>
Deficit, end of period	<u>\$(10,464,269)</u>	<u>\$ (9,899,798)</u>	<u>\$(10,464,269)</u>	<u>\$ (9,899,798)</u>
Basic and diluted earnings (loss) per common share	\$ 0.01	\$ (0.01)	\$ 0.01	\$ (0.01)
Weighted average number of common shares outstanding	53,723,127	53,523,365	53,723,127	51,926,381

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, 2009	Three month period ended May 31, 2008	Six month period ended May 31, 2009	Six month period ended May 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss) for the period	\$ 23,319	\$ (328,193)	\$ (182,435)	\$ (752,266)
Items not affecting cash:				
Amortization	285	299	527	560
Mineral property option income	-	-	-	(65,000)
Stock-based compensation	-	13,907	128,403	277,508
Unrealized (appreciation) depreciation of marketable securities	(200,000)	85,000	(270,000)	135,000
Changes in non-cash working capital items:				
(Increase) decrease in receivables	42,419	8,286	(5,604)	59,328
(Increase) decrease in prepaids	-	100,045	-	12,485
Increase (decrease) in accounts payable and accrued liabilities	(83,500)	(158,270)	(5,094)	(167,576)
Decrease in amounts due to related parties	<u>19,203</u>	<u>15,903</u>	<u>(1,515)</u>	<u>13,707</u>
Net cash used in operating activities	<u>(198,274)</u>	<u>(263,023)</u>	<u>(335,718)</u>	<u>(486,254)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Common shares issued	-	384,820	-	3,965,420
Share issue costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86,736)</u>
Net cash provided by financing activities	<u>-</u>	<u>384,820</u>	<u>-</u>	<u>3,878,684</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of equipment	-	(1,536)	(1,288)	(1,536)
Acquisition of mineral properties	(72,500)	(65,000)	(83,475)	(115,000)
Deferred exploration costs	(102,997)	(940,183)	(213,775)	(1,615,353)
Recovery of deferred exploration costs	<u>22,743</u>	<u>-</u>	<u>87,868</u>	<u>-</u>
Net cash used in investing activities	<u>(152,754)</u>	<u>(1,006,719)</u>	<u>(210,670)</u>	<u>(1,731,889)</u>
Change in cash and cash equivalents for the period	(351,028)	(884,922)	(546,388)	1,660,541
Cash and cash equivalents, beginning of the period	<u>1,466,110</u>	<u>3,395,186</u>	<u>1,661,470</u>	<u>849,723</u>
Cash and cash equivalents, end of the period	\$ 1,115,082	\$ 2,510,264	\$ 1,115,082	\$ 2,510,264
Cash paid during the period for interest and income taxes				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	-	-	-	-

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)
MAY 31, 2009

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, 2008. 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 contain economically recoverable ore reserves.

The recoverability of the amounts comprising mineral properties 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 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.

	May 31, 2009	November 30, 2008
Working capital	\$ 1,384,113	\$ 1,593,147
Deficit	(10,464,269)	(10,281,834)

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. 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

Assessing going concern

The CICA Accounting Standards Board (the “AcSB”) amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity’s ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company is currently assessing the impact of this new accounting pronouncement on its financial statements.

Goodwill and intangible assets

The AcSB issued CICA Handbook Section 3064 which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. This new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets.

Standards concerning goodwill remain unchanged from the standards included in the previous Section 3062. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

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.

GOLD CANYON RESOURCES INC.
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4. MARKETABLE SECURITIES

The Company holds 1,000,000 shares with a cost of \$182,500 (November 30, 2008 – 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 six month period ended May 31, 2009, the Company recognized a gain of \$270,000 as result of a change in fair value of the marketable securities.

5. EQUIPMENT

	May 31, 2009			November 30, 2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 5,908	\$ 3,410	\$ 2,498	\$ 5,908	\$ 2,969	\$ 2,939
Office furniture and fixtures	<u>1,288</u>	<u>86</u>	<u>1,202</u>	<u>680</u>	<u>680</u>	=
	\$ 7,196	\$ 3,496	\$ 3,700	\$ 6,588	\$ 3,649	\$ 2,939

GOLD CANYON RESOURCES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

2009	Springpole Project	Favourable Lake Project	Horseshoe Island Project	Cordero Gallium Project	Kratz Spring Project	Total
Acquisition costs	\$ 2,730,992	\$ -	\$ 88,500	\$ 164,678	\$ -	\$ 2,984,170
Additions	<u>22,500</u>	<u>-</u>	<u>50,000</u>	<u>-</u>	<u>10,975</u>	<u>83,475</u>
Total, acquisition costs	<u>2,753,492</u>	<u>-</u>	<u>138,500</u>	<u>164,678</u>	<u>10,975</u>	<u>3,067,645</u>
Deferred exploration						
Opening balance	<u>11,077,131</u>	<u>-</u>	<u>358,467</u>	<u>3,288,199</u>	<u>16,815</u>	<u>14,740,612</u>
Assaying and data analysis	-	-	-	-	14,001	14,001
Geological consulting	27,743	1,500	15,358	474	-	45,075
Insurance	3,250	-	3,250	-	-	6,500
Labor	-	-	-	-	20,598	20,598
Land royalty payments	40,392	-	-	5,015	-	45,407
Legal, title and search fees	-	-	-	-	14,892	14,892
Management and administration	-	-	-	-	4,954	4,954
Material and supplies	-	-	25	-	-	25
Meals and lodging	-	-	-	-	1,334	1,334
Reproduction and copying	-	-	250	-	-	250
Sample storage	2,083	-	765	-	-	2,848
Staking and maintenance fees	2,397	-	-	-	-	2,397
Telephone and communications	245	-	-	-	-	245
Thin sections	-	-	-	-	1,001	1,001
Transfer and deed registration	-	-	-	-	16,193	16,193
Travel, transport and shipping	<u>-</u>	<u>-</u>	<u>25</u>	<u>5,634</u>	<u>5,045</u>	<u>10,704</u>
	76,110	1,500	19,673	11,123	78,018	186,424
Recoveries	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,850)</u>	<u>(105,808)</u>	<u>(115,658)</u>
Total, deferred exploration costs	<u>11,153,241</u>	<u>1,500</u>	<u>378,140</u>	<u>3,289,472</u>	<u>(10,975)</u>	<u>14,811,378</u>
Total, mineral properties and deferred exploration costs	<u>\$ 13,906,733</u>	<u>\$ 1,500</u>	<u>\$ 516,640</u>	<u>\$ 3,454,150</u>	<u>\$ -</u>	<u>\$ 17,879,023</u>

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

Springpole Project

The Company controls a 100% interest, in certain properties, as well as an option to earn a 100% interest in other properties, in the Springpole Project located in the Red Lake Mining Division of Ontario. The properties are subject to certain underlying agreements with the following obligations:

- a) Minimum annual advance royalty payments totalling approximately US\$128,000. These payments will vary from year to year due to escalation clauses and changes in gold prices.
- b) Net smelter returns royalty (“NSR”) payments varying from 1-5% on each of the underlying agreements upon production.

The Company has the option to purchase portions of these mining claims for approximately US\$2,000,000.

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	-

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 will pay \$22,500 on March 1, 2010. The original agreement had required the Company to pay \$45,000 on the 4th anniversary.

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 with the prospector, 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 agreed to pay the Company \$50,000 cash (paid), issue an aggregate of 1,000,000 common shares (issued) in the capital of Shoreham and 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.

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

Favourable Lake Project (cont'd...)

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 six month period ended May 31, 2009, the Company was notified by Shoreham that it plans 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 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.

As at May 31, 2009, the Company had received from Shoreham \$50,000 cash and 1,000,000 common shares with an original value of \$182,500 (Note 4).

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 the sum of \$25,000 and issued 50,000 common shares in the capital of the Company to Vital at a value of \$0.57 per share. In order to exercise the option and acquire the 100% interest in the claims, the Company will be required to pay an aggregate of \$85,000 (\$35,000 paid) in cash over a 2 year period and incur expenditures in the amount of \$25,000 on or before May 1, 2008 (incurred). The claims are subject to a 1.5% net smelter royalty in favour of the original optionors. This agreement received regulatory approval on July 3, 2007.

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 totalling 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\$14,921) 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 terms of the agreement, the Company must:

- a) pay Tech US\$2,500 on or before July 31, 2001 (paid);
- b) grant Tech a NSR of 3%;
- c) assume a 1% NSR payable to Cordero Mine Inc.; and
- d) advance minimum royalties totalling US\$4,000 (paid) on the first anniversary of the agreement, US\$4,500 (paid) on the second anniversary, and US\$6,000 per year throughout the remaining term of the agreement which will be credited against future NSR's payable, if any.

On January 27, 2006, the Company amended the terms of the Lease Agreement. As consideration, the Company paid US\$40,000 and reimbursed \$23,500 of costs to amend the agreement.

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

Cordero Gallium Project (cont'd...)

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

The amended work commitment schedule is as follows:

<u>Anniversary of Agreement</u>	<u>Work Commitment</u>
On or before the 1 st anniversary	US \$ 50,000
On or before the 2 nd anniversary	100,000
On or before the 3 rd anniversary	150,000
On or before the 4 th anniversary	250,000
On or before November 30, 2006	300,000
In each year thereafter until 2016	300,000

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 above expenditures.

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.

Kratz Spring 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 has an option to acquire an 80% interest in the Kratz Spring Project by making an initial contribution of US\$75,000 and additional funding by March 31, 2009. The Company and JOGMEC will contribute funds to the exploration program in accordance with their respective equity interest. 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.

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7. JOINT EXPLORATION ALLIANCE

Pursuant to the JEA signed on January 22, 2009, the Company reached an agreement with JOGMEC for a research budget of US \$125,000 to March 31, 2009. This was subsequently renewed on May 15, 2009 for the April 2009 ~ March 2010 fiscal year work program whereby JOGMEC has approved a US \$460,000 research budget. 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 from Iron Oxide Copper Gold +/- Rare Earth Element (“IOCG+/-REE”) style deposits. In conjunction with this, Kratz Spring LLC entered into an 18 month option agreement to evaluate and lease tailings and mine dumps originating from the Iron Mountain IOCG+/-REE deposit in the State of Missouri.

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, 2010.

9. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
100,000,000 common shares without par value			
Issued			
As at November 30, 2008	53,723,127	\$ 25,680,980	\$ 2,980,744
Stock based compensation	<u>-</u>	<u>-</u>	<u>128,403</u>
As at May 31, 2009	<u>53,723,127</u>	<u>\$ 25,680,980</u>	<u>\$ 3,109,147</u>

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 an investor relations consultants vest in stages over 12 months with one quarter of the options vesting in any three month period.

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

Stock options (cont'd...)

Stock options outstanding at May 31, 2009 are as follows:

Number Of Options	Exercise Price	Expiry Date
600,000	\$ 0.40	June 8, 2009 (subsequently expired)
531,000	0.50	October 4, 2009
100,000	0.50	November 6, 2009
225,000	0.50	November 29, 2009
1,075,000	0.48	February 12, 2010
<u>2,350,000</u>	0.40	February 13, 2011
4,881,000		

Warrants

Warrants outstanding at May 31, 2009 are as follows:

Number of Warrants	Exercise Price	Expiry Date
6,463,600	\$ 0.70	December 14, 2009

Stock-based compensation

During the six month period ended May 31, 2009, the Company granted 2,350,000 (2008 – 1,200,000) stock options to employees, directors, officers and consultants of which 2,350,000 (2008 – 1,200,000) are fully vested at May 31, 2009. The estimated fair value of these options was \$0.05 (2008 - \$0.21). The estimated total fair value of vested stock options during the period is \$128,403 (2008 - \$277,508). 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 and agent's warrants granted during the year:

	May 31, 2009	May 31, 2008
Risk-free interest rate	1.16%	3.04%
Expected life of options	2.0 years	2.0 years
Annualized volatility	128.87%	76.41%
Dividend rate	0.00%	0.00%

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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, 2009, the Company entered into transactions with related parties as follows:

- a) Paid or accrued management fees and employee benefits of \$55,232 (2008 - \$37,871) to three directors of the Company.
- b) Paid or accrued \$60,075 (2008 - \$70,195) for accounting, secretarial, rent and administrative services to a company of which a director is president.
- c) Paid or accrued \$Nil (2008 - \$80,850) for geological consulting fees, which are included in deferred exploration costs, to a company controlled by a former director of the Company.
- d) Paid or accrued \$9,750 (2008 - \$3,750) for geological consulting fees, which are included in deferred exploration costs, to an officer of the Company.
- e) Paid or accrued \$7,094 (2008 - \$9,194) for geological consulting fees, which are included in deferred exploration costs, to a director of the Company.
- f) Paid or accrued \$17,715 (2008 - \$Nil) in labor costs, which are included in deferred exploration costs to a director of the Company.
- g) Paid or accrued \$14,926 (2008 - \$16,194) in consulting fees to a director of the Company.
- h) Paid or accrued \$1,923 (2008 - \$586) in property investigation costs to a director of the Company.
- i) Paid or accrued \$83,489 (2008 - \$Nil) in research costs to a director of the Company.
- j) Paid or accrued \$5,851 (2008 - \$Nil) to a director and \$210 (2008 - \$Nil) to an officer of the Company for investor relations.

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 has paid a monthly fee of \$4,000 plus GST and reimbursed all reasonable expenses incurred during the performance of the services up to April 30, 2008. Effective May 1, 2008, the management fee increased to \$7,000 a month and became subject to payroll taxes and deductions.

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11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	May 31, 2009	May 31, 2008
Cash paid during the period for income taxes	\$ -	\$ -
Cash paid during the period for interest	\$ -	\$ -

The significant non-cash transaction for the six month period ended May 31, 2009 was the incurring of mineral property and deferred exploration costs of \$315 through accounts payable.

The significant non-cash transactions for the six month period ended May 31, 2008 consisted of:

- a) The issuance of 179,600 common shares valued at \$89,800 for finder's fees pursuant to a private placement completed in December 2007.
- b) Incurring mineral property and deferred exploration costs of \$21,736 through accounts payable.
- c) The issuance of 30,000 common shares valued at \$10,200 pursuant to a May 9, 2005 agreement for the acquisition of mineral claims bordering the Springpole Project.

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, 2009		
Canada	\$ 3,700	\$ 14,424,873
United States	-	3,454,150
	<u>\$ 3,700</u>	<u>\$ 17,879,023</u>
November 30, 2008		
Canada	\$ 2,939	\$ 14,255,090
United States	-	3,469,692
	<u>\$ 2,939</u>	<u>\$ 17,724,782</u>

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13. FINANCIAL INSTRUMENTS

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.

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, 2009, the Company had cash and cash equivalents of \$1,115,082 to settle current liabilities of \$55,010, which have contractual maturities of less than 30 days and are subject to normal trade terms.

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 United States by using the US dollar currency from its Canadian dollar bank accounts. Management believes the foreign exchange risk derived from currency conversions is negligible and therefore does not hedge its foreign exchange risk.

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

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

The following events occurred subsequent to May 31, 2009:

- i) 600,000 stock options exercisable at \$0.40 expired unexercised on June 8, 2009.
- ii) The Company granted an aggregate of 975,000 stock options to certain directors, senior officers and consultants at an exercise price of \$0.10 per share expiring June 12, 2011.