G W R Resources Inc.

Financial Statements

For the years ended September 30, 2011 and 2010

Contents

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Independent Auditor's Report

To the shareholders of
GWR Resources Inc.

We have audited the accompanying financial statements of GWR Resources Inc. (the "Company"), which comprise the balance sheets as at September 30, 2011 and 2010 and the statements of operations and deficit, shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1- Nature of Business and Ability to Continue as a Going Concern in the financial statements which indicates that the company has accumulated losses of $14,073,069 since inception and is expected to incur further losses in the development of its business. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern.

(signed) "BDO Canada LLP"

Chartered Accountants
Langley, British Columbia
January 25, 2012

G W R Resources Inc.
Balance Sheets

September 30	2011	2010
Assets		
Current		
Cash and cash equivalents	**$ 4,884,731**	$ 300
Receivables (Note 7)	**212,111**	3,635
Prepaid expenses (Note 4)	**221,730**	44,565
	5,318,572	48,500
Property, plant and equipment (Note 3)	**894,873**	471,565
Mineral properties (Note 4)	**982,433**	901,433
Deferred exploration and development expenditures (Note 7 and Schedule 1)	**22,867,644**	18,939,995
Restricted cash – Ministry Mines (Note 9)	**134,000**	134,000
Other assets	**1,008**	2,808
	$ 30,198,530	$ 20,498,301
Liabilities and Shareholders' Equity		
Current		
Cheques in excess of cash on hand (Note 7)	**$ -**	$ 196,346
Accounts payable and accrued liabilities	**687,224**	438,359
Due to related parties (Note 7)	**-**	135,400
Current portion of long-term debt (Note 5)	**77,464**	76,507
	764,688	846,612
Future income taxes (Note 8)	**4,867,860**	3,983,389
	5,632,548	4,830,001
Shareholders' equity		
Share capital (Note 6)	**27,240,370**	16,774,393
Contributed surplus	**11,398,681**	11,988,582
Deficit	**(14,073,069)**	(13,094,675)
	24,565,982	15,668,300
	$ 30,198,530	$ 20,498,301

Nature of Business and Ability to Continue as a Going Concern (Note 1)
Contingencies and Commitments (Note 9)

On behalf of the Board:

___________________________ Director

___________________________ Director

The accompanying notes are an integral part of these financial statements

G W R Resources Inc.
Statements of Operations and Deficit

For the years ended September 30	2011	2010
Administrative expenses		
Amortization	**$ 58,383**	$ 50,018
Consulting, director and management fees (Note 7)	**120,456**	38,031
Entertainment, promotion and advertising	**14,035**	15,264
Flow-through Part XII.6 tax, penalties (Note 8)	**18,649**	109,191
Insurance, licenses and dues	**72,299**	68,008
Interest and bank charges (Notes 6b & 7)	**70,751**	15,682
Interest on long-term debt	**957**	2,743
Office and general	**62,620**	147,080
Professional fees	**117,114**	142,075
Rent (Note 7)	**9,000**	14,400
Salaries and benefits	**194,361**	113,431
Stock-based compensation (Note 6b & d)	**164,389**	429,000
Telephone and utilities	**11,840**	8,741
Travel	**22,418**	27,445
Vehicle	**21,687**	20,790
	(958,959)	(1,201,899)
Other		
Deferred exploration cost write-off	**-**	(764)
Interest income	**11,286**	1,812
Gain (loss) on disposal of property, plant and equipment, net (Note 3)	**(30,721)**	5,147
Loss before income taxes	**(978,394)**	(1,195,704)
Net loss and comprehensive loss for the year	**(978,394)**	(1,195,704)
Deficit, beginning of year	**(13,094,675)**	(11,898,971)
Deficit, end of year	**$ (14,073,069)**	$ (13,094,675)
Loss per share	**$ (0.01)**	$ (0.02)
Weighted average shares outstanding	**112,253,065**	71,645,368

The accompanying notes are an integral part of these financial statements

G W R Resources Inc.
Statements of Shareholders' Equity

For the years ended September 30

	SHARE CAPITAL NUMBER	AMOUNT	SHARE SUBSCRIPTIONS	CONTRIBUTED SURPLUS	DEFICIT	TOTAL
Balance, September 30, 2009	**58,957,462**	**15,445,360**	**85,050**	**10,521,582**	**(11,898,971)**	**14,153,021**
Shares Issued during the year						
Private Placements - Cash	23,117,465	1,806,096	(85,050)	968,000	-	2,689,046
Private Placements – Debt Settlement (Note 6b(i))	528,235	63,388	-		-	63,388
Share issue costs	-	(364,201)	-	70,000	-	(294,201)
Shares issued for mineral properties	150,000	15,750	-	-	-	15,750
Tax benefits renounced on flow-through shares (Note 8)	-	(192,000)	-	-	-	(192,00
Stock- based compensation	-	-	-	429,000	-	429,000
Net loss and comprehensive loss for the year	-	-	-	-	(1,195,704)	(1,195,704)
Balance, September 30, 2010	**82,753,162 $**	**16,774,393 $**	**- $**	**11,988,582 $**	**(13,094,675) $**	**15,668,300**
Shares Issued during the year						
Private Placements - Cash	21,552,167	5,590,000	-	-	-	5,590,000
Share issue costs	-	(433,002)	-	87,320	-	(345,682)
Exercise of warrants	28,385,929	6,521,517	-	(1,433,792)	-	5,087,725
Exercise of stock options	460,000	133,761	-	(48,061)	-	85,700
Exercise of agent's unit options	1,855,005	96,679	-	(25,060)	-	71,619
Shares issued for mineral properties	175,000	56,000	-	-	-	56,000
Stock issued for loan bonus	189,486	50,796	-	-	-	50,796
Fair value of Warrants issued	-	(674,943)	-	674,943	-	-
Tax benefits renounced on flow-through shares (Note 8)	-	(884,471)	-	-	-	(884,471)
Stock- based compensation	-	9,640	-	154,749	-	164,389
Net loss and comprehensive loss for the year	-	-	-	-	(978,394)	(978,394)
Balance, September 30, 2011	**135,370,749 $**	**27,240,370 $**	**- $**	**11,398,681 $**	**(14,073,069) $**	**24,565,982**

The accompanying notes are an integral part of these financial statements

G W R Resources Inc.
Statements of Cash Flows

For the years ended September 30	2011	2010
Cash flows from operating activities		
Net loss for the year	**$ (978,394)**	$ (1,195,704)
Adjustments for		
Amortization	**58,383**	50,018
Future income taxes recovery	**-**	-
Stock-based compensation	**164,389**	429,000
Shares issued for settlement of loan interest (Note 6b)	**50,796**	-
(Gain) loss on disposal of property, plant and equipment, net (Note 3)	**30,721**	(5,147)
Write-off of deferred exploration costs	**-**	764
	(674,105)	(721,069)
Changes in non-cash working capital balances		
Receivables	**(202,776)**	74,099
Prepaid expenses	**(177,165)**	(7,959)
Other assets	**1,800**	10,427
Accounts payable and accrued liabilities	**248,865**	13,332
Interest accrued in current portion of long-term debt	**957**	685
Cheques issued in excess of cash on hand	**(196,346)**	110,438
	(998,770)	(520,047)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(518,612)**	(2,721)
Restricted cash	**-**	10,000
Proceeds from sale of property and equipment	**500**	15,976
Acquisition of mineral properties	**(25,000)**	(58,456)
Net expenditures on deferred exploration and development	**(3,927,649)**	(1,935,059)
	(4,470,761)	(1,970,260)
Cash flows from financing activities		
(Repayment of) advances from related parties	**(135,400)**	29,331
Proceeds from issue of share capital, net	**10,489,362**	2,394,845
	10,353,962	2,424,176
Increase (Decrease) in cash and cash equivalents during the year	**4,884,431**	(66,131)
Cash and cash equivalents, beginning of year	**300**	66,431
Cash and cash equivalents, end of year	**$ 4,884,731**	$ 300

Supplemental Information

The following transactions, which did not result in cash flows, have been excluded from financing and investing activities:

	2011	2010
Fair value of finder's and due diligence fees	**$ 87,320**	$ 23,529
Shares issued to purchase mineral properties	**$ 56,000**	$ **-**
Shares issued for settlement of loan interest	**$ 50,796**	$ -
Non-cash proceeds on disposal of property and equipment	**$ 5,700**	$ -
Cash paid for:		
Interest on long-term debt	**$ -**	$ **-**
Taxes	**$ -**	$ -

The accompanying notes are an integral part of these financial statements

1. NATURE OF BUSINESS AND ABILITY TO CONTINUE AS A GOING CONCERN

The Company is incorporated under the laws of the province of British Columbia and is in the process of exploring and developing its mineral properties to determine whether these properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and deferred exploration and development expenditures is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern which assumes the continuity of operations and realization of assets and settlement of liabilities in the normal course of business. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as described below in the following paragraph. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary had the going concern assumption been inappropriate. These adjustments could be material.

As at September 30, 2011, the Company reported a loss of $978,394, an accumulated deficit of $14,073,069 as at that date and has not generated cash flow from operations. The Company is in the development stage and is subject to the risks and challenges similar to other companies in a comparable stage of development. These risks include, but are not limited to, dependence on key individuals, successful development of its mineral properties and the ability to secure adequate financing to meet the minimum capital required to successfully complete the planned exploration program and continue as a going concern. There is no assurance that these initiatives will be successful and as a result there is significant doubt regarding the applicability of the going concern assumption.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and equivalents

Cash and equivalents consist of cash and redeemable short term deposits with maturities of no more than three months when acquired. As at September 30, 2011, the Company had redeemable short-term deposits in the amount of $3,805,080 (2010 - $nil), bearing interest at rates between 0.90% and 1.12% all maturing within three months from when acquired.

Property, plant and equipment and Amortization

Property and equipment are recorded at cost and are amortized over their estimated useful life using the diminishing balance basis at the following annual rates:

Buildings	-	5%
Field equipment	-	20%
Automotive equipment	-	20%
Office furniture and equipment	-	20%
Computer equipment	-	33%
Computer Software	-	50%

One half the normal rate is taken in the year of acquisition.

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Estimates and measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses recorded during the reporting periods. Significant areas requiring management estimates relate to the determination of impairment of assets, useful lives of capital assets, asset retirement obligations, assumptions related to the calculation of stock-based compensation and valuation of warrants issued as part of a unit and the valuation allowance for future income tax assets. Actual results could differ from these estimates and these differences could have a significant impact on the financial statements.

The carrying value of mineral property interests is based on costs incurred and management's estimate of net recoverable value. Estimates may not necessarily reflect actual recoverable value as this will be dependent on the development program, the nature of the mineral deposit commodity prices, adequate funding and the ability of the Company to achieve commercial production.

Mineral properties and deferred exploration and development expenditures

The Company capitalizes the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold or considered to be impaired in value. Expenditures on general mining exploration are charged against operations as incurred. When a project achieves commercial production, the deferred exploration expenditures are amortized against operations over the estimated life of the mine.

A property is abandoned when all claims related to the property have expired or management has determined the property is not economically viable. Expenditures relating to abandoned projects are charged to operations in the year of abandonment. The amounts shown for mineral properties represent costs to date and do not necessarily reflect present or future values.

In the event that the Company grants an option to a third party to earn an interest in one or more of the Company's mineral properties, proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations.

Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon royalty income, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property, the sale of the property or other indications of impairment. Amounts shown for mineral properties and deferred exploration represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Mineral property option agreements

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received.

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount might not be recoverable. An impairment loss is recognized when their carrying value exceeds the total indicated undiscounted cash flows from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value. Write downs due to impairment in value are charged to operations.

Asset retirement obligation

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period it is incurred, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depreciation and accretion expense.

The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. Generally, the timing of these accruals coincides with the earlier of the completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts. The Company has determined that there are no asset retirement obligations at September 30, 2011 and 2010.

Loss per share

The Company applies the "Treasury Stock Method" to determine the dilutive effect of stock options and other dilutive instruments in calculating earnings per common share.

Basic loss per share has been calculated based on the weighted average aggregate number of common shares outstanding during each period. Diluted loss per share figures are equal to those of basic loss per share for each period presented as the effects of stock options and warrants have been excluded since they are anti-dilutive.

Common share equivalent (consisting of shares issuable on exercise of stock options and warrants) totaling 25,578,426 (2010 – 36,720,414) were not included in the computation of diluted earnings per share because the effect was anti-dilutive.

Stock based compensation

The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes and Binomial option pricing models to estimate the fair value of each stock option at the date of grant depending on the conditions of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility, the expected dividends, the expected life of the option and the risk-free interest rate for the expected term of the option. Changes to these assumptions can materially affect the fair value estimate.

Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date and subsequently re-valued on each vesting date. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as share capital.

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

Flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration and development expenditures.

Flow-through shares issued by the Company are accounted for in accordance with EIC-146. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and record a temporary future income tax liability for the amount of tax deduction renounced to shareholders. In instances where it is more likely than not that the Company has sufficient available tax loss carry-forwards or other deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

During 2011, the Company renounced $3,547,832 (2010 - $809,506) of expenditures related to the private placements and accordingly, share capital has been reduced, and future income tax liability on the balance sheet has been increased by $884,471 (2010 - $192,000), the tax component of the renounced expenditures.

Valuation of warrants

Warrants or options issued to agents as consideration or part consideration for services related to share issuances are valued at the fair value of the warrants on the date of grant, determined using the Black-Scholes option-pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price volatility, the expected dividends, the expected life of the option and the risk-free interest rate for the expected term of the option. Changes to these assumptions can materially affect the fair value estimate.

Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

Share consideration

Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for mineral properties, are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for mineral properties is based upon the closing price of those shares on the TSX Venture Exchange ("TSX.V") on the date of the agreement to issue shares. The fair value of the shares issued as option payments for mineral properties is based upon the closing price of those shares on the TSX.V on the date the Company has a legal obligation to issue the shares.

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Future income taxes

The Company has adopted the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes that are more likely than not to be realized. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess. The Company has not recognized potential future benefit amounts as the criteria for recognition under Canadian generally accepted accounting principles have not been met.

Recently issued accounting pronouncements

a) Business Combinations: Section 1582, *Business Combinations*, which replaces Section 1581, *Business Combinations*, establishes standards for the accounting for a business combination. It is the Canadian GAAP equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2011. Early adoption is permitted. The Company has determined there will be no impact of the adoption of this change on its financial statements.

b) International financial reporting standards ("IFRS"): In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian co*mpanies. The AcSB str*ategic 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 is October 1, 2011 and as a result of the transition to IFRS, a restatement of the amounts reported by the Company for the year ended September 30, 2011 is required for comparative purposes.

Comparative figures

Certain financial statement line items from the prior period have been reclassified to conform to the current year presentation.

3. PROPERTY AND EQUIPMENT

	2011		2010	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 133,004**	**$ -**	$ 66,252	$ -
Buildings	**669,251**	**66,725**	306,811	44,551
Field equipment	**91,586**	**54,691**	145,665	71,672
Office furniture and equipment	**66,454**	**50,881**	58,928	50,611
Computer equipment	**31,322**	**10,355**	11,611	6,728
Software	**35,743**	**16,921**	11,048	10,446
Automotive equipment	**98,147**	**31,061**	88,749	33,491
	$ 1,125,507	**$ 230,634**	$ 689,064	$ 217,499
Net book value	**$ 894,873**		$ 471,565	

During 2011, a number of assets were sold for total proceeds of $6,200 resulting in a loss on disposal of assets in the amount of $5,026. Of the total proceeds, $5,700 was on offset against certain receivables owed from a former President. In addition, a number of assets were disposed of for $nil proceeds due to obsolescence resulting in a loss on disposal of assets in the amount of $25,695. The total loss of $30,721 was recorded to the statement of operations.

During 2011, the Company acquired land and buildings from related parties in the amount of $426,400. The purchase price was set at the exchange value and was determined through an appraisal completed by a third party.

During the year ended September 30, 2010, a vehicle was written off due to an accident. Settlement was made with the insurance company in the amount of $15,976 resulting in a gain on disposal of the asset in the amount of $5,147.

4. MINERAL PROPERTIES

	2011	2010
Lac La Hache Properties		
Various Properties [Note 4(a)(b)(c)(d)&(e)]	**$ 827,227**	$ 827,227
Bellechase, Quebec Properties		
Sainte Sabine [Note 4(f)]	**155,206**	74,206
Total	**$ 982,433**	$ 901,433

4. MINERAL PROPERTIES - Continued

Lac La Hache

The following descriptions apply to adjacent properties in the Clinton Mining and Cariboo Divisions located near Lac La Hache, British Columbia:

(a) Miracle/Murphy

The Company owns a 100% interest in four mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated October 27, 1994, the Company is to pay 1% of the net smelter return to the original vendor to a maximum of $1,500,000.

(b) Peach Lake

The Company owns an 80% interest in seven mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated December 1, 1994, the Company is to pay 3% of the net smelter return to the original vendor on four of the seven claims to a maximum of $500,000.

(c) Ann

The Company owns a 100% interest in two mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of the agreements, the Company is not required to pay a net smelter return to the original vendor.

(d) Murphy Lake

The Company owns a 100% interest in six mineral claims located in the Cariboo Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated June 3, 1997, the Company has agreed with the original vendor to issue 300,000 common shares, when it is confirmed that an ore body exists and the plans to commence commercial production are in place, and to pay 3% of the net smelter return to a maximum of $1,000,000.

(e) PMA/Cassidy

The Company owns a 100% interest in four mineral claims, located in the Cariboo Mining Division of British Columbia, located near Lac La Hache. Under the terms of the agreement dated February 14, 2000, the Company is not required to pay a net smelter return to the original vendor.

Bellechase, Quebec Properties

The following descriptions apply to adjacent properties in Bellechase and Rolette Townships, Quebec:

(f) Sainte Sabine

The Company has entered into an option agreement to purchase a 100% interest in 81 mineral claims, plus 6 pending claims, located in Bellechase and Rolette townships in Quebec. In consideration, the Company will pay the vendor a total of $310,000 and issue 1,575,000 common shares over a six year period. The Company has earned an initial 10% interest in the claims by paying $10,000, issuing 150,000 common shares to the vendor valued at $15,750 which is the fair value of the shares at the exchange date, incurring exploration expenditures of $105,185 on the claims and paying filing fees of $48,456 in order to keep the claims in good standing. The vendor has a 2% NSR, of which 0.5% can be purchased by the Company for $500,000 and an additional 0.5% can be purchased for an additional $500,000.

4. MINERAL PROPERTIES - Continued

The Company is obligated under this option agreement to pay consideration according to the following schedule:

a) Cash payments
- $25,000 on or before July 1, 2011 (paid)
- $35,000 on or before July 1, 2012
- $45,000 on or before July 1, 2013
- $55,000 on or before July 1, 2014
- $65,000 on or before July 1, 2015
- $75,000 on or before July 1, 2016

b) Common shares
- 175,000 on or before July 1, 2011 (issued)(Note 6biii)
- 200,000 on or before July 1, 2012
- 225,000 on or before July 1, 2013
- 250,000 on or before July 1, 2014
- 275,000 on or before July 1, 2015
- 300,000 on or before July 1, 2016

The Company is obligated to incur exploration costs according to the following schedule under the option agreement:
- An aggregate of $400,000 by or before July 1, 2011 (met)(1)
- An aggregate of $900,000 by or before July 1, 2012
- An aggregate of $1,500,000 by or before July, 2013
- An aggregate of $2,200,000 by or before July, 2014
- An aggregate of $3,000,000 by or before July, 2015
- An aggregate of $4,000,000 by or before July, 2016

(1) The Company received an extension from the optionor on this expenditure schedule and has met its exploration expenditure obligation as at September 30, 2011.

<u>Candorado Option Agreement</u>

Subsequent to the year end, the Company and Candorado Operating Company Ltd. (TSXV: CDO) have entered into an option agreement where the Company can acquire 100% interest in 89 unpatented mineral claims located east of Williams Lake, BC, near Lac La Hache. The agreement has the following terms:

a) Cash payments
- $870,000 of which $170,000 has been advanced as a refundable deposit. The $170,000 has been paid and is included in prepaid expense on the balance sheet for the 2011 year end.

b) Common shares
- Issuance of 2,400,000 common shares

c) Share purchase warrants
- Issuance of 2,000,000 share purchase warrants with each warrant exercisable to purchase one additional common share at an exercise price of $0.40 for a period of 2 years from the date of closing

d) The agreement is subject to a 2% net smelter royalty which can be purchased for $2,500,000 at the option of the Company.

5. LONG-TERM DEBT

Mortgage payable – payable in annual principal payments of $20,000, commencing on August 30, 2008, plus interest at the Royal Bank's prime rate, collateralized by a charge on land and building. During the year, negotiations commenced between the Company and the Vendor to sell back a portion of the property to the Vendor in consideration for cash and forgiveness of the mortgage balance. As at the date of the financial statements, there has been no settlement of the mortgage.

		2011		2010
Principal and accrued interest beginning balance	**$**	**76,507**	$	75,828
Accrued interest for the year		**957**		679
Principal and accrued interest ending balance		**77,464**		76,507
Less: Current portion		**77,464**		76,507
	$	**-**	$	-

6. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued

During the year ended September 30, 2011, the Company completed the following share issuance transactions.

i. October, 2010

On October 4, 2010, pursuant to a brokered private placement, the Company issued 2,467,750 flow through Units at $0.16 per unit and 3,346,160 non-flow through units at $0.15 per unit for total gross proceeds of $896,764. Each flow through unit consisted of one flow-through common share and one non-transferrable non-flow through share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until October 1, 2011. Each non-flow through unit consisted of one flow-through common share and one non-transferrable non-flow through share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until April 1, 2012. The fair value of the share purchase warrants, estimated to be $129,085, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility – 61%; Expected term – 1.3 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $124,521, including finders' fees of $71,741, corporate finance fees of $20,000, legal and filing fees of $17,434 and issued 465,112 agent's warrants entitling the holder to purchase one common share at an exercise price of $0.25 until April 1, 2012. The fair value of the agent's warrants, estimated to be $15,346, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 1.5 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

6. SHARE CAPITAL – Continued

(b) Issued shares - continued

ii. November 2010

On November 10, 2010, pursuant to a brokered private placement, the Company issued 2,270,000 flow-through units at $0.16 per unit and 1,866,906 non flow-through units at $0.15 per unit for total gross proceeds of $643,236. Each flow through unit consisted of one flow-through common share and one non-transferrable non-flow through share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until November 10, 2011. Each non flow-through unit consisted of one flow-through common share and one non-transferrable non flow-through share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until May 10, 2012. The fair value of the share purchase warrants, estimated to be $184,912, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility – 63%; Expected term – 1.2 years; Risk-free rate of return – 1.70% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $118,558, including finders' fees of $51,459, agent commissions of $35,000, filing fees of $7,973 and issued 330,952 agent's warrants entitling the holder to purchase one common share at an exercise price of $0.25 until May 10, 2012. The fair value of the agent's warrants, estimated to be $24,126, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 1.5 years; Risk-free rate of return – 1.70% and Expected dividend yield – 0%.

On November 30, 2010, pursuant to a brokered private placement, the Company issued 6,250,000 flow-through units at $0.28 per unit for total gross proceeds of $1,750,000. Each flow-through unit consisted of one flow-through common share and one-half non-transferrable non-flow through share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.50 until November 30, 2012. If the closing price of the common shares of the Company on the TSX Venture Exchange is greater than $0.70 for at least 20 consecutive trading days in the period from March 31, 2011 to November 30, 2012, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders and in such case the warrants will expire on the 30th day after the date on which such notice is given. The fair value of the share purchase warrants, estimated to be $160,379, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following: Share price volatility – 72%; Expected term – 2 years; Risk-free rate of return – 1.69% and Expected dividend yield – 0%.

6. SHARE CAPITAL – Continued

(b) Issued shares - continued

ii. November 2010

The Company incurred share issue costs totaling $176,573, including finders' fees of $102,000, legal and filing fees of $26,725 and issued 485,714 agent option units entitling the holder to purchase one unit at an exercise price of $0.28 until November 30, 2012. Each unit is comprised of one common share and one-half non-transferrable share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.50 until November 30, 2012. The fair value of the agent option units, estimated to be $47,848, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 72%; Expected term – 2 years; Risk-free rate of return – 1.69% and Expected dividend yield – 0%.

iii. June, 2011

On June 1, 2011 the Company issued 123,000 common shares pursuant to a loan agreement with an unrelated party. This loan was repaid during the year. The Company issued shares in lieu of interest otherwise payable valued and recorded at the trading price on issuance date of $0.34 per share. On June 1, 2011 the Company also issued 66,486 common shares pursuant to a loan agreement with a former officer and director of the Company. This loan was repaid during the year. The Company issued shares in lieu of interest otherwise payable valued and recorded at the trading price on issuance date of $0.28 per share. The fair value of the shares on the date of grant of $60,436, included $50,796 recorded as interest expense and $9,640 recorded as stock-based compensation to the former officer and director of the Company, being the excess of the agreed interest on the loan and the fair value of the shares issued.

On June 2, 2011, pursuant to a non-brokered private placement, the Company issued 4,000,000 non flow-through units at $0.45 per unit for total gross proceeds of $1,800,000. Each unit consisted of one non-flow through share and one-half non transferrable non flow-through share purchase warrant entitling the holder, in exchange for one half share purchase warrant, to purchase one additional common share at an exercise price of $0.65 until June 2, 2013. The fair value of the share purchase warrants, estimated to be $133,301, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 64%; Expected term – 2 years; Risk-free rate of return – 1.56% and Expected dividend yield – 0%. The Company incurred share issued costs totaling $9,750 on filing fees.

6. SHARE CAPITAL – Continued

(b) Issued shares - continued

iii. June 2011 - continued

On June 22, 2011, pursuant to a non-brokered private placement, the Company issued 1,351,351 non flow-through units at $0.37 per unit for a total gross proceeds of $500,000. Each unit consisted of one non-flow through share and one non-transferrable non flow-through share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.45 until June 22, 2012, and $0.60 until June 22, 2013. The fair value of the share purchase warrants, estimated to be $67,267, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 2 years; Risk-free rate of return – 1.56% and Expected dividend yield – 0%. The Company incurred $3,600 in legal and filing fees.

On June 27, 2011 the Company issued 175,000 common shares valued at $56,000 pursuant to a mineral property Option Agreement (Note 4f). The shares were valued and recorded at the closing price of $0.32 per share on the date of issuance.

iv. Shares issued on exercise of warrants, agent options, and stock options

During the year, 30,700,934 common shares were issued on the exercise of warrants, agent options and stock options for gross proceeds of $6,751,957. The fair value of these exercised equity instruments of $1,506,913 was transferred from contributed surplus to share capital per our accounting policy.

(c) During the year ended September 30, 2010, the Company completed the following share issuance transactions.

i. December 2009

On December 22, 2009 the Company issued 3,328,749 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $399,450. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.12 until June 22, 2011. The fair value of the share purchase warrants, estimated to be $173,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 92%; Expected term – 1.5 years; Risk-free rate of return – 1.4% and Expected dividend yield – 0%.

On December 22, 2009 the Company issued 1,744,987 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $209,398. Each unit consists of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.12 until December 22, 2011. The fair value of the share purchase warrants, estimated to be $98,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 87%; Expected term – 2 years; Risk-free rate of return – 1.4% and Expected dividend yield – 0%.

6. SHARE CAPITAL – Continued

(c) Issued shares – continued

i. December 2009 - continued

On December 22, 2009 the Company issued 395,002 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $47,400. Each unit consists of one common share and one-half non-transferrable share purchase warrant entitling the holder to purchase one additional common share, for each full warrant, at an exercise price of $0.15 until December 22, 2011. The fair value of the share purchase warrants, estimated to be $10,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 87%; Expected term – 2 years; Risk-free rate of return – 1.4% and Expected dividend yield – 0%.

On December 22, 2009 the Company and one vendor agreed to settle outstanding debt of $63,388 through the issuance of 528,535 common shares pursuant to a non-private placement at $0.12 being equivalent to the fair market value of the shares on the date of settlement.

On December 30, 2009 the Company issued 140,000 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $16,800. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one non-flow-through common share at an exercise price of $0.12 until June 30, 2011. The fair value of the share purchase warrants estimated to be $7,000 was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 87%; Expected term – 1.5 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

On December 30, 2009 the Company issued 131,500 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $15,780. Each unit consists of one non-flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.12 until January 12, 2012. The fair value of the share purchase warrants, estimated to be $8,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 92%; Expected term – 2 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

6. SHARE CAPITAL - Continued

(c) Issued – continued

i. December 2009 – continued

On December 31, 2009 the Company issued 3,027,131 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $363,256. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.15 until June 24, 2011. The fair value of the share purchase warrants, estimated to be $134,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 92%; Expected term – 1.5 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

The Company paid finder's fees in the amount of $39,443 in respect of the December 2009 private placements, incurred $10,520 of other share issue costs and issued 242,171 Agent's Option Units at an estimated fair value of $13,000. The Agents' Option Units are exercisable at $0.12 per Unit. Each unit is comprised of one common share and one share purchase warrant entitling the holder to purchase one common share at an exercise price of $0.15 until June 24, 2011. The fair value of the agent's warrants was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 92%; Risk-free rate of return – 1.43%; Expected term – 1.5 years; and Expected dividend yield – 0%. The fair value of the agent's warrants was charged as a reduction to share capital as share issue costs and credited to contributed surplus.

ii. January 2010

On January 12, 2010 the Company issued 97,302 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $11,676. Each unit consists of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.15 until.January 12, 2012. The fair value of the share purchase warrants, estimated to be $5,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 86%; Expected term – 2 years; Risk-free rate of return – 1.27% and Expected dividend yield – 0%.

iii. February 2010

On February 2, 2010 the Company issued 384,295 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $46,115. Each unit consists of one non-flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.12 until February 2, 2012. The fair value of the share purchase warrants, estimated to be $22,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 88%; Expected term – 2 years; Risk-free rate of return – 1.32% and Expected dividend yield – 0%.

6. SHARE CAPITAL - Continued

(c) Issued – continued

iii. February 2010- continued

On February 2, 2010 the Company issued 118,500 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $14,220. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.12 until August 2, 2011. The fair value of the share purchase warrants, estimated to be $6,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 93%; Expected term – 1.5 years; Risk-free rate of return – 1.32% and Expected dividend yield – 0%.

The Company incurred $2,422 of share issue costs related to the January and February 2010 private placements.

iv. May 2010

On May 14, 2010 the Company issued 8,824,999 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $1,059,000. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.16 until May 14, 2011 and $0.25 until November 14, 2011. The fair value of the share purchase warrants, estimated to be $316,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 80%; Expected term – 1.5 years; Risk-free rate of return – 1.73% and Expected dividend yield – 0%.

On May 14, 2010 the Company issued 3,983,333 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $478,000. Each unit consists of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.16 until May 14, 2011 and $0.25 until May 14, 2012. The fair value of the share purchase warrants, estimated to be $154,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 73%; Expected term – 2 years; Risk-free rate of return – 1.73% and Expected dividend yield – 0%.

6. **SHARE CAPITAL - Continued**

(c) Issued – continued

iv. May 2010 - continued

In respect of the May 2010 private placements, the Company paid finders' fees in the amount of $187,200 and issued 1,280,833 agent's options, at an estimated fair value of $55,000. Each option entitles the holder to purchase one common share at an exercise price of $0.16 until May 14, 2012. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 80%; Expected term – 2 years; Risk-free rate of return – 1.73% and Expected dividend yield – 0%. The fair value of the agent's options was charged as a reduction to share capital as share issue costs and credited to contributed surplus.

v. June 2010

On June 16, 2010 the Company issued 600,000 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $72,000. Each unit consists of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.16 until June 16, 2011 and $0.25 until December 14, 2011. The fair value of the share purchase warrants, estimated to be $20,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 75%; Expected term – 1.5 years; Risk-free rate of return – 1.64% and Expected dividend yield – 0%.

On June 16, 2010 the Company issued 341,667 units pursuant to a non-brokered private placement at $0.12 per unit for total proceeds of $41,000. Each unit consists of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional non-flow-through common share at an exercise price of $0.16 until June 16, 2011 and $0.25 until June 16, 2012. The fair value of the share purchase warrants, estimated to be $15,000, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 83%; Expected term – 2 years; Risk-free rate of return – 1.64% and Expected dividend yield – 0%.

The Company paid finders' fees in the amount of $11,300 in respect of this private placement, paid other share issue costs of $41,316 and issued 94,116 agent's options, at an estimated fair value of $4,000. The options entitle the holder to purchase one common share at an exercise price of $0.16 until June 16, 2012. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 83%; Risk-free rate of return – 1.64%; Expected term – 2 years; and Expected dividend yield – 0%. The fair value of the agent's options was charged as a reduction to share capital as share issue costs and credited to contributed surplus.

6. SHARE CAPITAL - Continued

(c) Issued – continued

v. July 2010 - continued

On July 6, 2010 the Company issued 150,000 common shares pursuant to a mineral property Option Agreement. The shares were valued and recorded at the market closing price of $0.105 per share.

(d) Stock Option Plan

Effective March 2010, the Company adopted the Amended Stock Option Plan (“the Plan”) which is pursuant to the policies of the TSX Venture Exchange ("TSX-V"). The Company may grant incentive stock options to its officers, directors, employees and consultants.

Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 7.5% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual. The exercise price of stock options is determined by the Board of Directors of the Company at the time of grant and may not be less than the average allowable discount from the last closing price of the Company's shares immediately preceding the time the option is granted and publicly announced.

Under the Plan, if an optionee ceases to be a director, officer or employee for any reason other than death, this option shall terminate as specified by the Board at the time of granting the option and all rights to purchase common shares under such option shall cease and expire and be of no further force or effect. Options have a maximum term of five years and depending on who the optionee is and whether the optionee resigns or is terminated, will terminate on the effective date of resignation or termination or 18 months following termination, except in the case of death, in which case they terminate one year after death. Vesting of options is made at the time of granting of the options at the discretion of the Board of Directors. Once approved and vested options are exercisable at any time.

6. SHARE CAPITAL - Continued

(d) Stock Option Plan - continued

A summary of stock option activities for the years presented is as follows:

	Number	Weighted Average Exercise Price
Outstanding at September 30, 2009	3,153,400	$0.18
Expired /Cancelled	(869,400)	$0.21
Granted	3,784,400	$0.20
Outstanding at September 30, 2010	6,068,400	$0.19
Exercised	(460,000)	$0.19
Granted	2,300,000	$0.28
Outstanding at September 30, 2011	7,908,400	$0.21

As at September 30, 2011, 6,058,400 stock options are fully vested and exercisable and 1,850,000 stock options are unvested. The unvested options have market conditions contingent on reaching certain share price levels of the Company.

During the year ended September 30, 2011, the Company granted 2,300,000 incentive stock options. Based on the estimated fair value of the options at their grant dates, the Company recorded stock-based compensation expense of $154,748 for these options in the statement of operations. 450,000 options were granted to employees, vested immediately and are exercisable for five years at $0.275 to $0.42 per share. In July 2011, 1,850,000 options were granted to an officer of the Company with the following market conditions under a management contract:

- 600,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $0.75 and;
- 1,250,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $1.00

The fair value of these unvested options granted with market conditions were estimated using a binomial option price model. The total fair value of the unvested options is $437,650 which will be amortized over the service period of 3 years, the life of the management contract. The stock based compensation for the current period is $36,471 and is included in the $154,748 stock-based compensation figure. The weighted average assumptions used in the model were as follows:

	2011	2010
Risk-free rate of return	**2.33%**	N/A%
Expected share price volatility	**88.52%**	N/A%
Time period intervals (years)	**5/8**	N/A
Expected dividend yield	**Nil%**	N/A%

6. SHARE CAPITAL - Continued

(d) Stock Option Plan - continued

During the year ended September 30, 2010, the Company granted 3,784,400 incentive stock options. 140,000 options were granted to employees, vested immediately and are exercisable for five years at $0.17 per share. Based on the estimated fair value of the options at their grant dates, the Company recorded stock-based compensation expense of $12,000 for these options in the statement of operations. 3,644,400 options were granted to officers, directors and employees, vested immediately and are exercisable for five years at $0.20 per share. Based on the estimated fair value of the options at their grant dates, the Company recorded stock-based compensation expense of $417,000 for these options in the statement of operations.

The fair value of vested options granted with no market conditions were estimated using the Black-Scholes option pricing model. Weighted average assumptions used in the model were as follows:

	2011	2010
Risk-free rate of return	**2.13%**	2.15%
Expected share price volatility	**80.26%**	91%
Weighted average expected life of the options	**41**	60
Expected dividend yield	**Nil%**	Nil%

As at September 30, 2011 the following stock options were outstanding:

Number of Options	Exercise Price	Expiry date
275,000	$0.20	October 30, 2011 [1]
449,000	$0.17	November 01, 2011 [1]
375,000	$0.20	November 01, 2011 [1]
250,000	$0.20	November 15, 2011 [1]
635,000	$0.17	December 13, 2011 [1]
1,009,400	$0.20	December 13, 2011 [1]
50,000	$0.17	December 20, 2011 [1]
310,000	$0.17	December 25, 2011 [1]
435,000	$0.20	December 25, 2011 [1]
100,000	$0.17	February 02, 2012
50,000	$0.20	February 09, 2012 [1]
20,000	$0.17	February 20, 2012
120,000	$0.17	May 6, 2013
430,000	$0.17	March 23, 2014
100,000	$0.17	May 15, 2014
1,000,000	$0.20	September 3, 2015
50,000	$0.275	January 4, 2016
400,000	$0.42	February 24, 2016
600,000	$0.25	August 1, 2016
1,250,000	$0.25	August 1, 2016
7,908,400	$0.21	

[1] Expired unexercised

6. SHARE CAPITAL - Continued

(e) Agent's Options

The fair value of agent options granted in connection with finder fees was estimated using the Black-Scholes option pricing model. Weighted average assumptions used in the model were as follows:

	2011	2010
Risk-free rate of return	**1.60%**	1.67%
Expected share price volatility	**67.79%**	83%
Weighted average expected life of the options (months)	**20**	115
Expected dividend yield	**Nil%**	Nil%

A summary of agent's option activities for the years presented is as follows:

	Number	Weighted Average Exercise Price
Outstanding at September 30, 2009	235,294	$0.15
Granted	1,617,170	$0.15
Outstanding at September 30, 2010	1,852,464	$0.15
Exercised	(1,855,005)	$0.13
Granted	1,281,778	$0.21
Outstanding at September 30, 2011	1,279,237	$0.26

A summary of Agents' Options to purchase shares outstanding as at September 30, 2011 is presented as follows:

Number of Units	Exercise Price	Expiry date
465,112	$0.25	April 1, 2012
328,411	$0.25	May 10, 2012
485,714	$0.28	November 30, 2012(1)
1,279,237	$0.26	

(1) Included in the above table, 485,714 agent's option units include also share purchase warrants of 242,857 which were not valued as the contingent equity instrument is based on a contingent event which could not be practicably determined. These share purchase warrants are included in the Note 6(f) summary as they are potentially anti-dilutive.

6. SHARE CAPITAL – Continued

(f) Share Purchase Warrants

A summary of share purchase warrant activities for the years presented is as follows:

	Number	Weighed Average Exercise Price
Balance, September 30, 2009	10,031,460	$0.46
Issued	23,162,135	$0.15
Expired / Cancelled	(4,393,995)	$1.75
Balance, September 30, 2010	28,799,600	$0.17
Issued	16,670,024	$0.36
Exercised	(28,385,929)	$0.17
Expired / Cancelled	(692,906)	$0.31
Balance, September 30, 2011	16,390,789	$0.35

During the year ended September 30, 2011 the Company issued 16,670,024 warrants as part of unit offerings and as described in detail in Note 6(b).

During the year ended September 30, 2010 the Company issued 23,162,135 warrants as part of unit offerings and as described in detail in Note 6(c).

The fair value of share purchase warrants granted were estimated using the Black-Scholes option pricing model. Weighted average assumptions used in the model were as follows:

	2011	2010
Risk-free rate of return	**1.57%**	1.57%
Expected share price volatility	**64%**	83%
Weighted average expected life of the options (months)	**19**	115
Expected dividend yield	**Nil%**	Nil%

A summary of share purchase warrants outstanding as at September 30, 2011 is presented as follows:

Number of Warrants	Exercise Price	Expiry date
675,000	$0.25	October 1, 2011 [1]
2,270,000	$0.25	November 10, 2011 [2]
915,252	$0.12	December 22, 2011 [3]
97,302	$0.15	January 12, 2012 [4]
384,295	$0.12	February 2, 2012
3,346,160	$0.25	April 1, 2012
1,733,572	$0.25	May 10, 2012
250,000	$0.25	May 14, 2012
242,857	$0.50	November 30, 2012
3,125,000	$0.50	November 30, 2012
2,000,000	$0.65	June 2, 2013
1,351,351	$0.45	June 22, 2013
16,390,789	$0.35	

(1) 512,500 warrants exercised and 162,500 warrants expired subsequent to year end. See Note 13
(2) 1,237,500 warrants exercised, 1,032,500 warrants expired subsequent to year end. See Note 13
(3) 776,791 warrants exercised, 138,461 warrants expired subsequent to year end. See Note 13
(4) Expired subsequent to year end.

7. RELATED PARTY TRANSACTIONS AND BALANCES

Transactions and balances with related parties are as summarized below:

	2011	2010
Goods or services rendered		
Included in exploration and development expenditures:		
Equipment rental (included in equipment rental)	**$ 210,860**	$ 211,275
Shop rent (included in supplies and misc)	**43,500**	112,000
Consulting fees (included in field supervision)	**215,310**	166,100
Field supervision (included in field supervision)	**56,800**	96,000
	$ 526,470	$ 585,375
Included in administrative expenses:		
Consulting, director and management fees	**$ 96,786**	$ 24,000
Interest (Note 6biii)	**8,976**	-
Rent	**9,000**	14,400
	$ 114,762	$ 38,400

These transactions are measured at the exchange value, being the price agreed to between the parties.

Related party balances at September 30 are as follows:

	2011	2010
Receivables		
Amounts due to the Company by the former President (1)	**$ 31,521**	$ -
Prepaid expenses		
Deposits and prepaid equipment rental paid to a Company with a common director	**$ -**	$ 34,565
Cheques in excess of funds on deposit		
Cheques outstanding to Companies with common directors	**-**	(153,572)
Cheques outstanding to a director	**-**	(12,000)
Accounts payable and accrued liabilities		
Cheques outstanding to a company with a common director	**(60,074)**	-
	$ (28,553)	$ (131,007)
Due to related parties		
Due to a Director (2)	**$ -**	$ (100,000)
Due to a company controlled by the former President (3)	**-**	(35,400)
	$ -	$ (135,400)

(1) During the year ended September 30, 2011, included in receivables is $31,521 (2010 - $nil) relating to prepaid equipment rent owed by a company with a former common Director.

(2) The amount due to a Director is unsecured, due on demand, non interest bearing and is without specific terms of repayment. This loan was repaid during the year.

7. RELATED PARTY TRANSACTIONS AND BALANCES - continued

(3) The amount that was due to a company controlled by the former President was secured by a mortgage on the company's property in Lac La Hache, due on demand, bore 10% per annum interest and was without specific terms of repayment. Interest on this amount was $nil (2010 - $892) and was recorded to interest and bank charges on the statement of operations. This loan was repaid during the year.

8. INCOME TAXES

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rates to the loss as a result of the following:

	2011	2010
Statutory rates	**27%**	29%
Recovery of Income taxes computed at statutory rates	**$ (264,000)**	$ (345,300)
Permanent differences	**46,000**	138,200
Financing costs	**(86,000)**	(73,600)
Expiry of losses carried forward	**-**	49,700
Effect of change in income tax rate	**16,000**	28,600
Tax benefit not recognized on current year's losses	**288,000**	202,400
	$ -	$ -

The tax effects of temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	2011	2010
Future income tax assets:		
Non-capital losses carried forward	**$ 1,392,000**	$ 1,114,000
Capital losses	**5,000**	5,000
Property and equipment	**101,000**	79,000
Mineral properties and deferred exploration expenditures	**(4,867,860)**	(3,983,389)
Financing costs	**144,000**	156,000
Less: Valuation allowance	**(1,642,000)**	(1,354,000)
Net future income tax liability	**$ (4,867,860)**	$ (3,983,389)

As at September 30, 2011, the Company has available non-capital losses for income tax purposes of approximately $5.5 million which may be carried forward and applied against future taxable income when earned. If not utilized, the non-capital losses expire approximately as follows: 2014: -$266,000 2015 -$210,000; 2026 - $319,000; 2027 - $714,000; and 2028 - $1,021,000; 2029 - $834,000; 2030 - $1,089,000 and 2031 -$1,114,000.

During the year ended September 30, 2011, the Company renounced $3.55 million (2010 - $0.8 million) of expenditures under the look-back rule effective December 31 2010, recorded an increase in the future income tax liability of $884,471 (2010 - $192,000) and incurred $18,649 (2010 - $109,191) in Part XII.6 tax, interest and penalties on expenditures to September 30, 2011 in accordance with the accounting and tax treatment of Canadian flow-through shares. The Company completed its commitment to spend $3.55 million (2010 - $0.8 million) on Canadian exploration expenditures prior to December 31, 2011 relating to flow-through issuance renounced under the look-back rule during the year and has $nil flow-through funds not yet renounced as of September 30, 2011.

8. INCOME TAXES -continued

The Company has approximately $4.1 million (2010 - $4.1 million) of undeducted exploration and development costs which are available for deduction against future income for Canadian tax purposes.

9. CONTINGENCIES AND COMMITMENTS

The Company is contingently liable to the HSBC Bank of Canada in connection with letters of guarantees issued by the bank on behalf of the Ministry of Mines in the amount of $134,000 (2010 - $134,000).

From time to time, certain claims, suits, and complaints may arise in the ordinary course of operations against the company. In the opinion of management, any provisions related to such claims, if any, will be accrued when the claims meet the recognition criteria for a contingent liabilities. No contingent liability has been recorded in the accounts for the year ended September 30, 2011 or 2010.

Subsequent to year end, the Company received a claim against the Company for unpaid amounts in connection with a financing transaction. The management of the Company is of the opinion that the claim is without merit as the claimed amount is not supported by a written contract or agreement. No provision has been made for this claim in the financial statements. The likelihood and amount of any loss is not determinable at this time.

During the year, the Company entered into a management contract agreement with an officer of the company with the following terms:

- Grant 600,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $0.75, (Note 6(d))
- Grant 1,250,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $1.00, (Note 6(d))
- Renumeration set at $120,000 for the first year of service with $10,000 paid in advance equally each month,
- Parties agree that the compensation to be paid in the second and third year will be agreed to no later than one month in advance of each of the corresponding terms and that in no event will the compensation be less favorable than the compensation for the first year,
- The Company may terminate the agreement with a written notice on June 1, 2012. Failing a written notice on that date, the agreement will remain binding on the Company for a full three year term and,
- The agreement is in effect from July 1, 2011 to August 1, 2014.

9. CONTINGENCIES AND COMMITMENTS -continued

Subsequent to the year end, the Company entered into lease agreements for equipment with annual lease payments over the next four years as follows:

2012	$	210,356
2013		103,282
2014		130,282
2015		8,609
	$	425,528

10. FINANCIAL INSTRUMENTS

Financial instruments are designated into one of the six categories: held-for-trading investments, held-to-maturity investments, loans and receivables, available-for-sale assets, held-for-trading liabilities, or other financial liabilities. Financial instruments included on the balance sheet are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification.

Held-for-trading financial investments and liabilities are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are initially measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet or other than temporary impairment. Loans and receivables, held-to-maturity investments and other financial liabilities are initially measured at fair value and subsequently at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs for financial instruments classified as other than held for trading are expensed in the period incurred.

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding:

Cash and cash equivalents	Held-for-trading investments
Receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Current portion of long-term debt	Other financial liabilities
Due to related parties	Other financial liabilities

10. FINANCIAL INSTRUMENTS - Continued

Fair value of financial assets and liabilities

The carrying amount for cash and cash equivalents that are not restricted, receivables, accounts payable and accrued liabilities, current portion of long-term debt and the amounts due from a related party on the balance sheet equals fair value because of the limited term of these instruments.

The company defines the fair value hierarchy under which its financial instruments are valued as follows:

- Level 1: Includes unadjusted quoted prices in active markets for identical assets and liabilities
- Level 2: Includes inputs other than quoted prices in level 1 that are observable for assets or liabilities either directly or indirectly
- Level 3: Includes inputs for the assets or liabilities that are not based on observable market data

The Company does not have any level 2 or 3 financial instruments as of September 30, 2011.

Overview

The Company's financial instruments are exposed to certain financial risks. The risk exposures and the impact on the Company's financial instruments are summarized below:

i. Credit risk

The Company's exposure to credit risk is on its cash and cash equivalents and receivables.

Cash consists of cash bank balances and short-term deposits with original maturity dates of ninety days or less. Management believes the risk of loss to be remote.

Amounts receivable mainly consists of input tax credit receivables. Management believes that the credit risk concentration with respect to receivables is remote.

ii. Liquidity risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements after taking into account the Company's holdings of cash and cash equivalents. As at September 30, 2011 the Company had a cash and cash equivalents balance of $4,884,731 (September 30, 2010 - $300).

The Company anticipates that these funds are not sufficient to support its corporate and administrative obligations on a continuous basis. Management is evaluating other alternatives to secure financing so that the Company can continue as a going concern such as additional equity offerings. Nevertheless, there is no assurance that these initiatives will be successful. The amount and timing of additional funding will be impacted by among other things, the strength of the capital markets.

10. FINANCIAL INSTRUMENTS – Continued

The Company manages its liquidity needs by monitoring exploration flow through and non-flow through programs and administrative outflows due in day to day business operations.

The following are the contractual maturities of financial liabilities, including interest where applicable as at September 30, 2011:

	Carrying Amount	Contractual Amount	0-12 Months
Accounts payable	687,224	687,224	687,224

iii. Interest risk

Interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage risk. The Company's policy as it relates to its cash balances is to invest excess cash in a reputable Canadian chartered bank.

As of September 30, 2011, the Company's exposure to interest rate risk is as follows:

- Cash and cash equivalents - Variable interest rate
- Current portion of long-term debt - Variable interest rate at prime rate

A change in interest rates of 1% would not materially affect cash or the current portion of long-term debt.

iv. Commodity Price risk

The Company's ability to raise capital to fund exploration or development activities may be subject to risks associated with fluctuations in the market prices of gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

11. CAPITAL MANAGEMENT

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of shareholder's equity comprising of share capital, contributed surplus and deficit. The basis for the Company's capital structure is dependent on the Company's exploration programs.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company's capital is dependent on the amount it can externally finance. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to develop existing properties and seek to acquire interests in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources for such activities.

11. CAPITAL MANAGEMENT - Continued

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended September 30, 2011. The Company is not subject to externally imposed capital requirements, unless the Company closes a flow through placement in which case the funds are restricted in use for exploration expenses. (See Note 8)

The Company's investment policy is to invest its cash in low risk, highly liquid short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures. The Company expects its current capital resources will be sufficient to carry out its exploration and development plans and operations through its current operating period.

12. SEGMENTED INFORMATION

The Company has one operating segment, exploration and development of mineral properties. All mineral properties are located in Canada.

13. SUBSEQUENT EVENTS

The following events occurred subsequent to year end not included elsewhere in the financial statements:

- Subsequent to year end, the Company received $532,715 and issued 2,543,457 common shares from the exercise of share purchase warrants.

- On October 29, 2011, the Company signed an agreement to acquire mineral claims in British Columbia for an amount of $23,000 (paid) and 40,000 common shares (issued). The vendor retains the right to a 2% NSR in the claim. The Company has an option to purchase the 2% NSR in the claim for $500,000 at any time.

  On November 21, 2011, the Company signed an agreement to acquire mineral claims in British Columbia for an amount of $870,000 (paid), 2,400,000 common shares (issued) and 2,000,000 warrants (issued). The vendor retains the right to a 2% NSR in the claim. The Company has an option to purchase the 2% NSR in the claim for $500,000 at any time.

- On January 9, 2012, the Company signed an agreement to acquire mineral claims in British Columbia for an amount of $15,000 (paid January 10. 2012).

G W R Resources Inc.
Schedule 1
Cumulative Deferred Exploration and Development Expenditures

Year ended September 30, 2011

	Cumulative expenditures September 30, 2010	Current expenditures, net	Write-off costs	Cumulative expenditures September 30, 2011
Lac La Hache	**$ 18,834,810**	**3,613,647**	**-**	**22,448,457**
Sainte Sabine	**105,185**	**314,002**	**-**	**419,187**
	$ 18,939,995	**3,927,649**	**-**	**$ 22,867,644**

Year ended September 30, 2010

	Cumulative expenditures September 30, 2009	Current expenditures, net	Write-off costs	Cumulative expenditures September 30, 2010
Lac La Hache	**$ 17,005,700**	**1,829,874**	**(764)**	**$ 18,834,810**
Sainte Sabine	**-**	**105,185**	**-**	**105,185**
	$ 17,005,700	**1,935,059**	**(764)**	**$ 18,939,995**

G W R Resources Inc.
Schedule 2
Current Exploration and Development Expenditures

Year ended September 30, 2011	Lac La Hache	Sainte Sabine	Total
	$	$	$
Assays, core preparation and storage	**191,150**	**74,481**	**265,631**
Drilling	**1,905,990**	**-**	**1,905,990**
Equipment rental (Note 7)	**509,242**	**20,398**	**529,640**
Field supervision (Note 7)	**308,994**	**145,501**	**454,495**
Geological fees	**38,669**	**8,165**	**46,834**
Reclamation and clearing	**137,796**	**29,069**	**166,865**
Supplies and misc (Note 7)	**521,806**	**36,388**	**558,194**
	3,613,647	**314,002**	**3,927,649**

Year ended September 30, 2010	Lac La Hache	Sainte Sabine	Total
	$	$	$
Assays	**127,099**	**-**	**127,099**
Core preparation and storage	**14,855**	**-**	**14,855**
Drilling	**529,514**	**-**	**529,514**
Equipment rental (Note 7)	**309,330**	**351**	**309,681**
Field supervision (Note 7)	**282,658**	**13,629**	**296,287**
Geological fees	**41,078**	**85,811**	**126,889**
Reclamation and clearing	**113,342**	**5,394**	**118,736**
Supplies and misc (Note 7)	**411,998**	**-**	**411,998**
	1,829,874	**105,185**	**1,935,059**