CAP-EX VENTURES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2011

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Contents

AUDITORS' REPORT

CAP-EX VENTURES LTD.
CONSOLIDATED BALANCE SHEETS
AS AT AUGUST 31, 2011

		2011		2010
ASSETS				
Current				
Cash	$	8,921,687	$	595,690
Restricted cash (Note 4)		57,500		-
Receivables		404		4,083
Sales tax receivable		512,806		3,360
Prepaid expenses (Note 9)		65,328		-
		9,557,725		603,133
Property and equipment (Note 5)		77,443		-
Mineral properties (Note 6)		13,318,757		74,600
TOTAL ASSETS	$	**22,953,925**	$	**677,733**
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	476,243	$	24,195
Loan due to related party (Note 9)		-		33,122
Future income tax liability (Note 12)		2,357,107		-
TOTAL LIABILITIES		**2,833,350**		**57,317**
SHAREHOLDERS' EQUITY				
Share capital (Note 7)		21,474,246		1,040,295
Contributed surplus (Note 7)		3,711,319		29,327
Deficit		(5,064,990)		(449,206)
TOTAL SHAREHOLDERS' EQUITY		20,120,575		620,416
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	**22,953,925**	$	**677,733**

NATURE AND CONTINUANCE OF OPERATIONS (Note 1)
COMMITMENTS AND CONTINGENCIES (Note 6)
SUBSEQUENT EVENTS (Note 15)

On behalf of the Board:

/s/ “Andrew Bowering”
Director

/s/ “Brett Matich”
Director

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

CAP-EX VENTURES LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED AUGUST 31, 2011

	2011	2010
Expenses		
Amortization	$ 16,843	$ -
Bank charges and interest	11,281	-
Consulting fees	487,718	12,000
Investor relations	295,381	3,999
Office and administration	42,641	16,445
Professional fees	266,662	60,751
Rent	32,000	-
Stock based compensation (Note 8)	2,916,806	-
Transfer agent and filing fees	63,675	27,329
Travel and related costs	280,871	11,628
Loss before other items	(4,413,878)	(132,152)
Other items		
Interest income	40,924	-
Gain on forgiveness of debt (Note 10)	-	25,066
Write off of mineral properties (Note 6)	(242,830)	-
Net loss and comprehensive loss for the year	(4,615,784)	(107,086)
Deficit, beginning of year	(449,206)	(342,120)
Deficit, end of year	$ (5,064,990)	$ (449,206)
Basic and diluted loss per share	$ **(0.17)**	$ **(0.01)**
Weighted average number of common shares outstanding	**27,694,764**	**7,979,502**

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

CAP-EX VENTURES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED AUGUST 31, 2011

		2011		2010
Cash flows used in operating activities				
Net loss from operations	$	(4,615,784)	$	(107,086)
Items not affecting cash:				
Amortization		16,843		-
Gain on forgiveness of debt		-		(25,066)
Stock based compensation		2,916,806		-
Write off of mineral properties		242,830		-
Changes in non-cash working capital items				
Increase in share subscriptions receivable		-		(18,000)
Increase (decrease) in sales tax receivable		(509,446)		351
Increase (decrease) in receivables		3,679		(4,083)
Increase in prepaid expenses		(65,328)		-
Increase (decrease) in accounts payable		62,987		(43,130)
		(1,947,413)		(197,014)
Cash flows used in investing activities				
Acquisition of property and equipment		(94,286)		-
Mineral property expenditures		(4,142,497)		(59,600)
		(4,236,783)		(59,600)
Cash flows from financing activities				
Restricted cash		(57,500)		-
Proceeds from (repayment of) advances and loans		(33,122)		33,122
Proceeds from share issuances		15,050,000		815,800
Share issuance costs		(1,052,870)		-
Proceeds from exercise of warrants		500,685		-
Proceeds from exercise of stock options		85,000		-
Net proceeds from share subscriptions		18,000		-
		14,510,193		848,922
Net change in cash		8,325,997		592,308
Cash, beginning of year		595,690		3,382
Cash, end of year	$	8,921,687	$	595,690
Supplemental cash flow information				
Shares issued for acquisition costs of mineral properties	$	6,598,322	$	15,000
Financing fees - warrants	$	949,743	$	-
Shares issued for finders fee of private placement	$	290,505	$	-
Mineral properties expenditures included in accounts payable	$	389,061	$	-
Contributed surplus reallocation on exercise of options and warrants	$	85,719	$	-
Recognition of future income tax liability on acquisition of mineral properties	$	2,357,107	$	-

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Cap-Ex Ventures Ltd. (the "Company") was incorporated under the Canada Business Corporations Act (CBCA) on February 27, 2007. The Company's business is to acquire, explore and develop interests in mining projects.

During the year ended August 31, 2011, the Company completed various private placements for total gross proceeds of $15,050,000. The Company also acquired two additional mineral properties, Schefferville properties and Lac Connelly property, through the issuance of shares and cash payments (Notes 6 & 7).

The Company's mineral properties are at the exploration stage and are without a known body of commercial ore. The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities. The amounts shown as mineral property costs represent acquisition, holding and deferred exploration costs and do not necessarily represent present or future recoverable values. The recoverability of the amounts shown for mineral property costs is dependent upon the Company obtaining the necessary financing to complete the exploration and development of the properties, the discovery of economically recoverable reserves and future profitable operations.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At August 31, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $5,064,990 since inception, and had working capital of $9,081,482. The Company expects to incur further losses from its operations and anticipates it will need to raise further equity and this additional equity may or may not be available on reasonably commercial terms.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared by the Company in accordance with Canadian GAAP. In the opinion of the Company's management, these consolidated financial statements reflect all the adjustments necessary to fairly present the Company's financial position at August 31, 2011 and 2010, and the results of operations and cash flow for the years ended August 31, 2011 and 2010.

Basis of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiary, Schefferville Iron Ore Exploration Corp. (incorporated under the Business Corporations Act of British Columbia on February 2, 2011). All significant intercompany accounts and transactions between the Company and its subsidiary have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Significant areas of estimate include the carrying value of mineral properties, impairment of assets and rates for amortization, stock-based compensation, accrued liabilities and the application of valuation allowances against future tax assets.

Mineral properties

The Company defers 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. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written off. 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. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves, if any, that are available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future profitability of production revenues from the property or from the sale of property. Amounts shown for properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

Although the Company has taken steps to verify title to mineral properties in which it has an interest or potential interest, according to the usual industry standards for the stage of exploration of such properties, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

Capital disclosures

The Company follows CICA Handbook Section 1535, "*Capital Disclosures*" which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the Company's objectives, policies and procedures for managing capital. See Note 13 for disclosure.

Income taxes

The Company accounts for income taxes using the asset and liability method. Under this method, future income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities. These future taxes are measured by the provisions of currently enacted tax laws. To the extent 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.

Stock based compensation

Stock options are granted in accordance with the policies of regulatory authorities. The Company uses the graded vesting method to account for Stock based compensation. The fair value of all stock options is expensed over their vesting period with a corresponding increase to contributed surplus. The fair value of all stock options is calculated using the Black-Scholes option valuation model.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying value of the related long-lived tangible asset is increased by the same amount. As at August 31, 2011, there were no significant asset retirement obligations.

Loss per share

Basic loss per share is computed by dividing the loss for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. For the period presented, diluted loss per share has not been calculated because the effect of amounts would be anti-dilutive.

Property and equipment

Property and equipment is stated at cost less accumulated amortization. Amortization is charged at the following annual rates:

Asset	Basis	%
Computer hardware	Declining balance	100%
Equipment	Declining balance	20%
Vehicles	Declining balance	30%

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

Flow-through shares

Under the recommendations of Emerging Issues Committee ("EIC") 146, "Flow-Through Shares," future income tax liabilities resulting from the renunciation of qualified mineral expenditures by the Company are recorded as a reduction in share capital in the year the renunciation is filed with the Canada Revenue Agency. The Company recognizes a future income tax recovery in the same period of renunciation to the extent of previously unrecognized future tax assets from non-capital losses and other tax deductible temporary differences.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Company classifies all financial instruments as either held for trading, available for sale, held to maturity, loans and receivable or other financial liabilities. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the financial instruments classification. Held for trading instruments are measured at fair value with unrealized gains and losses recognized in results of operations. Available for sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments held to maturity, loans and receivables and other financial instruments are measured at amortized cost.

The Company classifies its cash and cash equivalents and restricted cash as held for trading. Receivables and sales tax receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities.

Transaction costs related to held-for-trading financial assets and liabilities are expensed to operations. Transaction costs related to held-to-maturity financial assets, other liabilities and loans and receivables are netted against the initial fair value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

See Note 11 for relevant disclosures.

3. ADOPTION OF NEW ACCOUNTING STANDARDS AND RECENT ACCOUNTING PRONOUNCMENTS

a) Recent accounting pronouncements

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, (“Section 1582”), 1601, Consolidated Financial Statements, (“Section 1601”) and 1602, Non-controlling Interests, (“Section 1602”) which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1582 is applicable for the Company’s business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company’s annual consolidated financial statements for its fiscal year beginning September 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other relevant sections must also be adopted at the same time.

The Company has adopted the above standards and reflects its effect on the Company’s consolidated financial statements as of August 31, 2011. There was no impact on the Company’s August 31, 2010 financial statements figures.

International financial reporting standards (“IFRS”)

The Canadian Accounting Standard Board has confirmed January 1, 2011 as the date that International Financial Reporting Standards (“IFRS”) will replace Canadian GAAP for publicly accountable enterprises. The conversion to IFRS will be applicable to the Company’s reporting no later than the first quarter of fiscal 2012, with restatement of comparative information presented.

4. RESTRICTED CASH

Restricted cash is pledged to Bank of Montreal as security for the Company's credit cards.

5. PROPERTY AND EQUIPMENT

	August 31, 2011			August 31, 2010
	Cost	Accumulated Amortization	Net Book Value	Net Value
Computer hardware	$ 4,516	$ 4,516	$ -	$ -
Equipment	22,760	2,276	20,484	-
Vehicle	67,010	10,051	56,959	-
	$ 94,286	$ 16,843	$ 77,443	$ -

6. MINERAL PROPERTIES

	Tay-LP	Schefferville	Lac Connelly	Total
	$	$	$	$
Balance, August 31, 2009	-	-	-	-
Property acquisition and staking costs	70,000	-	-	70,000
Exploration expenditures				
Geological & surveying	4,600	-	-	4,600
Balance, August 31, 2010	74,600	-	-	74,600
Property acquisition and staking costs	75,000	6,521,493	3,627,069	10,223,562
Exploration expenditures				
Consulting	4,000	122,238	23,693	149,931
Data analysis	-	15,093	6,570	21,663
Drilling	-	1,352,065	1,841	1,353,906
Equipment rental	-	54,472	-	54,472
Geological	-	96,227	10,974	107,201
Mapping/survey	89,230	734,577	450,478	1,274,285
Sampling	-	9,780	382	10,162
Supplies	-	256,522	35,283	291,805
Subtotal	168,230	9,162,467	4,156,290	13,486,987
Write off of mineral properties	(242,830)	-	-	(242,830)
Balance, August 31, 2011	**-**	**9,162,467**	**4,156,290**	**13,318,757**

Tay-LP Property

In March 2010, the Company entered into an option agreement with Canarc Resource Corp. (the "Optionor") to acquire a 50% interest in the Tay-LP Property within the Tintina Gold Belt in the Yukon Territory ("Option Agreement"). Upon completion of the option period, a joint-venture will be formed on the property.

6. MINERAL PROPERTIES (continued)

Under the terms of the option agreement, the Company was required to make payments to the Optionor and fulfill the Optionor's obligations pursuant to the underlying Ross River Agreement, which the Optionor had previously entered into with a third party to acquire up to a 100% interest in the TAY-LP Property, as follows:

Payments to the Optionor:	Payments	Shares	Exploration Expenditures
On signing (paid)	$ 25,000		
On Exchange approval (issued at $0.15)		100,000	
On or before June 30, 2011 (i)			Initial $225,000
On or before October 31, 2011	$ 75,000	100,000	Additional $450,000
	$ 100,000	200,000	

(i) In December 2010, the Company signed an Amendment Agreement for the Option Agreement to extend the date for the requirement to incur $225,000 in exploration expenditures on the TAY-LP property from October 31, 2010 to June 30, 2011.

In addition, the Company has assumed the Optionor's existing obligations under the Ross River Agreement as follows:

Payments to fulfill Optionor's obligations:	Payments	Royalty Payments
On or before April 27, 2010 (paid)	$ 30,000	
On or before September 30, 2010 (paid)	$ 50,000	$ 25,000
On or before September 30, 2011	$ 50,000	$ 25,000
	$ 130,000	$ 50,000

In July 2010, the Company signed an Amendment Agreement to the Option Agreement whereby it was agreed that the Company would now become the Operator as opposed to Canarc Resource Corp. as originally agreed in the Option Agreement.

In September 2010, the Company fulfilled its assumed obligations of the Optionor by making a $50,000 payment and a $25,000 royalty payment.

In March 2011, the Company terminated its option agreement with Canarc Resource Corp. on the Tay-LP Property and as a result wrote off related mineral property expenditures of $242,830.

Schefferville Properties

In February 2011, the Company entered into an option agreement with Kal Malhi (the "Optionor") to acquire a 100% interest in the Redmond Properties in the area of Schefferville, Quebec ("Option Agreement"). The Company closed this agreement on March 18, 2011.

6. MINERAL PROPERTIES (continued)

Under the terms of the Option Agreement, the Company is required to make payments to the Optionor, to earn the initial 51% interest, as follows:

Payments to the Optionor:	Payments	Value of Shares	Work Commitment
On signing (paid)	$ 10,000		
On Exchange approval (Note 7)	$ 90,000	$ 200,000	
On first year anniversary (i)		$ 300,000	$ 200,000
On second year anniversary			$ 300,000
On third year anniversary (ii)		$ 500,000	$ 500,000
	$ 100,000	$ 1,000,000	$1,000,000

In March 2011, the Company signed an Amendment Agreement to the Option Agreement to determine the exact number of shares to be issued on Exchange approval, and the option to make cash payments in lieu of the shares to be issued on the first and third year anniversary.

(i) The number of shares which is equal to $300,000 divided by the weighted closing trading price average for the ten trading days prior to the first anniversary date or 333,333 shares, whichever is less.
(ii) The number of shares which is equal to $500,000 divided by the weighted closing trading price average for the ten trading days prior to the third anniversary date or 555,555 shares, whichever is less.

Upon completion of these payments and expenditures, the Company will own a 51% interest in the Redmond Properties. The Company must pay the vendor an additional $500,000 in cash or common shares prior to the fifth year anniversary of the agreement for the remaining 49% interest in the Redmond Properties. The vendor retained a 2% NSR, 50% of which may be purchased for $1,000,000 in cash prior to the five year anniversary.

In February 2011, the Company signed a finder's fee agreement related to the Redmond Properties. The agreement calls for a finder's fee equal to 5% of the cash and share issuances paid under the Option Agreement. All cash and share portions of the finder's fee are payable to the finder concurrently with the payments made to the Optionor of the Option Agreement.

In March 2011, the Company acquired 100% interests in a group of Labrador / Quebec Iron Ore properties, of which a portion is Lac Connelly, from Mandu Resources Ltd. ("Mandu"), and Bedford Resources Partners Inc. and 743584 Ontario Inc. (collectively, "BP&N"). In order to earn the interest, the Company paid a $49,000 non-refundable cash deposit upon execution of the agreement, paid an additional $226,000 and issued a total of 5,000,000 shares to Mandu upon closing of the agreement (Note 7). Mandu and BP&N retained a 1.8% royalty on iron ore produced, which is limited to $1.60 per ton of ore produced. The Company has the right to purchase 0.5% of the royalty for $1,000,000 for a period of 24 months from closing. The Company allocated the acquisition costs based on the total hectares per property. Of the total acquisition costs, approximately 54% has been allocated to the iron ore properties known as the Schefferville Property. As a result of this transaction, a principal of Mandu became a director of the Company.

In April 2011, the Company acquired a 100% right, title and interest in and to a Newfoundland / Labrador mineral property. Under the terms of the agreement, the Company paid $10,000 and issued 15,000 shares to the vendor (Note 7). The vendor retained a 1.5% royalty on the property, which is limited to $1.60 per ton of ore. The Company has the right to repurchase 0.5% (one-third) of the royalty for $1,000,000 for 4 years after the acquisition.

In April 2011, the Company acquired 100% of two iron ore properties that adjoin the Company's property near Schefferville, Quebec. Under the terms of the agreement, the Company paid $500,000 and issued 500,000 shares to the vendor (Note 7). The vendor retained a 1% NSR on the properties, which can be reduced to 0.5%, by a payment of $1,000,000 at any time.

6. MINERAL PROPERTIES (continued)

In April 2011, the Company acquired a 100% right, title and interest in and to a Newfoundland / Labrador mineral property. Under the terms of the agreement, the Company paid $20,000 and issued 100,000 shares to the vendor (Note 7). The vendor retained a 2.0% royalty on the claims. Beginning in 2016, the Company is required to make annual advance royalty payments of $5,000, for a period of 5 years. The Company may acquire 50% of the royalty (effectively 1.0%) for $1,000,000 any time prior to commencement of commercial production.

In April 2011, the Company acquired 100% right, title and interest in and to a Newfoundland / Labrador mineral property. Under the terms of the agreement, the Company paid a total of $20,000 and issued 100,000 shares to the vendors (Note 7). The vendors retained, collectively, a 2.0% royalty on the claims. Beginning in 2016, the Company is required to make annual advance royalty payments of $5,000, for a period of 5 years. The Company may acquire 50% of the royalty (effectively 1.0%) for $1,000,000 any time prior to commencement of commercial production.

Lac Connelly Property

As part of the agreement with Mandu and BP&N noted above, the Company acquired certain iron ore properties located in Quebec. The acquisition costs were pro-rated based on the total hectares per property. Of the total acquisition costs, approximately 46% been allocated to the iron ore properties known as the Lac Connelly Property.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS

Authorized: Unlimited common shares without par value

	Number of Shares		Amount		Contributed Surplus
Issued					
Balance, August 31, 2009	4,000,000	$	227,495	$	29,327
Private placements	10,772,727		825,000		-
Shares issued for mineral property interest	100,000		15,000		-
Less: Share issue costs	-		(9,200)		-
Less: Proceeds not yet received	-		(18,000)		-
Balance, August 31, 2010	14,872,727		1,040,295		29,327
Proceeds received	-		18,000		-
Private placements	19,090,476		15,050,000		-
Less: Share issuance costs	271,500		(1,903,776)		850,905
Shares issued for mineral property interest	5,897,595		6,598,323		-
Options granted (Note 8)	-		-		2,916,806
Warrants exercised (Note 8)	3,277,600		514,881		(14,196)
Options exercised (Note 8)	340,000		156,523		(71,523)
Balance, August 31, 2011	**43,749,898**	$	**21,474,246**	$	**3,711,319**

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On January 21, 2010, the Company completed a non-brokered private placement of 6,000,000 shares at $0.05 for gross proceeds of $300,000.

On August 6, 2010, the Company completed a non-brokered private placement of 4,772,727 units at $0.11 per unit for gross proceeds of $525,000. Each unit is comprised of one share and one share purchase warrant. Each warrant allows the holder to acquire one common share of the Company at a price of $0.15 for a period of 24 months from the date of issuance. No fair value was assigned to the warrants on the basis that they had no intrinsic value at the time of issuance. Share issuance costs associated with this placement totalled $9,200.

On August 19, 2010, the Company issued 100,000 common shares valued at $15,000 to Canarc Resource Corp. as per the Option Agreement on the Tay-LP Property (Note 6).

On March 3, 2011, the Company completed a non-brokered private placement of 6,000,000 units at $0.30 per unit for gross proceeds of $1,800,000. Each unit consists of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share of the Company for a price of $0.60 for a period of 18 months. The private placement also consisted of 1,500,000 flow-through units at a price of $0.40 per unit for gross proceeds of $600,000. Each flow-through unit consists of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share of the Company for a price of $0.60 for a period of 18 months. No fair value was assigned to the warrants on the basis that they had no intrinsic value at the time of issuance. The Company issued a total of 271,500 finders units and paid cash of $6,800 for finder fees. The finders units have the same underlying terms of the private placement. In addition, the Company also issued a total of 261,000 agent warrants to the agents exercisable into one common share of the Company at a price of $0.35 for 18 months. The agent's warrants were valued at $216,676 using the Black-Scholes pricing model with the following assumptions: estimated life of eighteen months, risk free interest rate of 0.92%, volatility of 125% and nil forecasted dividend yield.

On March 3, 2011, the Company issued 5,000,000 common shares valued at $5,350,000 to Mandu Resources Ltd, Bedford Resources Partners Inc., and 743584 Ontario Inc. as per the mineral properties purchase agreement on the Schefferville Property (Note 6).

On March 16, 2011, the Company issued 173,900 common shares valued at $179,117 to a vendor as per the option agreement on the Redmond Property (Note 6). The Company also issued 8,695 common shares with a value of $8,956 as finder's fee related to the Schefferville Property (Note 6).

On March 30, 2011, the Company completed a private placement of 9,190,476 non flow-through units at $1.05 per unit for gross proceeds of $9,650,000. Each unit consists of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share of the Company for a price of $1.30 for a period of 24 months. The private placement also consisted of 2,400,000 flow-through units at a price of $1.25 per unit for gross proceeds of $3,000,000. Each flow-through unit consists of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share of the Company for a price of $1.35 for a period of 24 months. No fair value was assigned to the warrants on the basis that they had no intrinsic value at the time of issuance. The Agent was paid a cash commission of $885,500 equal to 7.0% of the total gross proceeds of the offering and expense reimbursements of $110,000. The Agent was also granted 811,333 non-transferable compensation options (the "Compensation Options"), equal to 7.0% of the combined non flow-through units and flow-through units sold pursuant to the private placement. Each Compensation Option entitles the holder to acquire one non flow-through unit at an exercise price of $1.05 per non flow-through unit for a period of 24 months following the closing of the Offering. The Compensation Options were valued at $634,229 using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk free interest rate of 0.92%, volatility of 125% and nil forecasted dividend yield.

On April 13, 2011, the Company issued 15,000 common shares valued at $23,250 to a vendor as per the agreement on the Schefferville Property (Note 6).

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

On April 18, 2011, the Company issued 100,000 common shares valued at $150,000 to a vendor as per the agreement on the Schefferville Property (Note 6).

On April 18, 2011, the Company issued 500,000 common shares valued at $750,000 to a vendor as per the agreement on the Schefferville Property (Note 6).

On April 21, 2011, the Company issued 100,000 common shares valued at $137,000 to two vendors as per the agreement on the Schefferville Property (Note 6).

As at August 31, 2011, the Company has 4,539,272 shares subject to escrow pursuant to the requirements of the TSX Venture Exchange ("TSX-V"), and will be released through August 2013. In addition, as at August 31, 2011, 4,680,000 shares are subject to voluntary pooling and will be released through April 2014.

8. STOCK OPTIONS AND WARRANTS

Stock Options

The Company has a stock option plan ("the Plan") whereby it can grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company. Vesting is determined by the board of directors and the policies of the TSX-V.

On October 19, 2010, the Company granted 1,400,000 five-year stock purchase options exercisable at $0.25 per share. The fair value of these options, $294,508, was estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 0.92%, volatility of 125% and nil forecasted dividend yield. All options vested immediately on grant.

On March 4, 2011, the Company granted 1,400,000 five-year stock purchase options exercisable at $1.17 per share of which 850,000 vested immediately, with the balance vesting every 3 months in instalments of 137,500 options. As at August 31, 2011, the vested options were valued at $1,265,491 and the unvested options were valued at $112,807, estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 0.92%, volatility of 125% and nil forecasted dividend yield.

On April 5, 2011, the Company granted 1,300,000 five-year stock purchase options exercisable at $1.24 per share. The fair value of these options, $1,356,807, was estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 0.98%, volatility of 125% and nil forecasted dividend yield. All options vested immediately on grant.

A summary of stock options activities are as follows:

	Number of Options	Weighted Average Exercise Price
Balance, August 31, 2009	120,000	$ 0.10
Cancelled	(120,000)	$ 0.10
Balance, August 31, 2010	-	$ -
Granted	4,100,000	$ 0.88
Exercised	(340,000)	$ 0.25
Balance, August 31, 2011	**3,760,000**	**$ 0.93**

8. STOCK OPTIONS AND WARRANTS (continued)

A summary of the stock options outstanding and exercisable at August 31, 2011 is as follows:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$			
0.25	1,060,000	1,060,000	October 18, 2015
1.17	1,400,000	987,500	March 4, 2016
1.24	1,300,000	1,300,000	April 5, 2016
	3,760,000	3,347,500	

Warrants

A summary of warrant activities are as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, August 31, 2009	-	$	-
Issued	4,772,727	$	0.15
Balance, August 31, 2010	4,772,727	$	0.15
Issued	10,753,321	$	1.01
Exercised	(3,277,600)	$	0.15
Balance, August 31, 2011	**12,248,448**	**$**	**0.90**

A summary of the share purchase warrants outstanding at August 31, 2011 is as follows:

Exercise Price	Number Outstanding		Expiry Date
$			
0.15	1,524,727		August 13, 2012
0.60	3,873,250		September 3, 2012
0.35	243,900		September 3, 2012
1.30	4,595,238		March 30, 2013
1.35	1,200,000		March 30, 2013
1.05	811,333	*	March 30, 2013
	12,248,448		

* Compensation Options are exercisable into one non flow-through unit at an exercise price of $1.05 per unit. Each non flow-through unit consists of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share of the Company for a price of $1.30 for a period of 24 months.

9. RELATED PARTY TRANSACTIONS

On April 21, 2010, the Company entered into a loan agreement ("Loan Agreement") with the President of the Company whereby the President advanced $30,000 to Canarc Resource Corp on behalf of the Company pursuant to the March 2010 Option Agreement (Note 6). The loan was non-interest bearing and unsecured.

As at August 31, 2010, included in loans due to related party, is an amount of $3,122 payable to the former President of the Company for expenses paid on behalf of the Company.

On February 2, 2011, the Company repaid the loan in the amount of $30,000 to the former President and current Chairman of the Company.

During the year ended August 31, 2011, the Company entered into the following transactions with related parties, not disclosed elsewhere in these financial statements:

i. Incurred consulting fees of $95,000 (August 31, 2010 - $Nil) to a company controlled by a director of the Company.
ii. Incurred consulting fees of $95,000 (August 31, 2010 - $Nil) to a director of the Company.
iii. Incurred consulting fees of $141,370 (August 31, 2010 - $Nil) to a company controlled by a director of the Company. At as August 31, 2011, $13,542 (August 31, 2010 - $Nil) was included in accounts payable for fees and expense reimbursements.
iv. Incurred consulting fees of $108,500 (August 31, 2010 - $Nil) to an officer of the Company. At as August 31, 2011, $760 (August 31, 2010 - $Nil) was included in accounts payable for fees and expense reimbursements. The Company also paid $50,000 as a retention bonus, which is refundable if services are not provided for a period of two years. This amount is reported as a prepaid expense.
v. Incurred legal fees of $140,400 (August 31, 2010 - $10,914) to a company controlled by a director of the Company. At as August 31, 2011, $16,600 (August 31, 2010 - $Nil) was included in accounts payable for fees and expense reimbursements.
vi. Incurred drilling expenditures of $1,332,760 (August 31, 2010 - $Nil) to a company controlled by a relative of a director of the Company.
vii. Incurred rent expense of $32,000 (2010 - $Nil) to company related by way of common directors.

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.

10. FORGIVENESS OF DEBT

In January 2009, seven individuals advanced a total of US$141,000 to Zhu Zhong Neng and Chayouzhongqi Xingda Mining and Developing Company Ltd. ("Xingda"'), which was facilitated by the Company in anticipation of a transaction. The Company did not proceed with this transaction and ultimately recovered $5,557 from Xingda, which was to be returned to these seven individuals at August 31, 2009.

On February 28, 2010, these seven individuals, one of whom was a former director of the Company, forgave the $5,557 balance described above owed to them. On February 28, 2010, three creditors also forgave various accounts payable of $19,509 owed to them. No consideration was provided to these individuals in exchange for the forgiveness and, as a result, a gain of $25,066 was recognized.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, restricted cash, receivables, sales tax receivable, and accounts payable and accrued liabilities. The fair value of these financial instruments other than cash and restricted cash, approximates their carrying values due to their short term nature. Cash and cash equivalents and restricted cash are measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including credit, currency, interest rate and liquidity risk.

a) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash, restricted cash, and sales tax receivable from the government of Canada. Bank accounts are held with a major bank in Canada. As a Canadian bank holds a majority of the Company's cash and restricted cash, there is a concentration of credit risk with one bank in Canada. The risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at August 31, 2011, the Company's maximum exposure to credit risk is the carrying value of cash and restricted cash.

b) Currency risk

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company has determined that there is very limited currency risk at this time.

c) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. There is a very limited interest rate risk as the Company holds no interest-bearing debt.

d) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company requires funds to finance its business development activities. In addition, the Company, from time to time, needs to renegotiate and service its debt facilities. There is no assurance that financing will be available or, if available, that such financings will be on reasonable terms.

12. INCOME TAXES

The expense for the year can be reconciled to the loss for the year as follows:

	August 31, 2011	August 31,2010
	$	$
Loss for the year	(4,615,784)	(107,086)
Expected income tax (recovery) at statutory rates	(1,338,577)	(31,000)
Deductible items	(82,199)	(5,000)
Non-deductible items	941,185	-
Change in income tax rates	-	15,000
Unrecognized benefit of non-capital and other losses	479,591	21,000
Income tax expense (recovery)	-	-

The significant components of the Company's future income tax assets and liabilities are as follows:

	August 31, 2011	August 31,2010
	$	$
Future tax assets:		
Non-capital loss carry forwards	537,042	102,000
Plant and equipment	4,553	-
Exploration expenses	68,636	-
Share issue costs	273,287	7,000
	883,519	109,000
Less: valuation allowance	(883,519)	(109,000)
	-	-
Future tax liabilities:		
Mineral property interests	(2,357,107)	-
Net future income tax liability	(2,357,107)	-

As at August 31, 2011, the Company had available for deduction against future taxable income, Canadian non-capital losses of approximately $2,131,000. These losses, if not utilized, will expire through to 2031. The potential income tax benefit of these losses and other tax assets has been offset by a full valuation allowance due to the uncertainty of their realizations.

The future income tax liability arose upon the acquisition of certain mineral properties by the Company, as a result of variances in the book value and tax value of the mineral properties.

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through share gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances, which have not been spent and are held by the Company for such expenditures. The Company is required to renounce exploration expenses totaling $3,596,100 by December 31, 2011. As at August 31, 2011, the amount of flow-through proceeds remaining to be expended is $628,302.

13. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to maintain a strong capital base in order to advance the Company's corporate strategies to create long term value for its stakeholders and sustain the Company's operations in economic cycles.

The Company defines capital to include share capital and debt. The Company manages its capital in order to maintain flexibility and respond to changes in economic and/or marketplace conditions. In order to increase shareholder value, the Company may adjust its capital structure by issuing new shares, purchasing shares for cancellation, or raising debt. At this time, the Company does not utilize debt as part of its capital management strategy. For the year ending August 31, 2011, the Company has not distributed dividends to its shareholders. There were no changes in the Company's approach to capital management during the year ending on August 31, 2011. The Company is not subject to externally imposed capital requirements.

14. SEGMENT INFORMATION

The Company has one business segment, the exploration of mineral properties. The Company's mineral properties and property and equipment are all currently located in Canada.

15. SUBSEQUENT EVENTS

a) On September 1, 2011 and amended on December 22, 2011, the Company signed four separate management consulting agreements with certain officers and directors of the Company to provide management consulting and/or exploration services to the Company for 2 years effective January 1, 2012. These agreements require total combined payments of $62,000 per month. Included in each agreement is a provision for a two year payout plus the average of the annual bonuses or other cash incentive payments for the two calendar years immediately preceding the year of the termination without cause or a change of control in the Company. However, these agreements can be terminated by the Company on January 1, 2013 with a payment of one year's base pay.

b) On November 8, 2011, the Company granted 600,000 five-year stock purchase options at an exercise price of $0.81 per share. Of the options granted, 110,000 share purchase options vest 25% every three months following the date of grant and the remainder are fully vested on grant.

c) On November 21, 2011, the Company adopted a Shareholders Rights Plan (the "Plan"), subject to its approval by the TSX-V and shareholders at the next meeting of the Company's shareholders. The Plan is designed to ensure the fair treatment of all shareholders in connection with any takeover bid for the Company. The Plan is designed to provide sufficient time for shareholders to properly consider and respond to a takeover bid and for the Board to determine whether there may be alternatives available to maximize shareholder value or whether other bidders may be prepared to pay more for the Company's shares than the offeror.

d) On November 30, 2011, the Company signed a first agreement (the "Agreement") with Innu Takuaikan Uashat mak Mani-Utenam ("ITUM") in a series of two planned agreements regarding the Company's exploration activities on its mining claims in Quebec and Newfoundland and Labrador. The Agreement contains commitments by the Company and ITUM to negotiate a second, finalized Exploration Agreement by February 29, 2012. If the Exploration Agreement cannot be reached by this date, the Agreement will be terminated.

15. SUBSEQUENT EVENTS (continued)

The Agreement calls for a payment of $100,000 to ITUM upon execution and an additional payment to ITUM in the amount of $25,000 as full and final compensation for the negotiation and consultation expenses incurred by ITUM in connection with the negotiation of the Agreement and Exploration Agreement. Additional payments and shares are payable upon execution of the second agreement.

e) On December 2, 2011, the Company announced a non-brokered private placement financing for the sale of 3,175,000 flow-through units and 8,825,000 non flow-through units at a price of $0.85 per unit for total gross proceeds of $10,200,000. Each unit will consist of one common share of the Company and one share purchase warrant. Each warrant will entitle the holder to purchase one common share of the Company at the exercise price of $0.95 for a period of two years. The unit price and warrant exercise price of the flow-through units and the non flow-through units are the same.

On December 22, 2011, the Company completed the first tranche of its private placement financing comprised of 3,915,810 units at a price of $0.85 per unit for total gross proceeds of $3,328,439.

f) Concurrent with the private placement completed on December 22, 2011, the Company signed a management service agreement with Forbes and Manhattan, Inc. to provide management services to the Company for 2 years effective immediately and expiring on December 31, 2013.

g) Subsequent to year end, the following share purchase warrants were exercised:

- 22,000 share purchase warrants were exercised at a price of $0.35 per share for total proceeds of $7,700.
- 892,000 share purchase warrants were exercised at a price of $0.60 per share for total proceeds of $535,200.