

Independent Auditors' Report to the Shareholders of Kirrin Resources Inc.

We have audited the accompanying consolidated financial statements of Kirrin Resources Inc. (the 'Company'), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss, comprehensive loss and deficit, and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements:

Management is responsible for the preparation and fair presentation of these consolidated 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility:

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion:

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kirrin Resources Inc. as at December 31, 2010 and 2009 and the results of its consolidated operations and its consolidated 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 in the consolidated financial statements which describes that the Company is in the development stage and will require additional financing to fund the development of its properties. This condition indicates the existence of a material uncertainty that may cast doubt about the Company's ability to continue as a going concern.

[Signed]

"KPMG LLP"
Chartered Accountants
Calgary, Canada

March 15, 2011

Consolidated Balance Sheets

December 31	2010	2009
ASSETS		
Current assets:		
Cash and equivalents	\$ 1,894,646	\$ 717,161
Accounts receivable	133,930	149,070
Prepaid expenses and other	735	17,696
	<u>2,029,311</u>	<u>883,927</u>
Mineral interests (Note 3)	1,643,711	1,428,943
	<u>\$ 3,673,022</u>	<u>\$ 2,312,870</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities (Note 4)	\$ 693,964	\$ 580,763
Amount due to related party (Note 4)	110,000	110,000
	<u>803,964</u>	<u>690,763</u>
Shareholders' equity:		
Share capital (Note 5)	4,684,313	3,621,365
Warrants (Note 5)	1,292,500	341,000
Contributed surplus (Note 5)	640,221	598,175
Deficit	(3,747,976)	(2,938,433)
	<u>2,869,058</u>	<u>1,622,107</u>
	<u>\$ 3,673,022</u>	<u>\$ 2,312,870</u>

Future operations (Note 1)

Commitments (Notes 3 and 9)

Subsequent event (Note 10)

See accompanying notes

On behalf of the Board

[Signed]

"Derek J. Moran"
Director

[Signed]

"Peter T. Farkas"
Director

Consolidated Statements of Loss, Comprehensive Loss and Deficit

Year ended December 31	2010	2009
Expenses:		
Exploration	\$ 9,183	\$ 30,352
Project development	25,442	59,324
General and administrative	499,651	537,052
Stock based compensation	42,046	109,500
Foreign exchange loss (gain)	252	(2,153)
Amortization	622	–
Loss before the following:	(577,196)	(734,075)
Gain on disposal of subsidiary (Note 3 f)	–	362,000
Write down of mineral interests (Notes 3 b and c)	(431,347)	(552,833)
Loss before income taxes	(1,008,543)	(924,908)
Future income tax reduction (Note 8)	199,000	–
Net loss and comprehensive loss for the year	(809,543)	(924,908)
Deficit, beginning of year (Note 5 a)	(2,938,433)	(10,013,525)
Deficit reduction (Note 5 a)	–	8,000,000
Deficit, end of year	\$ (3,747,976)	\$(2,938,433)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.07)

See accompanying notes

Consolidated Statements of Cash Flows

Year ended December 31	2010	2009
Cash flows from (used by) operating activities:		
Net loss and comprehensive loss for the year	\$ (809,543)	\$ (924,908)
Add (deduct) non-cash items		
Unrealized foreign exchange loss (gain)	252	(2,113)
Stock based compensation	42,046	109,500
Amortization	622	–
Future income tax reduction	(199,000)	–
Gain on disposal of subsidiary	–	(362,000)
Write down of mineral interests	431,347	552,833
Change in non-cash working capital	68,952	25,759
	(465,324)	(600,929)
Cash flows from (used by) financing activities:		
Shares issued for cash	1,427,500	702,574
Warrants issued for cash	946,500	341,000
Options exercised for cash	–	12,000
Share issue costs	(231,552)	(154,624)
Change in non-cash working capital	122,566	27,855
	2,265,014	928,805
Cash flows from (used by) investing activities:		
Mineral interests expenditures	(653,414)	(377,403)
Purchase of property and equipment	(2,323)	–
Proceeds on disposal of subsidiary	–	362,000
Change in non-cash working capital	33,532	(207,362)
	(622,205)	(222,765)
Net increase in cash and equivalents	1,177,485	105,111
Cash and equivalents at beginning of year	717,161	612,050
Cash and equivalents at end of year	\$ 1,894,646	\$ 717,161

See accompanying notes

Notes to Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Kirrin Resources Inc. (formerly Monroe Minerals Inc.) (the 'Company') is incorporated under the laws of Alberta. The Company's principal business is the acquisition, exploration and development of uranium and rare earth elements resources properties. At the Annual General and Special Meeting held on May 1, 2009, shareholders authorized the Board to amend the Company's articles to change the name of the Company to 'Kirrin Resources Inc.' and consolidate all outstanding shares on the basis of one new share for each ten old common shares outstanding.

1. Future Operations:

The Company is a development stage company. These consolidated financial statements have been prepared using accounting principles applicable to a going concern which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations.

There are conditions which may raise doubt regarding this assumption. The Company has a history of losses and no operating revenue other than the receipt of proceeds on the sale of subsidiaries and government grants. The recoverability of capitalized costs is uncertain and dependent upon projects achieving commercial production or sale. In addition, the ability of the Company to carry out its business objectives is dependent on its ability to secure additional financing to fund ongoing operating expenditures until it generates operating profitability and positive cash flow.

These financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. Basis of Presentation and Significant Accounting Policies:

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from those estimates.

A) BASIS OF PRESENTATION:

The consolidated financial statements include the accounts of the Company and its subsidiaries.

B) FINANCIAL INSTRUMENTS:

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as 'held-for-trading', 'available-for-sale', 'held-to-maturity', 'loans and other receivables', or 'other financial liabilities', as defined by the standard.

Financial assets 'held-for-trading' are measured at fair value with changes in those fair values recognized in net earnings. Financial assets designated as 'loans and other receivables' and financial liabilities designated as 'other financial liabilities' are measured at amortized cost using the effective interest method of amortization.

Cash and equivalents are designated as 'held-for-trading' and are measured at fair value. Accounts receivable are designated as 'loans and other receivables'. Accounts payable and accrued liabilities and amount due to related party are designated as 'other financial liabilities'.

A three level hierarchy reflects the significance of the inputs used in making fair value measurements. Fair values of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly. Level 3 valuations are based on inputs that are unobservable and significant to the overall fair value measurement. Disclosures required by this standard are included in Note 6.

C) CASH AND EQUIVALENTS:

Cash and equivalents consists of bank balances and short term investments that are readily convertible to known amounts of cash, with original maturities of ninety days or less.

D) MINERAL INTERESTS:

Costs relating to the acquisition, exploration and development of mineral interests are capitalized until either commercial production is established or the property is determined to be impaired or is abandoned. At that time, the costs are either depleted on a unit of production basis recognizing indicated mineral resources or expensed. The carrying amounts of mineral interests are reviewed regularly and, where necessary, are written down to their estimated net realizable value.

Proceeds from the sale of properties and earn-in arrangements in which the Company retains an economic interest are credited against property costs and no gain is recorded until all costs have been fully recovered. Periodically, a determination will be made by management as to the status of each property. Where a property shows no promise from prior exploration results and is dormant, the claims may be allowed to lapse. Such claims would be written down to a nominal value where an interest in the claims remained.

Amounts recorded for mineral interests represent costs incurred to date and are not intended to reflect present or future values. The recoverability of amounts shown for mineral interests is dependent upon projects achieving profitable commercial production or sale.

E) ASSET RETIREMENT OBLIGATIONS:

Discounted future costs to retire an asset, including dismantling, remediation and ongoing treatment and monitoring of the site, are recognized and recorded as a liability at fair value in the period it is incurred or acquired. The amount of the liability will be subject to re-measurement at each reporting period and is accreted over time through periodic charges to earnings. In addition, the asset retirement cost is capitalized as part of the asset's carrying amount and amortized over the asset's useful life.

F) INCENTIVE STOCK OPTIONS AND STOCK BASED COMPENSATION:

All stock based awards granted to employees and non-employees are measured and recognized using a fair value based method. The fair value of stock options and share purchase warrants is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, volatility and the expected life of the options or warrants. The fair value of options is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting period. The fair value of warrants is recorded as a reduction to proceeds from the related common share issuance. If the stock options or warrants are ultimately exercised, the applicable amounts of contributed surplus or warrants are transferred to share capital. In the event that options expire, previously recognized compensation expense associated with such stock options is not reversed.

G) FLOW-THROUGH SHARES:

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share agreements, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company, the carrying amount of the shares issued is reduced by the tax effect of the benefits renounced to the share subscribers. The tax effect of the renouncement is recorded when the renouncement is filed with the regulatory tax authorities provided the corresponding exploration expenditures are incurred or are reasonably likely to be incurred within the permitted time frame.

H) PER SHARE AMOUNTS:

The calculation of per share amounts is based on the weighted average number of shares outstanding during the year. Diluted per share information is calculated using the treasury stock method, which assumes that any proceeds from the exercise of stock options, warrants, and other instruments would be used to purchase common shares at the average market price during the year. No adjustment to diluted earnings per share is made if the results of these calculations is anti-dilutive.

I) MEASUREMENT UNCERTAINTY:

The amounts recorded for capitalized exploration expenses, amortization, write down of mineral interests, stock based compensation, and future income taxes are based on estimates. By their nature, these estimates are subject to measurement uncertainty and changes in these estimates may impact the consolidated financial statements of future periods.

J) RECENT ACCOUNTING PRONOUNCEMENTS:

The Company has assessed new and revised accounting pronouncements that have been issued and that are not yet effective and has determined that the following may affect the Company's consolidated financial statements in the future:

The Canadian Accounting Standards Board has established 2011 as the year that the financial reporting requirements for Canadian companies should comply with International Financial Reporting Standards ('IFRS'). The transition date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

'Business Combinations' replaces the former 'Business Combinations' and establishes revised standards for accounting for business combinations. The revised section is aligned with IFRS. It applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

3. Mineral Interests:

	Alexis River Canada	Lost Pond Canada	Boxey Point Canada	Key Lake SW Canada	Grevet Canada	Total
Balance, Dec. 31, 2008	\$ 735,222	\$ 657,963	\$ 303,188	\$ –	\$ –	\$ 1,696,373
Additions 2009						
Acquisition costs	4,000	–	4,000	–	–	8,000
Drilling	84	(16,867)	296,353	–	–	279,570
Geology and geophysics	19,927	28,614	12,290	–	–	60,831
Field support	–	–	25,598	–	–	25,598
Results analysis	–	–	3,538	–	–	3,538
Maps, drafting and reports	–	–	7,866	–	–	7,866
	24,011	11,747	349,645	–	–	385,403
Total	759,233	669,710	652,833	–	–	2,081,776
Government grants	–	–	(100,000)	–	–	(100,000)
Write down	–	–	(552,833)	–	–	(552,833)
Balance, Dec. 31, 2009	759,233	669,710	–	–	–	1,428,943
Additions 2010						
Acquisition costs	2,500	13,000	–	45,500	16,000	77,000
Drilling	–	196,728	–	–	–	196,728
Geology and geophysics	1,500	6,325	–	215,662	183,990	407,477
Results analysis	–	6,999	–	–	7,880	14,879
Maps, drafting and reports	–	4,000	–	2,000	22,330	28,330
	4,000	227,052	–	263,162	230,200	724,414
Total	763,233	896,762	–	263,162	230,200	2,153,357
Government grants	–	(80,000)	–	–	–	(80,000)
Write down	–	(431,347)	–	–	–	(431,347)
Property and equipment (net)						1,701
Balance, Dec. 31, 2010	\$ 763,233	\$ 385,415	\$ –	\$ 263,162	\$ 230,200	\$ 1,643,711

Mineral interests under development totalling \$1,642,010 (December 31, 2009 – \$1,428,943) are not subject to depletion and amortization.

Mineral interests consist of the following:

A) ALEXIS RIVER, CANADA:

The Company has an option agreement with Altius Resources Inc. ('Altius') dated July 24, 2007 to earn a minimum 60% interest originally over four years in the Alexis River uranium property, located in southeastern Labrador. The Company is required to spend \$1,250,000 on exploration and issue 250,000 common shares to Altius, 50,000 on signing and the balance divided equally originally over four years on each anniversary of the agreement. Upon the Company fulfilling its earn-in obligations, and if Altius elects to retain a working interest, the parties will form a joint venture, each partner contributing its pro-rata share of future expenditures. If either party thereafter dilutes its interest to less than 10% in the joint venture, its interest will be converted to a 10% net profit interest after recovery of capital costs.

Altius has since agreed to extend the earn-in period to five years, the expenditure obligations of the third and fourth years being deferred for one year. The Company is current on its obligations having incurred in excess of \$820,500 (2009 - \$819,000) in costs on this project as of December 31, 2010. The project is at the exploration stage.

B) LOST POND AND BOTTOM BROOK, CANADA:

The Company has an option agreement with Ucore Rare Metals Inc. ('Ucore') dated September 15, 2008 to earn a minimum 50% interest over four years in the Lost Pond rare earth elements and uranium property, located in western Newfoundland. The Company is required to spend \$2,600,000 on exploration and issue 300,000 common shares to Ucore, 50,000 on signing and the balance over four years on each anniversary of the agreement. Upon the Company fulfilling its earn-in obligations, the parties will form a joint venture, each partner contributing its pro-rata share of future expenditures, or Ucore may elect to convert its interest to a 35% interest, which will be carried through to the completion of a pre-feasibility study. If either party dilutes its interest to less than 10% in the joint venture, its interest will be converted to a royalty of 1% or 1.5% of gross sales, depending on underlying royalties, of which 0.5% may be acquired for \$500,000.

The Company's technical advisors have concluded that the results of uranium exploration do not warrant the continuation of the uranium exploration program at this time. Accordingly, this section of the program at Lost Pond has been suspended and its carrying costs in the amount of \$431,347 written off. The rare earth elements section of the exploration program at the Lost Pond property, referred to as Bottom Brook, is continuing.

The costs of the 2010 exploration program at Lost Pond were partly offset by an \$80,000 grant awarded by the Newfoundland and Labrador Department of Natural Resources. The grant is recorded as a receivable at December 31, 2010. Receipt is expected following approval of the exploration report submitted on the results of the exploration program.

The Company is current on its obligations having incurred in excess of \$875,000 (2009 – \$724,000) in costs on this project as of December 31, 2010. The project is at the exploration stage.

C) BOXEY POINT, CANADA:

The Company had an option agreement with Altius dated January 15, 2008 to earn a 60% interest over four years in the Boxey Point uranium property, located in southern Newfoundland. While the 2009 exploration program at Boxey Point was a technical success in that low grade uranium was recovered in the majority of the holes drilled, the results did not support the prospect of eventual economic feasibility. Accordingly, the Company terminated the option and expensed its carrying cost in the amount of \$552,833.

The costs of the 2009 exploration at Boxey Point were partly offset by a \$100,000 grant awarded by the Newfoundland and Labrador Department of Natural Resources.

D) KEY LAKE SW CANADA:

The Company has an option agreement with Majesta Resources Inc. ('Majesta') dated March 5, 2010 allowing it to earn a 70% interest in the Key Lake SW uranium property located in north-western Saskatchewan, by spending \$3,000,000 on exploration by December 31, 2015, making payments to Majesta of \$268,000 by December 31, 2013, and issuing 350,000 common shares to Majesta by June 30, 2010. Upon the Company fulfilling its earn-in obligations, the parties will form a joint venture, with each partner contributing its pro-rata share of future expenditures, or Majesta may elect to convert to a 2.25% Net Smelter Returns ('NSR') royalty. The Company will have the right to acquire up to 1.25% of the 2.25% NSR royalty for consideration of \$1,000,000 per 1.0%. If either party dilutes its interest to less than 10% in the joint venture, its interest will be converted to a NSR royalty of 0.75%.

The Company is current on its obligations having incurred in excess of \$284,500 in costs on this project as of December 31, 2010. The project is at the exploration stage.

E) GREVET, CANADA:

The Company has an option agreement with Michel Proulx ('MP') dated February 8, 2010 allowing it to earn a 100% interest over four years in the Grevet rare earth elements property located in north-western Quebec. To earn its interest, the Company is required to spend \$1,850,000 on exploration, including a minimum first year commitment of \$200,000, and to make payments to MP amounting to \$20,000, over four years. Upon the Company fulfilling its earn-in obligations, MP will retain a 1.0% NSR royalty on all minerals produced, half of which may be purchased by the Company for \$500,000. In addition, after earning its interest the Company will pay MP \$150,000 upon the receipt of a positive feasibility study.

The Company is current on its obligations having incurred in excess of \$257,000 in costs on this project as of December 31, 2010. The project is at the exploration stage.

F) LONDON, SOUTH AFRICA:

On June 30, 2008, the Company completed the sale of its South African subsidiary for consideration of US\$1,350,000, of which US\$1,050,000 was received in cash and recognised as sale proceeds in 2008. The balance of US\$300,000 (\$362,000) was placed in escrow and paid to the Company in August 2009 and recognised as sale proceeds in 2009.

4. Amount Due to Related Party:

The amount due to related party of \$110,000 (2009 - \$110,000) is in respect of unpaid salary to the President of the Company, is unsecured, has no repayment terms and bears no interest. The President has agreed not to request repayment of the balance before January 2012.

The Company is also indebted to its President in the amount of \$152,147 (2009 - \$151,464), included in accounts payable and accrued liabilities, in respect of expenses incurred on its behalf in the amount of \$12,147 (2009 - \$16,464) and unpaid salary of \$140,000 (2009 - \$135,000).

Included in general and administrative expense is \$46,908 (2009 - \$29,930), of which \$14,254 (2009 - \$6,338) is included in accounts payable and accrued liabilities, in respect of financial administrative services paid to a company controlled by the Chief Financial Officer of the Company.

The above transactions are measured at the exchange amount, which is the amount of consideration established and agreed between the transacting parties.

5. Share Capital, Stock Options and Warrants:

Authorized:

Unlimited number of common shares without nominal or par value.

Unlimited number of preferred shares in one or more series, none of which have been issued.

Common shares issued:	Number	Amount
Balance, December 31, 2008	12,347,002	\$ 9,473,863
Issued for mineral interests	90,000	8,000
Issued on exercise of options	120,000	79,803
Issued for cash in a private placement	2,060,000	142,000
Issued for cash on a flow-through basis in a private placement	5,982,671	560,574
Share issue costs	–	(219,624)
Deficit reduction (Note 5 a)	–	(6,423,251)
Balance, December 31, 2009	20,599,673	3,621,365
Issued for mineral interests	500,000	61,000
Issued for cash in a private placement	10,091,667	515,500
Issued for cash on a flow-through basis in a private placement	15,000,000	964,800
Issued for finder's fees	76,923	10,000
Future income tax effect from tax benefits renounced on flow-through shares	–	(199,000)
Share issue costs	–	(289,352)
Balance, December 31, 2010	46,268,263	\$ 4,684,313
Warrants issued:	Number	Amount
Balance, December 31, 2008	4,627,283	\$ 636,000
Issued for cash in a private placement	1,030,000	64,000
Issued for cash on a flow-through basis in a private placement	5,982,671	277,000
Expired	(4,627,283)	(636,000)
Balance, December 31, 2009	7,012,671	341,000
Issued for cash in a private placement	5,879,167	358,500
Issued for cash on a flow-through basis in a private placement	7,500,000	535,200
Issued for finder's fees	810,250	57,800
Balance, December 31, 2010	21,202,088	\$ 1,292,500
Contributed surplus:		Amount
Balance, December 31, 2008		\$ 1,432,227
Stock based compensation		109,500
Finder's options issued		65,000
Warrants expired		636,000
Options exercised		(67,803)
Deficit reduction (Note 5 a)		(1,576,749)
Balance, December 31, 2009		598,175
Stock based compensation		42,046
Balance, December 31, 2010		\$ 640,221

A) FINANCING:

At the Annual General and Special Meeting held on May 1, 2009, shareholders approved the consolidation of the share capital of the Company on the basis of one new common share for each ten old common shares of the Company and authorized the reduction of the accumulated deficit of the Company by an amount of \$8,000,000, correspondingly reducing the contributed surplus and share capital accounts. All shares and per share amounts in the financial statements have been adjusted to reflect the 1 for 10 share consolidation.

On January 8, 2009, the Company issued 40,000 common shares at \$0.10 each for consideration of \$4,000 in connection with the option agreement referred to in Note 3 c.

On July 15, 2009, the Company issued 50,000 common shares at \$0.08 each for consideration of \$4,000 in connection with the option agreement referred to in Note 3 a.

On August 21, 2009, the Company granted options over 75,000 common shares at an exercise price of \$0.10 each to a consultant. The options will vest 25% annually and expire on August 31, 2014.

On September 2, 2009, the Company issued 40,000 common shares on the exercise of options for proceeds of \$4,000.

On November 12, 2009, the Company completed a private placement of 2,060,000 units at a purchase price of \$0.10 per unit for gross proceeds of \$206,000. Each unit consists of one common share and one half common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.15 per common share for twelve months from the date of issuance and \$0.20 per common share for the following twelve months, subject to earlier expiry in certain circumstances. Finder's fees in the amount of \$11,640 and non-transferable finder's options to purchase 103,000 units at a purchase price of \$0.10 per unit were paid to arm's length finders in connection with the private placement. The issued securities were subject to a four month hold period from the date of issuance under applicable securities laws.

On December 9, 2009, the Company issued 80,000 common shares on the exercise of options for proceeds of \$8,000.

On December 23, 2009, the Company completed a private placement of 5,698,426 flow-through units at a purchase price of \$0.14 per flow-through unit for gross proceeds of \$797,780. Each flow-through unit consists of one flow-through common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.20 per common share for twelve months from the date of issuance and \$0.25 per common share for the following twelve months, subject to earlier expiry in certain circumstances. Finder's fees in the amount of \$45,045 and non-transferable finder's warrants to purchase 568,492 units at a purchase price of \$0.14 per unit were paid to arm's length finders in connection with the private placement. Each unit comprises one common share and one common share purchase warrant exercisable into one common share at a price of \$0.20 per common share for 12 months from the date of issuance and \$0.25 per common share for the following 12 months, subject to earlier expiry in certain circumstances. In addition, 284,245 units were issued for due diligence and finder's fees. The issued securities are subject to a four month hold period from the date of issuance under applicable securities laws.

On January 12, 2010, the Company granted options over 540,000 common shares to officers and directors of the Company, and options over 100,000 common shares to consultants, at an exercise price of \$0.14 each. The options will vest 25% annually and expire on January 12, 2015.

On February 1, 2010, the Company issued 50,000 common shares at \$0.125 each for consideration of \$6,250 in connection with the option agreement referred to in Note 3 b.

On February 22, 2010, the Company granted options over 30,000 common shares at an exercise price of \$0.14 each to a consultant. The options will vest 25% annually and expire on February 22, 2015.

On February 23, 2010, the Company issued 76,923 common shares at \$0.13 each for consideration of \$10,000 in satisfaction of a finder's fee for the property referred to in Note 3 e.

On March 12, 2010, the Company completed a private placement of 1,666,667 units at a purchase price of \$0.12 per unit for proceeds of \$200,000. Each unit consists of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of \$0.14 per common share for eighteen months from the date of issuance, subject to earlier expiry in certain circumstances. The issued securities are subject to a four month hold period from the date of issuance under applicable securities laws.

On April 20, 2010, the Company issued 350,000 common shares at \$0.13 each for consideration of \$45,500 in connection with the option agreement referred to in Note 3 d.

On July 15, 2010, the Company issued 50,000 common shares at \$0.05 each for consideration of \$2,500 in connection with the option agreement referred to in Note 3 a.

On November 29, 2010, the Company completed a private placement of 8,425,000 units at a purchase price of \$0.08 per unit for gross proceeds of \$674,000. Each unit consists of one common share and one-half common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.12 per common share for eighteen months from the date of issuance, subject to earlier expiry in certain circumstances. The private placement received the approval of the TSX Venture Exchange ('the Exchange') subsequent to the year end.

On December 5, 2010, the Company granted options over 75,000 common shares at an exercise price of \$0.10 each to a consultant. The options will vest 33% annually commencing December 2011 and expire on December 5, 2015.

On December 22, 2010, the Company granted options over 100,000 common shares at an exercise price of \$0.12 each to a consultant. The options will vest 25% annually and expire on December 22, 2015.

On December 23, 2010, the Company completed a private placement of 15,000,000 flow-through units at a purchase price of \$0.10 per flow-through unit for gross proceeds of \$1,500,000. Each flow-through unit consists of one flow-through common share and one-half common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.14 per common share for twelve months from the date of issuance and \$0.18 per common share for the following twelve months, subject to earlier expiry in certain circumstances. Finder's fees in the amount of \$99,925 and finder's warrants to purchase 810,250 common shares of the Company at an exercise price of \$0.14 per common share for twelve months from the date of issuance and \$0.18 per common share for the following twelve months, subject to earlier expiry in certain circumstances, were paid to arm's length finders in connection with the private placement. The private placement received the approval of the Exchange subsequent to the year end.

On December 31, 2010, the Company issued 50,000 common shares at \$0.135 each for consideration of \$6,750 in connection with the option agreement referred to in Note 3 b.

B) INCENTIVE STOCK OPTIONS AND STOCK BASED COMPENSATION:

Under its Stock Option Plan, the Company may grant options to employees and other participants up to 10% of its issued and outstanding common shares from time to time. The exercise price of each option must not be less than the market price on the date of grant less any discount allowed by the rules, by-laws or policies of the Exchange. Options granted may be exercised as determined by the Board subject to the rules of the Exchange.

C) OPTION PRICING:

The cost of options and warrants issued during 2009 and 2010 was calculated using the Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk-free interest rate	1.1%	1.3%
Expected volatility	117%	108%
Expected life – options	5.0 years	4.0 years
Expected life – warrants	1.8 years	2.0 years

D) STOCK OPTIONS AND WARRANTS:

At the Annual General and Special Meeting held on May 1, 2009, shareholders approved an amendment to the stock option plan and approved the repricing to \$0.10 per option of all outstanding stock options under the plan as of that date. The Company recognized a reduction of stock based compensation expense of \$6,000 on the repricing of the options in 2009.

Incentive stock plan options	Number outstanding	Weighted average exercise price	Number exercisable	Weighted average exercise price	Grant date	Expiry date
Employees/directors	786,000	\$ 0.13	381,000	\$ 0.11	Nov 2007 – Jan 2010	Nov 2012 – Jan 2015
Consultants	505,000	0.11	220,000	0.11	Apr 2007 – Dec 2010	Apr 2012 – Dec 2015
Total	1,291,000	\$ 0.12	601,000	\$ 0.11		

Other options/warrants

Broker's/finder's options (1)	568,492	\$ 0.14	568,492	\$ 0.14	Dec 2009	Dec 2011
Finder's warrants	810,250	0.14	810,250	0.14	Dec 2010	Dec 2012
Total	1,378,742	\$ 0.14	1,378,742	\$ 0.14		

Warrants

Common share warrants	20,391,838	\$ 0.16	20,391,838	\$ 0.16	Nov 2009 – Dec 2010	Nov 2011 – Dec 2012
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1. A portion of the options include the right to acquire 568,492 warrants to acquire a like number of common shares at \$0.20–\$0.25 per share until December 2011, which warrants are not currently outstanding and are not included in this table.

	2010		2009	
Incentive stock plan options	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	766,000	\$ 0.10	874,750	\$ 0.10
Issued	845,000	0.13	75,000	0.10
Exercised	–	–	(120,000)	0.10
Expired	(320,000)	0.10	(63,750)	0.10
Outstanding at end of year	1,291,000	\$ 0.12	766,000	\$ 0.10
Exercisable at end of year	601,000	\$ 0.11	648,250	\$ 0.10
Other options/warrants				
Outstanding at beginning of year	671,492	\$ 0.13	–	\$ –
Issued	810,250	0.14	671,492	0.13
Expired	(103,000)	0.10	–	–
Outstanding and exercisable at end of year	1,378,742	\$ 0.14	671,492	\$ 0.13
Warrants				
Outstanding at beginning of year	7,012,671	\$ 0.19	4,627,283	\$ 1.10
Issued	13,379,167	0.13	7,012,671	0.19
Expired	–	–	(4,627,283)	1.10
Outstanding and exercisable at end of year	20,391,838	\$ 0.16	7,012,671	\$ 0.19

The Company will record \$23,117 (2009 – \$16,028) in respect of stock based compensation for incentive stock options vesting in 2011.

6. Financial Instruments:

The Company is exposed in varying degrees to a number of risks arising from financial instruments. Management's close involvement in operations allows for the identification of risks and variances from expectations. The Company does not participate in the use of financial instruments to mitigate these risks and has no designated hedging transactions. The Company's main objectives in managing risks are to ensure liquidity, the fulfilment of obligations, the continuation of the Company's exploration program and to limit exposure to credit and market risks. There were no changes to the objectives or the process from the prior year.

The types of risk exposure and the way in which such exposures are managed are as follows:

A) FAIR VALUES:

The Company's financial instruments recognized on the balance sheet consist of cash and equivalents, accounts receivable, accounts payable and accrued liabilities, and amount due to related party. The carrying values of the Company's financial instruments, excluding amount due to related party, approximate their fair value due to the short term to maturity. The fair value of the amount due to related party is not determinable as there are no set terms of repayment. The fair value of cash and equivalents is attributable to Level 1 of the fair value hierarchy as at December 31, 2010 and 2009. The fair value of the Company's other financial instruments, excluding amount due to related party, is attributable to Level 2 of the fair value hierarchy.

B) MARKET RISK:

Foreign currency risk:

The Company has \$387 (US \$387) (2009 – \$582 (US \$536)) in US currency held in US dollar bank accounts.

Commodity price risk:

While the Company is a development stage company and has no production or sales revenues, it bears commodity price risk in that commodity price may influence investors and thus impact the outcome of the Company's equity financings in 2011 and later. The spot price for uranium has been volatile in the past three years. The Company considers that supply and demand fundamentals remain strong and that the spot price will continue to respond positively to the current rapid growth in the number of nuclear reactors.

Rare earth elements are not exchange traded commodities and China has a virtual monopoly on production and price setting. Accordingly, although prices increased strongly during 2009 and 2010 and the Company considers that supply and demand fundamentals remain strong, the risks associated with monopoly conditions are present.

C) CREDIT RISK:

The Company does not engage in any sales activities and has no significant credit risk arising from operations. Credit risk primarily arises from the Company's cash and accounts receivable. The risk exposure is limited to their carrying amount at the balance sheet date.

The Company does not invest in asset-backed deposits or investments and does not expect any credit losses. The Company periodically assesses the quality of its investments and is satisfied with the credit rating of its banks.

The Company's receivables comprise refunds of sales taxes from the Canadian Government and a grant from the Newfoundland & Labrador Department of Natural Resources.

D) LIQUIDITY RISK:

Financial liquidity represents the Company's ability to fund future activities and obligations as and when required. The Company endeavours to ensure that it has sufficient capital to meet short term business requirements. As at December 31, 2010, the Company has working capital of \$1,335,347 (2009 – \$303,164). Accounts payable generally have contractual maturities of 30 days or less and are subject to normal trade terms. Amount due to related party totalling \$140,000 (2009 – \$135,000) (Note 4) is payable within one year.

7. Capital Management:

The Company's capital structure reflects its strategy and the financial environment in which it operates. The objectives when managing capital are to maintain adequate levels of funding to support the acquisition, exploration and development of uranium and rare earth elements resources properties, to maintain the necessary corporate and administrative functions to facilitate these activities and to safeguard the Company's ability to continue as a going concern.

The Company's current portfolio of properties is in the exploration stage and the Company is dependent primarily on external equity financing to fund its activities. There can be no assurance that the Company will be able to raise capital in this manner in the future. The Company will utilize its existing working capital, and raise additional amounts as required, through the issue of common shares, flow-through shares, share purchase warrants and stock options, to carry out planned exploration and to fund administrative costs. The Company will continue to assess new properties and to seek to acquire interests in additional properties if it believes sufficient economic potential exists and it has adequate financial resources to do so.

There was no change in the Company's approach to capital management during the period ended December 31, 2010. The Company is not subject to externally imposed capital requirements.

8. Income Taxes:

The income tax provision differs from the amount which would be obtained by applying the Canadian expected tax rates to loss before income taxes as follows:

	2010	2009
Income tax rate	28.0%	29.0%
Computed expected income tax reduction	\$ (282,392)	\$ (268,224)
Adjustments:		
Stock based compensation	11,773	31,755
Expired non-capital losses	98,717	47,350
Non-deductible expenses	28,321	29,982
Effect of change in tax rate	25,953	42,961
Accounting gain on sale of subsidiary	-	(104,980)
Other	99,581	(55,631)
	(18,047)	(276,787)
Change in valuation allowance	(180,953)	276,787
	\$ (199,000)	\$ -

The components of the net future income tax asset at December 31, 2010, no portion of which has been recorded in these financial statements, are as follows:

	2010	2009
Non-capital/net operating losses	\$ 1,122,000	\$ 1,179,000
Share issue costs	111,000	74,000
Mineral interests	(111,000)	(22,000)
	1,122,000	1,231,000
Valuation allowance	(1,122,000)	(1,231,000)
	\$ -	\$ -

The Company has Canadian tax losses of approximately \$4,489,000 with expiry dates ranging between 2011 and 2030.

In February 2010, the Company renounced the tax deductions associated with the \$797,780 flow-through share financing completed in 2009, which resulted in a reduction to share capital of \$199,000 corresponding to the estimated future tax on the reduced tax carrying value of the capitalized assets acquired with those share proceeds. As the Company has future income tax assets that have not previously been recognized, a future income tax reduction of \$199,000 has been recorded.

9. Commitment:

The Company has flow-through commitments in relation to its issuance of flow-through common shares for expenditures of \$1,500,000 (2009 – \$580,500) on exploration and development activities to be incurred prior to December 31, 2011.

10. Subsequent Event:

On January 26, 2011, the Company granted options over 1,755,000 common shares at an exercise price of \$0.13 each to directors and consultants. The options will vest 25% annually and expire on January 27, 2016.