

GOLD REACH RESOURCES LTD.

(An Exploration Stage Company)

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2011 and 2010



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Gold Reach Resources Ltd.

We have audited the accompanying consolidated financial statements of Gold Reach Resources Ltd., which comprise the consolidated balance sheets as at March 31, 2011 and 2010, and the consolidated statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 the auditor's judgment, 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, the auditor considers internal control relevant to the entity'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 entity'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 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 Gold Reach Resources Ltd. as at March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$273,947 during the year ended March 31, 2011 and, as of that date, had an accumulated deficit of \$11,834,215. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, Canada
June 13, 2011

GOLD REACH RESOURCES LTD.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS

	As at March 31,	
	2011	2010
ASSETS		
Current		
Cash	\$ 1,607,572	\$ 368,665
HST and GST recoverable	38,709	28,256
Prepaid expenses	58,464	4,500
	1,704,745	401,421
Mineral properties (Note 4)	6,870,356	5,861,661
Equipment (Note 5)	39,971	20,089
	\$ 8,615,072	\$ 6,283,171
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 9)	\$ 175,365	\$ 257,355
Promissory notes (Note 6)	-	128,703
Due to related parties (Note 9)	85,709	125,509
	261,074	511,567
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	18,885,423	16,531,661
Contributed surplus (Note 7)	1,302,790	800,211
Deficit	(11,834,215)	(11,560,268)
	8,353,998	5,771,604
	\$ 8,615,072	\$ 6,283,171

Nature of Operations and Ability to Continue as a Going Concern (Note 1)
Subsequent Events (Notes 7 and 12)

On behalf of the Board:

“Conrad K. Swanson” Director
Conrad K. Swanson

“John S. Watt” Director
John S. Watt

GOLD REACH RESOURCES LTD.
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CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

	For the Years Ended March 31,	
	2011	2010
EXPENSES		
Amortization	\$ 8,671	\$ 8,610
Consulting fees	-	1,550
Financing fee (Note 6)	-	27,630
Investor relations	24,718	15,302
Management and administration fees (Note 9)	169,606	159,942
Office	25,499	19,644
Part XII.6 tax and penalties (Note 8)	3,818	47,529
Professional fees	161,093	59,474
Rent	15,157	18,000
Stock-based compensation (Note 7)	371,376	210,935
Transfer agent and filing fees	46,566	33,459
Travel and promotion	67,910	19,033
	(894,414)	(621,108)
OTHER INCOME (EXPENSE):		
Interest income	2,722	-
Interest expense (Note 9)	(15,956)	(16,708)
Gain on settlement of debt (Note 6)	-	39,354
Operator fees	4,365	-
Loss on write-off of assets (Note 5)	(17,664)	-
LOSS BEFORE INCOME TAXES	(920,947)	(598,462)
Recovery of future income taxes (Note 8)	647,000	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(273,947)	(598,462)
DEFICIT - BEGINNING OF THE YEAR	\$ (11,560,268)	(10,961,806)
DEFICIT - END OF THE YEAR	\$ (11,834,215)	\$ (11,560,268)
LOSS PER SHARE - BASIC AND DILUTED	\$ (0.02)	\$ (0.14)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	11,542,381	4,409,768

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

GOLD REACH RESOURCES LTD.
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended March 31,	
	2011	2010
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	\$ (273,947)	\$ (598,462)
Items not affecting cash:		
Stock-based compensation	371,376	210,935
Amortization	8,671	8,610
Loss on write-off of assets	17,664	-
Interest expense	10,200	16,708
Financing fee	-	27,630
Gain on settlement of debt	-	(39,354)
Recovery of future income taxes	(647,000)	-
Part XII.6 tax and penalties	13,448	47,529
	(499,588)	(326,404)
Changes in non-cash working capital items:		
HST and GST recoverable	(10,453)	(19,715)
Prepaid expenses	(53,964)	(1,726)
Accounts payable and accrued liabilities	(95,438)	(120,592)
Cash used in operating activities	(659,443)	(468,437)
INVESTING ACTIVITIES		
Mineral property exploration costs, net of recoveries	(987,895)	(97,051)
Mineral property acquisition costs	-	(80,000)
Equipment purchases	(46,217)	-
Cash used in investing activities	(1,034,112)	(177,051)
FINANCING ACTIVITIES		
Promissory notes, net of repayment	(128,703)	107,000
Share capital issued for cash, net of share issuance costs	3,111,165	966,541
Due to related parties	(50,000)	(65,000)
Cash provided by financing activities	2,932,462	1,008,541
NET INCREASE IN CASH	1,238,907	363,053
CASH - BEGINNING OF THE YEAR	368,665	5,612
CASH - END OF THE YEAR	\$ 1,607,572	\$ 368,665
Non-cash Transactions – Note 10		
<u>Supplemental Cash Flow Information:</u>		
Cash Paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

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

GOLD REACH RESOURCES LTD.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010**

1. NATURE OF OPERATIONS

a) Nature of Operations and Ability to Continue as a Going Concern

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Ootsa Lake Resources Ltd. All inter-company accounts have been eliminated.

The Company is an exploration stage public company whose shares trade on the TSX Venture Exchange. The Company is engaged principally in the acquisition, exploration and development of mineral properties. The recovery of the Company's investment in mineral properties and attainment of profitable operations is principally dependent upon financing being arranged by the Company to continue operations, explore and develop the mineral properties and the discovery, development and sale of ore reserves. The outcome of these matters cannot presently be determined because they are contingent on future events.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations 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. The Company incurred a loss of \$273,947 for the year ended March 31, 2011 and, as at that date, has accumulated losses of \$11,834,215 since inception, and expects to incur further losses in the development of its business, all of which cast substantial doubt on the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on its mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption is not valid then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

b) Mineral Properties

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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1. NATURE OF OPERATIONS (continued)

b) Mineral Properties (continued)

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of the Company's knowledge, title to all of its properties are in good standing.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant inter-company transactions were eliminated upon consolidation.

b) Management Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Canada 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 amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the estimation of stock-based compensation, the determination of impairment of assets, useful lives for amortization and valuation allowances for future tax assets. Actual results could differ from those estimates.

These estimates are limited by the availability of reliable comparable data, and the uncertainty of predictions concerning future events. Accordingly, by their nature, estimates as described above are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, these estimated amounts could change by a material amount.

c) Cash and Cash Equivalents

Cash and cash equivalents include all cash accounts, which are not subject to withdrawal restrictions or penalties, and all short-term highly-liquid investments with an original maturity to the holder of three months or less, which can be converted into known amounts of cash.

d) Equipment and Amortization

Equipment is recorded at cost. The Company provides for amortization using the declining balance method at the following annual rates:

Office computers	45%
Vehicles	30% - 35%

Additions during the period are depreciated at one-half the annual rate.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Mineral Properties

The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration, development and related administrative expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property sold or the mineral rights are allowed to lapse.

Capitalized costs are reviewed, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. When it is determined that a mineral property is impaired, it is written down to its estimated fair value. From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. Where the options are exercisable entirely at the discretion of the Company or the optionee, the amounts payable or receivable are not recorded until the payments are made or received.

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Management believes there have been no impairment of the Company's long-lived assets as at March 31, 2011 and 2010.

Capitalized mineral property costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the concessions are allowed to lapse and do not necessarily reflect present or future values.

f) Asset Retirement Obligations

Asset retirement obligations recognize the liability for legal obligations relating to the retirement of property, plant and equipment and obligations arising from the acquisition, construction, development, or normal operation of those assets. Such costs are recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which the liability is incurred. A corresponding increase to the carrying amount of the related asset where one is identifiable is recorded and amortized over the life of the asset. Where a related asset is not easily identifiable with a liability, the change in fair value over the course of the period is expensed. The amount of the liability is subject to re-measurement at each reporting period. The estimates are based principally on legal and regulatory requirements. It is possible that the Company's estimate of its ultimate reclamation liabilities could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or changes in cost estimates. Changes in estimates are accounted for prospectively commencing in the period the estimate is revised.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Stock-based Compensation

The Company follows the Canadian Institute of Chartered Accountants (“CICA”) Section 3870 “Stock-Based Compensation and Other Stock-Based Payments” to account for stock-based compensation expense using the fair value based method with respect to all stock-based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments, granted on or after January 1, 2004. Stock options and direct awards of stock granted to employees and non-employees are recorded at fair value on the measurement date and the associated expense is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to common share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date unless there is a specific contractual term.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at fair value and recognized over the vesting period. Changes in fair value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period.

h) Income Taxes

The Company follows the asset and liability method of accounting for income taxes whereby current income taxes are recognized for the estimated income taxes payable for the period. Future income tax assets and liabilities are recognized in the period for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses carried forward to future years.

Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on future income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent it is considered not likely that future income tax assets will be realized.

i) Basic and Diluted Loss per Share

Basic loss per share is calculated by dividing the net loss for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti dilutive. Basic and diluted loss per share are the same for the years presented.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Basic and Diluted Loss per Share (continued)

For the year ended March 31, 2011, potentially dilutive common shares (relating to share purchase options and warrants outstanding) totalling 12,321,257 (2010: 6,030,614) were not included in the computation of loss per share because their effect was anti-dilutive.

j) Financial Instruments

The Company has made the following designations of its financial instruments: cash as held-for-trading; accounts payable and accrued liabilities, promissory note and due to related party as other financial liabilities.

The Company applies a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs

During the year ended March 31, 2011, there were no significant transfers between level 1, 2 and 3. Financial instruments classified as level 1 – quoted prices in active markets include cash and cash equivalents. Financial instruments classified as level 3 – asset or liability that are not based on observable market data include accounts payable and accrued liabilities, promissory note and due to related parties. Other disclosures required under this accounting standard are contained within Note 3.

k) Mining Tax Credits

Mining tax credits are recorded when received by the Company. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related deferred exploration expenditures.

l) Flow-Through Shares

Canadian Income Tax Legislation permits an enterprise to issue securities referred to as flow-through shares, whereby the investor can claim the tax deductions arising from the renunciation of the related resource expenditures. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, future income tax liabilities are recognized thereby reducing share capital. In instances where the Company has sufficient tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deduction and is more likely than not able to utilize these losses before expiring, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Future Accounting Policies

International Financial Reporting Standards

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (“IFRS”) over an expected five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

n) Future Accounting Policies (continued)

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended March 31, 2011. The first reporting fiscal year for the Company using IFRS will be for the year ended March 31, 2012. The Company has completed its assessment of the reporting impacts associated with the adoption of IFRS. Major areas of impact are anticipated to include share-based payments, mineral properties and provisions.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

For interim and annual financial statements relating to its fiscal year commencing April 1, 2011, the Company will be required to adopt new CICA Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-Controlling Interests”. Section 1582 replaces existing Section 1581 “Business Combinations”, and Sections 1601 and 1602 together replace Section 1600 “Consolidated Financial Statements”. The adoption of Sections 1582 and collectively, 1601 and 1602 provides the Canadian equivalent to IFRS 3 “Business Combinations” and International Accounting Standard IAS 27 “Consolidated and Separate Financial Statements” respectively. The impact of adopting these new standards has not yet been assessed and cannot reasonably be estimated at this time.

3. FINANCIAL INSTRUMENTS

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. As at March 31, 2011 the Company is not exposed to any significant credit risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Included in the loss for the period in the financial statements is interest income on Canadian dollar cash. As at March 31, 2011, the Company is not exposed to any significant interest rate risk.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010

3. FINANCIAL INSTRUMENTS (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with a financial liability. The Company manages liquidity risk by maintaining sufficient cash balances to enable settlement of transactions on the due date. Accounts payable and accrued liabilities are current. The Company addresses its liquidity through equity financing obtained through the sale of common shares and the exercise of warrants and options.

4. MINERAL PROPERTIES

Seel Property

On May 27, 2004, the Company entered into an Assignment Agreement with Grayd Resources Ltd. ("Grayd") on the Seel Property. Through this agreement, the Company may earn a 61% interest by incurring \$1,000,000 in exploration expenditures before December 31, 2006 (completed October 2005). On October 11, 2005, the Company acquired the right and title to Grayd's remaining 39% interest, thereby obtaining a 100% interest in the Seel Property.

Pursuant to the terms of the purchase agreement the Company issued 300,000 units of the Company, with each unit comprised of one common share and one share purchase warrant entitling Grayd to purchase an additional common share of the Company at an exercise price of \$0.25 per share for a period of two years, expiring November 4, 2007. In addition, Grayd was required to make a \$10,000 cash payment (paid) to Seel Enterprises Ltd., the original optionor of the property.

The Company owns a 100% interest in the Seel property, subject to a 2% Net Smelter Return Royalty ("NSR").

Ox Lake Property

The Company owns a 100% interest in the Ox Lake property, comprised of 1,458 hectares, subject to a 2% NSR. The Company is entitled to purchase a 1% portion of the NSR from Silver Standard Resources Inc. ("Silver") at any time by the payment to Silver of \$500,000 and the Company may purchase the remaining 1% NSR at any time by payment to Silver of an additional \$1,000,000.

Auro Property

During January 2010, the Company acquired a 100% interest in thirteen (13) new mineral claims comprising 5,801 hectares ("Auro Property") in central British Columbia. Terms of the property acquisition require a cash payment of \$80,000 (paid) and the issuance of 150,000 common shares (issued) valued at a price agreed to the market price of the shares at the date of issuance at \$54,000. The Company paid the required cash portion of the purchase price by reaching an agreement with the vendor to apply \$80,000 in field costs previously paid against the purchase price. The vendor will retain a 2% NSR, of which 1% can be purchased by the Company at any time for \$500,000.

On January 13, 2010, the Company staked an additional nineteen (19) new mineral claims comprising 8,224 hectares contiguous to the Auro Property.

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FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010**

4. MINERAL PROPERTIES (continued)

Auro Property (continued)

In April 2010, the Company staked an additional 17 mineral claims comprised of 7,886 hectares.

As a consequence of the January 2010 acquisition and subsequent staking of additional claims, the Company owned a 100% interest in 49 claims in the Auro Property comprised 21,912 hectares. In August 2010, the Company amalgamated 32 of the 49 claims into 1 claim resulting in the Company now owning 18 claims with an unchanged total of 21,912 hectares.

During January 2011, the Company acquired a 100% interest in the 407 hectare Princess claims located in Vanderhoof, British Columbia, from Tom Christianson for \$8,000 cash (paid) and 40,000 shares (issued).

Reclamation Bond

Included in Mineral Exploration and Development Costs as at March 31, 2011, is the Company's aggregate reclamation bonds posted with the Mining and Minerals Division of the British Columbia Government in the amount of \$42,400 (2010 - \$37,400). The bonds cover the future site restoration costs with respect to the Seel, Ox Lake and Auro Claims. All or part of the \$42,400 can be recovered subject to the inspection of the sites and assessment of the restoration costs by the Mining and Minerals Division of the British Columbia Government.

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****4. MINERAL PROPERTIES (continued)****Reclamation Bond (continued)****Mineral Acquisition, Exploration and Development Costs****a) Mineral Property Costs for the Year Ended March 31, 2011**

	Seel	Ox Lake	Auro	Total
Property acquisition costs				
Balance, beginning of the year	\$ 325,750	\$ 280,000	\$ 134,000	\$ 739,750
Cash	-	-	11,164	11,164
Shares	-	-	20,800	20,800
Balance, end of the year	325,750	280,000	165,964	771,714
Deferred exploration and development costs				
Balance, beginning of the year	4,131,132	815,225	175,554	5,121,911
Incurred during the year:				
Drilling	38,959	-	-	38,959
Geology	29,260	6,540	134,516	170,316
Geophysics	14,143	-	184,550	198,693
Consulting fees	4,187	10,751	28,376	43,314
Field costs	-	-	195,804	195,804
Reclamation bond	-	-	5,000	5,000
Travel and accommodation	-	-	17,892	17,892
Assaying	-	-	81,762	81,762
Camp costs	-	-	119,588	119,588
Fuel	-	-	1,991	1,991
Insurance	-	-	4,968	4,968
Safety	-	-	1,845	1,845
Wages	-	-	112,568	112,568
Mapping	1,987	-	2,230	4,217
Other	5,225	-	22,777	28,002
Less: recovery of costs	(48,188)	-	-	(48,188)
Total expenditures during the year	45,573	17,291	913,867	976,731
Total expenditures, end of the year	4,176,705	832,516	1,089,421	6,098,642
Balance, end of the year	\$ 4,502,455	\$ 1,112,516	\$1,255,385	\$ 6,870,356

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****4. MINERAL PROPERTIES (continued)****Reclamation Bond (continued)****Mineral Acquisition, Exploration and Development Costs (continued)****b) Mineral Property Costs for the Year Ended March 31, 2010**

	Auro	Seel	Ox Lake	Total
Property acquisition costs				
Balance, beginning of the year	\$ -	\$ 325,750	\$ 280,000	\$ 605,750
Cash	80,000	-	-	80,000
Shares	54,000	-	-	54,000
Balance, end of the year	134,000	325,750	280,000	739,750
Deferred exploration and development costs				
Balance, beginning of the year	-	4,042,404	1,029,332	5,071,736
Incurred during the year:				
Drill pads	-	3,000	-	3,000
Geology	13,861	12,138	-	25,999
Geophysics	157,786	5,000	-	162,786
Consulting fees	-	16,000	-	16,000
Field costs	-	118,123	-	118,123
Filing fees	-	4,657	-	4,657
Travel and accommodation	3,907	-	-	3,907
Less: sale of camp assets	-	(70,190)	-	(70,190)
Less: BC Mining Tax Credit refund	-	-	(214,107)	(214,107)
Total expenditures during the year	175,554	88,728	(214,107)	50,175
Total expenditures, end of the year	175,554	4,131,132	815,225	5,121,911
Balance, end of the year	\$ 309,554	\$ 4,456,882	\$ 1,095,225	\$ 5,861,661

5. EQUIPMENT

	As at March 31, 2011		
	Cost	Accumulated Amortization	Net Book Value
Office computers	\$ 3,515	\$ 2,820	\$ 695
Vehicles	46,218	6,942	39,276
	\$ 49,733	\$ 9,762	\$ 39,971

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****5. EQUIPMENT (continued)**

	As at March 31, 2010		
	Cost	Accumulated Amortization	Net Book Value
Office computers	\$ 3,515	\$ 2,523	\$ 992
Vehicles	53,942	34,845	19,097
	\$ 57,457	\$ 37,368	\$ 20,089

During July 2010, the Company abandoned the following assets and recorded a write-off of \$17,664:

Asset Disposals	Cost	Accumulated Amortization	Net Book Value
1994 Ford F350 Crew Cab	\$ 32,500	\$ 19,348	\$ 13,152
1994 Ford F350 Crew Cab	21,442	16,930	4,512
Total	\$ 53,942	\$ 36,278	\$ 17,664

6. PROMISSORY NOTES

On June 26, 2009, the Company settled the promissory note balance outstanding of \$127,544 for \$18,000 cash and transfer of certain camp asset costs resulting in a gain on settlement of debt of \$39,354.

During September 2009, the Company arranged for unsecured loans totalling \$125,000, of which \$60,000 was from directors of the Company. The loans were repayable on or before October 4, 2010 together with interest set at a rate equal to the prime rate of CIBC commercial loans plus 5% interest per annum. As there was a balance owing after October 4, 2010, the interest rate was adjusted to be equal to the prime rate of CIBC commercial loans plus 8% interest per annum on the outstanding balance. In October 2009, the Company issued 131,573 common shares at an ascribed price (market price at date of issuance) of \$0.21 per common share to the lenders, in the aggregate, as compensation for agreeing to lend the company the funds. The Company recorded a value of \$27,630 as finance fee in the statement of operations.

During the year ended March 31, 2011, the Company paid the full principal balance of the Promissory Notes plus accrued interest.

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS**a) Authorized**

An unlimited number of common shares without par value.

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)****b) Issued and Outstanding Share Capital**

	Number of Shares	Amount
Balance - March 31, 2009	3,306,944	\$ 15,483,490
Issued for cash – non flow through shares	3,756,875	601,100
Bonus shares on promissory notes (Note 6)	131,573	27,630
Less: share issue costs	-	(1,559)
Issued for cash – non flow through shares	400,000	92,000
Issued for cash – non flow through shares	1,100,000	275,000
Shares issued for mineral property	150,000	54,000
Balance – March 31, 2010	8,845,392	16,531,661
Issued for cash – flow through	2,000,000	1,000,000
Issued for cash – flow through	2,884,345	1,586,390
Issued for cash – non flow through	475,000	199,500
Issued for cash – non flow through	240,000	100,800
Issued for cash – non flow through	800,000	336,000
Exercise of warrants	230,000	57,500
Exercise of options	20,000	4,000
Shares issued for mineral property	40,000	20,800
Less: share issue costs	-	(304,228)
Recovery of future tax assets (Note 8)	-	(647,000)
Balance – March 31, 2011	15,534,737	\$ 18,885,423

Year Ended March 31, 2011

- i) In June 2010 the Company completed a non-brokered private placement (the “Private Placement”) to raise aggregate gross proceeds to the Company of \$1,000,000 through the issuance of 2,000,000 flow-through units (each a “Flow-Through Unit”) at a purchase price of \$0.50 per Flow-Through Unit. Each Flow-Through Unit consist of one common share in the capital of the Company, issued on a flow-through basis under the provisions of the Income Tax Act (Canada), and one-half of one common share purchase warrant (each whole warrant, a “Warrant”). Each whole Warrant entitles the holder thereof to purchase one non-flow-through common share of the Company at an exercise price of \$0.75 per share at any time until June 1, 2011.

As payment of a finder’s fee in connection with this private placement, the Company recorded \$67,500 in non-cash share issue costs upon the issuance of 150,000 non-transferable options (each a “Finder’s Option”) and paid a cash finder’s fee of \$50,000. Each Finder’s Option is exercisable to acquire a unit (a “Finder’s Unit”) of the Company at an exercise price of \$0.50 per Finder’s Unit for a period of 12 months from the Closing Date. Each Finder’s Unit consists of one non-flow-through common share in the capital of the Company and one-half of one non-transferable common share purchase warrant (each whole warrant, a “Finder’s Warrant”). Each whole Finder’s Warrant entitles the holder thereof to purchase one non-flow-through common share of the Company at an exercise price of \$0.75 per share at any time until June 1, 2011.

GOLD REACH RESOURCES LTD.

(An Exploration Stage Company)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010**

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) Issued and Outstanding Share Capital (continued)

Year Ended March 31, 2011 (continued)

- ii) In January 2011, the Company completed a non-brokered private placement offering (the "Offering") of 2,884,345 flow-through units (each a "FT Unit") at a price of \$0.55 per FT Unit and 475,000 non-flow-through units (each an "NFT Unit") at a price of \$0.42 per NFT Unit to raise gross proceeds to the Company of \$1,785,890.

Each FT Unit was comprised of one common share of the Company, intended to qualify as a flow-through share under the *Income Tax Act* (Canada), and one common share purchase warrant entitling the holder to acquire an additional non-flow-through common share at a price of \$0.60 per share at any time until January 7, 2013 (the "Closing Date). Each NFT Unit was comprised of one non-flow-through common share of the Company and one common share purchase warrant.

Finder's at arm's length to the Company received a finder's fee paid in warrants (the "Finder's Warrants") equal to 7% of number of FT Units and NFT Units placed and a 7% cash consideration for the proceeds raised via the Offering. A total of 141,564 Finder's Warrants were issued and a total of \$75,085 was paid in commission. The finder's warrants entitle the holder to acquire an additional non-flow-through common share at a price of \$0.60 per share at any time until January 7, 2013.

- iii) In February 2011, the Company completed a non-brokered private placement unit offering of 240,000 Units to raise gross proceeds of \$100,800. Each Unit was comprised on one common share of the Company at a subscription price of \$0.42 per common share and one full share purchase warrant ("Warrant") entitling the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.60 for a two year period expiring February 7, 2013.

Each Warrant will be subject to accelerated expiry provisions such that if at any time after the date of Closing of the private placement, the Company's common shares trade on the TSX Venture Exchange at or above a weighted average trading price of \$1.00 per share for 10 consecutive trading days, the Company may give notice to the holders that each Warrant will expire 30 days from the date of providing such notice.

There is no Finder's Fee in this transaction.

- iv) In March 2011, the Company completed an additional 800,000 unit non-brokered private placement Unit Offering to raise gross proceeds of \$336,000. Each Unit was comprised of one common share of the Company at \$0.42 per Unit and one full Warrant entitling the holder to purchase one additional common share of the Company at an exercise price of \$0.60 for a two-year period expiring March 3, 2013.

Each Warrant is subject to accelerated expiry provisions such that if at any time after the date of closing of the private placement, the Company's common shares trade on the TSX Venture Exchange at or above a weighted average trading price of \$1.00 per share for 10 consecutive trading days, the Company may give notice to the holders that each Warrant will expire 30 days from the date of providing such notice.

There was no finder's fee in this transaction. The shares are subject to a four-month hold period expiring June 7, 2011.

GOLD REACH RESOURCES LTD.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010**

7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) Issued and Outstanding Share Capital (continued)

Year Ended March 31, 2010

- i) In late December 2009, the Company completed a non-brokered private placement of 3,756,875 units at a price of \$0.16 per unit for gross proceeds of \$601,100. No finder's fees were payable. Each unit consisted of one common share and one common share purchase warrant to purchase an additional common share in the Company at any time prior to December 24, 2011, at an exercise price of \$0.25. All securities issued were subject to a four-month hold period which expired on April 24, 2010. Share issue cost of \$1,559 was incurred.
- ii) In mid January 2010, the Company completed a non-brokered private placement of 400,000 units at a price of \$0.23 per unit, for gross proceeds of \$92,000. Each unit consisted of one common share and one share purchase warrant exercisable into an additional common share at a price of \$0.25 at any time prior to January 11, 2012. No finder's fees were payable.
- iii) On March 31, 2010, the Company completed a non-brokered private placement comprised of 1,100,000 units at a price of \$0.25 per unit for gross proceeds of \$275,000. Each unit consisted of one common share of the Company and one non-transferable common share purchase warrant. Each warrant entitles the holder to purchase one common share of the Company at a purchase price of \$0.40 per share until March 31, 2012.

Proceeds from the private placements of units for the year ended March 31, 2010 have been allocated 100% to share capital and none to the warrants.

c) Stock Purchase Options

The Company has a stock option plan whereby the maximum number of shares reserved for issue under the plan shall not exceed 10% of the outstanding common shares of the Company, as at the date of the grant. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of grant. The exercise price of each option granted under the plan may not be less than the Discounted Market Price (as that term is defined in the policies of the TSX). Options may be granted for a maximum term of five years from the date of the grant, are non-transferable and expire within 90 days of termination of employment or holding office as director or officer of the Company. Unless otherwise stated, share purchase options vest when granted.

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)****c) Stock Purchase Options (continued)**

A summary of the Company's option transactions for the year ended March 31, 2011 and 2010 are as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Contractual Life (years)
Balance, March 31, 2009	103,400	\$0.35	1.05
Granted	732,939	\$0.20	
Expired	(62,600)	\$0.35	
Balance, March 31, 2010	773,739	\$0.21	1.71
Granted	110,800	\$0.30	
Granted	100,000	\$0.45	
Granted	105,000	\$0.45	
Granted	380,934	\$0.50	
Granted	48,800	\$0.50	
Granted	80,000	\$0.60	
Expired	(40,800)	\$0.35	
Exercised	(20,000)	\$0.20	
Forfeited	(10,000)	\$0.30	
Balance, March 31, 2011	1,528,473	\$0.35	2.54

As at March 31, 2011, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
712,939	\$0.20	January 4, 2012
100,800	\$0.30	March 31, 2015
100,000	\$0.45	June 8, 2015
105,000	\$0.45	July 13, 2015
380,934	\$0.50	January 7, 2016
48,800	\$0.50	February 7, 2013
80,000	\$0.60	March 3, 2013
1,528,473		

In January 2010, the Company amended the terms of the 41,600 incentive stock options then currently outstanding at a post-consolidated price of \$2.50. These options were repriced to bring the exercise price more in line with current market conditions. The exercise price in place is \$2.50 per share and was amended to \$0.35 per share. All other terms and conditions of the existing option agreements will remain in full force and effect.

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)****c) Stock Purchase Options (continued)**

On April 8, 2010, the Company granted an additional 110,800 stock options to directors, officers, employees and consultants of the Company. The options are exercisable to acquire common shares of the Company at a price of \$0.30 per share for a term of five years expiring on March 31, 2015.

In June 2010, the Company granted 100,000 in additional stock options to various directors, officers and consultants for a five year term expiring June 8, 2015 at an exercise price of \$0.45 per common share.

In July 2010, the Company granted 105,000 in additional stock options to various directors, officers and consultants for a five year term expiring July 13, 2015 at an exercise price of \$0.45 per common share.

In January 2011, the Company granted 380,934 in additional stock options to various directors, officers and consultants for a five year term expiring January 7, 2016 at an exercise price of \$0.50 per common share.

In February 2011, the Company granted 48,800 in additional stock options to various directors, officers and consultants for a two year term expiring February 7, 2013 at an exercise price of \$0.50 per common share.

In March 2011, the Company granted 80,000 in additional stock options to various directors, officers and consultants for a two year term expiring March 3, 2013 at an exercise price of \$0.60 per common share.

The Company recognized \$371,376 (2010: \$Nil) of stock-based compensation expense for stock options granted during the year and \$131,203 of stock-based compensation charged to share capital (2010: \$Nil) for finders' fee warrants. The Company recognized \$Nil (2010: \$210,935) of stock-based compensation expense for stock options re-priced during the year. The weighted fair value of share purchase options granted during the year ended March 31, 2011 of \$0.45 (2010: \$0.29) per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2011	March 31, 2010
Expected dividend yield	0%	0%
Expected stock price volatility	157-252%	119%
Exercise price	\$0.30-\$0.60	\$0.20
Risk-free interest rate	1.40%-1.77%	1.33%
Expected life of options	2-5 years	2 years

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)****d) Contributed Surplus**

Details of contributed surplus account are as follows:

	March 31, 2011	March 31, 2010
Balance, beginning of year	\$ 800,211	\$ 589,276
Stock-based compensation – share issue cost	131,203	-
Stock-based compensation – expensed	371,376	210,935
Balance, end of year	\$ 1,302,790	\$ 800,211

e) Share Purchase Warrants

A summary of the Company's warrants as at March 31, 2011 and 2010 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2009	-	-
Issued	3,756,875	\$0.25
Issued	400,000	\$0.25
Issued	1,100,000	\$0.40
Balance, March 31, 2010	5,256,875	\$0.28
Issued	1,000,000	\$0.75
Issued	475,000	\$0.60
Issued	2,884,345	\$0.60
Issued	240,000	\$0.60
Issued	800,000	\$0.60
Exercised	(230,000)	\$0.25
Balance, March 31, 2011	10,426,220	\$0.46

As at March 31, 2011, the Company had the following Share Purchase Warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,000,000	\$0.75	June 1, 2011
3,526,875	\$0.25	December 31, 2011
400,000	\$0.25	January 11, 2012
1,100,000	\$0.40	March 31, 2012
475,000	\$0.60	December 31, 2012
2,884,345	\$0.60	January 7, 2013
240,000	\$0.60	February 7, 2013
800,000	\$0.60	March 3, 2013
10,426,220		

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****7. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)****f) Agents' Share Purchase Warrants**

A summary of the Company's Agents Share Purchase Warrants transactions for the year ended March 31, 2011 is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, March 31, 2010	-	\$ -
Issued	75,000	\$0.75
Issued	150,000	\$0.50
Issued	141,564	\$0.60
Balance, March 31, 2011	366,564	\$0.59

As at March 31, 2011, the Company had the following Agents' Share Purchase Warrants outstanding:

Number of Warrants	Exercise Price	Expiry Date
75,000	\$0.75	June 1, 2011
150,000	\$0.50	June 1, 2011
141,564	\$0.60	January 7, 2013
366,564		

g) Escrow Shares

At March 31, 2011, there were 2,566 common shares (2010 – 2,566) held in escrow by the Company's transfer agent.

8. FUTURE INCOME TAX

A reconciliation between the Company's income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2011	2010
Statutory tax rate	28.00%	29.63%
Expected income tax recovery	\$ (258,000)	\$ (177,000)
Increase (decrease) in income tax recovery resulting from:		
Permanent differences	119,000	94,000
Effect of change in tax rate	15,000	38,000
Share issue costs in the year	(43,000)	-
Expiry of loss carryforward	-	34,000
Change in valuation allowance	(480,000)	11,000
Future income tax recovery	\$ (647,000)	\$ -

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010****8. FUTURE INCOME TAX (continued)**

Significant components of the Company's future tax assets and liabilities after applying enacted corporate income tax rates are as follows:

	2011	2010
Future income tax assets		
Non-capital losses carried forward	\$ 661,000	\$ 516,000
Undeducted financing costs	47,000	23,000
Capital assets	8,000	9,000
Mineral properties	(495,000)	153,000
	221,000	701,000
Valuation allowance for future income tax assets	(221,000)	(701,000)
Net future income tax assets	\$ -	\$ -

The Company recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely-than-not that sufficient taxable income will not be realized during the carry-forward periods to utilize all the future tax assets.

At March 31, 2011, the Company has accumulated Canadian exploration and development expenditures of approximately \$4,891,442 and non-capital losses of approximately \$2,642,000 which are available to reduce taxable income of future years.

The non-capital losses expire as follows:

2014	\$ 198,000
2015	202,000
2026	261,000
2027	148,000
2028	421,000
2029	491,000
2030	325,000
2031	596,000
	<u>\$ 2,642,000</u>

Flow-through Shares and Flow-through Indemnification Liability

During the year ended March 31, 2011, the Company issued a total of 4,884,345 (2010: Nil) flow-through common shares for gross proceeds of \$2,586,390 (2010: \$Nil). The funds raised in connection with the flow-through shares must be spent on qualified mineral exploration and are restricted to Canadian Exploration Expenditures as defined in the Canadian Income Tax Act. The expenditures are renounced in favour of investors subscribing for flow-through shares and the amounts are not available to the Company for income tax purposes.

During the year ended March 31, 2011, the Company renounced \$2,586,390. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$647,000 with respect to the renunciation. The total qualifying expenditures for the year ended March 31, 2011 were \$1,009,293. Under the look-back rule, the Company was required to incur \$1,577,097 in additional qualifying expenditures by December 31, 2011.

GOLD REACH RESOURCES LTD.*(An Exploration Stage Company)***NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010**

8. FUTURE INCOME TAX (continued)

During the year ended March 31, 2010, the Company issued a total of Nil (2009: 200,000) flow-through common shares for proceeds of \$Nil (2009: \$100,000). The funds raised in connection with the flow-through shares must be spent on qualified mineral exploration and are restricted to Canadian Exploration Expenditures as defined in the Canadian Income Tax Act. The expenditures are renounced in favour of investors subscribing for flow-through shares and the amounts are not available to the Company for income tax purposes.

During the year ended March 31, 2009, the Company renounced \$100,000. The Company recorded a recovery of future income tax assets with a corresponding reduction in share capital of \$30,000 with respect to the renunciation. The total qualifying expenditures for year ended March 31, 2009 was \$262,225 under the look-back rule. The Company was required to incur \$96,559 in additional qualifying expenditures by December 31, 2009. During the year ended March 31, 2010, the company had incurred all expenditures.

The Company was required to incur \$620,514 by December 31, 2008 but was unable to meet this requirement. As a result, the Company recorded Part XII.6 tax payable of \$102,000 as at March 31, 2009 and amended during the year to \$53,029.

The Company may be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investors as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. The Company estimates that the potential liability is approximately \$96,500 and at March 31, 2010 has accrued a provision for this, recorded in Part XII.6 tax and penalties. The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors by Canada Revenue Agency and other events which cannot be determined at this time.

9. RELATED PARTY TRANSACTIONS

- a) During the year ended March 31, 2011, management and director fees of \$114,300 (2010: \$111,000) were paid to directors or officers of the Company or to companies controlled by directors or officers of the Company.
- b) During the year ended March 31, 2011, mineral property consulting fees of \$25,700 (2010: \$Nil) were paid to directors or officers of the Company or to companies controlled by directors or officers of the Company.
- c) During the year ended March 31, 2011, administration fees of \$14,600 (2010: \$48,942) and rent of \$8,200 (2010: \$18,000) were paid to a Company controlled by a director or officer of the Company. Further, prepaid expenses include \$Nil (2010: \$1,500) in prepaid rent made to a Company controlled by a director or officer of the Company.
- d) Included in accounts payable and accrued liabilities is \$Nil (2010: \$23,609) owing to two directors of the Company for unpaid management fees.
- e) Due to related party at March 31, 2011 of \$85,709 (2010: \$125,509) is payable to a company with directors in common. The amount owed is in the form of a promissory note that is unsecured, bears interest at the rate of 12% per annum, and is payable on demand. Included in the due to related party is accrued interest of \$50,709 of which \$10,200 was accrued for the current year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2011 and MARCH 31, 2010

9. RELATED PARTY TRANSACTIONS (continued)

- f) Of the amounts included in promissory notes at March 31, 2011, \$Nil (2010: \$60,000) was payable to directors of the Company. The amounts owed were unsecured, bear interest at the prime rate of CIBC commercial loans plus 5% interest per annum. During the year ended March 31, 2010, the Company accrued interest payable of \$1,747.

The above transactions, occurring in the normal course of operations, are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

10. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. The following transactions have been excluded from the statements of cash flows.

During the year ended March 31, 2011:

- a) The Company issued 40,000 common shares pursuant to a mineral property purchase agreement at \$0.52 per share, the market value of the shares at the date of issuance; and
- b) The Company issued 366,564 warrants as finders' fees for non-cash share issue costs of \$131,203; and

During the year ended March 31, 2010:

- a) The Company issued 150,000 common shares pursuant to a mineral property purchase agreement at \$0.36 per share, the market value of the shares at the date of issuance;
- b) Included in accounts payable and accrued liabilities was \$23,314 which was included in mineral property costs; and
- c) The Company settled \$109,544 of the promissory note by way of sale of certain camp asset costs which were included in mineral property costs.

11. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the cost of capital within a framework of acceptable risk. In the management of capital, the Company includes the components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may issue new shares, issue new debt, acquire or dispose of assets.

The Company is dependent on the capital markets as its sole source of operating capital and the Company's capital resources are largely determined by the strength of the junior resource markets and by the status of the Company's projects in relation to these markets, and its ability to compete for investor support of its projects. The Company is not subject to any externally imposed capital requirements.

There have been no changes in the Company's capital management during the year ended March 31, 2011.

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12. SUBSEQUENT EVENTS

- a) On April 6, 2011, 120,000 warrants with an expiry date of March 31, 2012 were exercised at a price of \$0.40 per warrant for proceeds of \$48,000.
- b) On April 11, 2011, 10,000 options with an expiry date of June 8, 2015 were exercised at a price of \$0.45 per option for proceeds of \$4,500.
- c) On May 31, 2011, 150,000 finders' warrants with an expiry date of June 1, 2011 were exercised at a price of \$0.50 per warrant for proceeds of \$75,000.