



**RESSOURCES
METANOR
RESSOURCES
INC.**

RAPPORT ANNUEL // ANNUAL REPORT

2011

**ÉTATS FINANCIERS VÉRIFIÉS
ET RAPPORT DE GESTION
DE LA DIRECTION**

POUR L'EXERCICE FINANCIER TERMINÉ
LE 30 JUIN 2011



**AUDITED FINANCIAL STATEMENTS
AND MD & A**

FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2011

**RENSEIGNEMENTS CORPORATIFS
//CORPORATE INFORMATION**

SIÈGE SOCIAL // HEAD OFFICE|

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INSCRIPTION BOURSE // STOCK LISTING - SYMBOL |

Bourse de Croissance TSX // TSX Venture Exchange

SYMBOLE // SYMBOL |

MTO – MTO.WT

ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS REPORT JUNE 30, 2011

Metanor was incorporated on January 10, 2003 under the Canada Business Corporations Act. Its head office is located at 2872 Sullivan Road, Suite 2, POB 420 - Sullivan, Val-d'Or, Québec, J9P 0B8, phone: 819 825-8678, email: info@metanor.ca. Metanor is a public Company, listed in the Tier 1 at the TSX Venture Exchange. Since December 22, 2005, Metanor's shares are traded on the Frankfurt Stock Exchange, in Europe.

The business of Metanor pertains to the exploration of its mining properties (auriferous bearing and base metal) located in Quebec.

The majority of its properties contain mineral resources. When further exploration will be incurred on the Bachelor and Barry properties, the Company will then determine if these properties contain economically profitable ore resources. The Company intends to continue the exploration work on all of its other properties and more specifically on the Nelligan, Hewfran, MJL-Hansen, MJL-2 and Barry 2 properties.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This report provides a review and analysis of our financial situation and results from operations. This will help the reader to assess material changes in our financial situation for the financial year ended June 30, 2011 in comparison to the same periods of the previous year. This Management Discussion and Analysis Report, prepared as of October 19, 2011 complies with Rule 51-102A of the Canadian Securities Administrators on continuous disclosure, is intended to supplement our audited financial statements. This Report should be read in conjunction with the interim and annual financial statements and the accompanying notes to financial statements. It presents the management's point of view on the Company's ongoing activities and its current and past financial results, as well as an outlook of the activities planned for the coming months. This present MD&A Report was submitted to the audit committee and the Board of directors for approval on October 24, 2011. All dollar amounts are expressed in Canadian dollars, unless otherwise specified.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. Management has assessed that the Company has enough money as it closed many private placements and has collected large sums relatively at Sandstorm gold Ltd.'s transaction (see details provided in the commitments) during the year. The Company will therefore finance its exploration programs and discretionary expenses for the next twelve months ended June 30, 2012.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company's continued existence is dependent upon the preservation of its interests in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE (continued)

Further information about the Company, its properties, projects, annual and quarterly reports are available for consultation on the web site of the Corporation or SEDAR at the following addresses: www.metanor.ca and www.sedar.com.

The Board of Directors is composed of: Serge Roy (Chairman and Chief Executive Officer), Ghislain Morin (President and Chief Operating Officer), Raymond Couture*, Ronald Perry* (Treasurer), Tristram Robert Coffin* and Robert C. Bryce* (*member of the Audit Committee).

OPERATION EXPENSES AND SELECTED ANNUAL OPERATION

For the year ended June 30, 2011, the Company incurred a loss of \$11,607,082 (\$0,072 per share) compared to a loss of \$7,858,468 (\$0,067 per share) for the preceding year and a net loss of \$5,991,552 (\$0,072 per share) for the year ending June 30, 2009. In 2011, the loss is explained in most part by the administration expenses, the write down of mineral properties and deferred exploration expenses, the financing fees and the interest on revolving credit. The revenues consist of interest earned on its cash and temporary investments.

Selected financial information:

	June 30 2011	June 30 2010	June 30 2009
	\$	\$	\$
Revenues			
Interest & Investment income	35,621	10,733	28,211
Expenses			
General and administrative expenses	13,458,703	8,984,201	7,219,763
Net loss	(11,607,082)	(7,858,468)	(5,991,552)
Basic and diluted net loss per share	(0.072)	(0.067)	(0.072)
Balance sheet			
Total assets	\$88,724,462	\$64,018,180	\$60,243,851
Total liabilities	\$23,799,303	\$12,891,596	\$12,742,748
Shareholder's Equity	\$64,925,159	\$51,126,584	\$47,501,103

Analysis of general, administrative and other expenses

During the year ended on June 30, 2011, administrative and other expenses represent an amount of \$13,458,703 compared to \$8,984,201 on June 30, 2010. During 2011, the administrative expenses totalled an amount of \$7,057,989 compared to \$2,610,307, which is detailed in the grid presented on the following page. The write down of mineral properties and deferred exploration expenses totalled \$4,144,359 compared to \$3,561,406 in 2010 and the stock-based compensation \$138,800 in 2011 compared to \$1,343,000 in 2010. Furthermore, the loss on exchange rate was of \$17,739 in 2011 compared to a gain on exchange rate of \$408,500 in 2010.

Financing fees of \$1,221,299 were incurred compared to \$826,871 in 2010. Investors' relations fees increased of \$273,660 going from \$207,536 in 2010 to \$481,196 in 2011 and the salaries and fringe benefits decreased of \$172,688 going from \$1,052,612 in 2010 to \$879,924 in 2011.

Analysis of general, administrative and other expenses (continued)

The options granted during the year created an expense of \$138,800 as stock-based compensation (\$1,343,000 in 2010) and an amount of \$14,875 as stock-based compensation to consultants in investors' relations (\$14,875 in 2010), increasing the contributed surplus by an amount of \$153,675 (\$1,357,875 in 2010). The fair value of the options granted during the year was estimated on the grant date using the Black-Scholes option-pricing model and the weighted average fair value was established at \$0.27 per reserved share in 2011 compared to \$0.45 per share in 2010. The expiration of stock purchase warrants created an increase in contributed surplus of \$1,508,079 (\$68,102 in 2010). An amount of \$56,240 (\$170,650 in 2010) of stock based compensation was recorded in deferred exploration expenses.

The administration and other expenses for the past two years are detailed as follows:

Administration & other expenses	June 30 2011 \$	June 30 2010 \$
Professional fees	1,254,215	501,978
Salaries and fringe benefits	879,924	1,052,612
Travel, entertainment and publicity	371,361	419,704
Investor relations	481,196	207,536
Taxes and permits	23,061	11,560
Insurance	74,161	83,257
Office expenses	91,733	77,430
Trustees and registration fees	78,156	58,809
Rental expenses	36,000	36,000
Reports to shareholders	87,211	34,033
Maintenance and repairs	34,702	37,163
Telecommunications	24,954	18,957
Energy	9,363	9,295
Interest and bank charges	11,952	61,973
Indemnity allowance	3,600,000	-
Total administration expenses	7,057,989	2,610,307
Loss (gain) on exchange rate	17,739	(408,500)
Stock-based compensation	138,800	1,343,000
Interest on revolving credit	476,411	862,116
Interest on long-term debt	42,213	31,259
Financing fees	1,221,299	826,871
Loss on disposal of equipment	218,052	1,565
Depreciation of equipment	90,920	79,639
Part X11.6 income taxes	50,921	76,538
Write down of mineral properties and deferred exploration expenses	4,144,359	3,561,406

Net loss and comprehensive loss

During the year, the Company incurred a loss before income taxes of \$13,423,082 and by including an amount of \$1,816,000 for future income taxes, the result was a net loss and comprehensive loss of \$11,607,082 or \$0.072 per basic and diluted share. During the previous year, the Company incurred a loss before income taxes of \$8,973,468 and by including an amount of \$1,115,000 for future income taxes, the result was a net loss and comprehensive loss of \$7,858,468 or \$0.067 per basic and diluted share. The weighted average number of shares outstanding on June 30, 2011 was of 161,532,891 compared to 116,637,734 on June 30, 2010. The increase in the number of shares is principally due to the closing of private placements.

As at June 30, 2011, net investment income of \$35,621 was earned during the year, compared to \$10,733 in 2010. This variance is due to the increase of temporary investments.

DEFERRED EXPLORATION EXPENSES

The following grid details the balance of acquisition costs and deferred exploration expenses by property and by year end:

Property	Acquisition cost June, 30 2011 \$	Deferred exploration expenses/ June 30, 2011 \$	Acquisition cost June, 30 2010 \$	Deferred exploration expenses/ June 30, 2010 \$
Bachelor Lake	5,597,578	19,034,120	5,596,772	9,297,760
Hewfran	446,322	1,461,321	444,623	1,163,193
MJL / Hansen	191,821	80,218	190,350	70,077
Barry	1,841,485	12,303,987	1,840,921	12,303,987
Barry United	4,291	1,478,309	-	76,603
Barry Extension	157,000	177,267	157,000	139,966
MJL-2	436,785	97,623	434,250	87,545
Nelligan	96,962	404,139	89,600	326,453
TOTAL	8,772,244	35,036,984	8,753,516	23,465,584

The following grid shows the deferred exploration expenses incurred during the year ended June 30, 2011, by category and by property.

Expenses	Bachelor Lake	Hewfran	MJL-Hansen	Barry	Barry United	Barry Extension	MJL-2	Nelligan	Total
Drilling	-	189,289	-	360,440	-	-	-	-	549,729
Labour	2,053,955	19,553	3,891	1,552,030	267,902	9,603	3,828	70,030	3,980,792
Lodging	62,170	-	-	227,472	8,695	-	-	-	298,337
Core library and rental expenses	-	23,939	-	-	-	-	-	-	23,939
Equipment rental	46,309	97	-	-	7,306	-	-	-	53,712
Stripping and line cutting	38,146	32,397	6,250	-	394,668	26,012	6,250	180	503,903
Assays	(36,463)	15,113	-	8,667	41,197	-	-	-	28,514
Professional fees	19,405	2,947	-	62,331	667	-	-	-	85,350
Consulting	4,802,365	3,000	-	-	35,223	-	-	-	4,840,588
Maintenance	105,306	430	-	871	68,476	-	-	132	175,215
Repairs	26,741	1,879	-	80,233	-	-	-	-	108,853
Material	1,131,073	7,906	-	-	39,419	162	-	-	1,178,560
Fuel and Energy	710,137	-	-	530,170	36,343	-	-	-	1,276,650
Maps and reports	550	1,063	-	4,402	5,329	-	-	6,875	18,219
Office expenses	227,006	-	-	28,319	4,213	-	-	-	259,538
Telecommunications	32,866	-	-	44,131	12,117	-	-	-	89,114
Taxes and permits	133,843	515	-	73,007	3,810	1,524	-	469	213,168
Insurance	7,952	-	-	92,006	4,173	-	-	-	104,131
General expenses	49,462	-	-	-	-	-	-	-	49,462
Transportation	87,779	-	-	-	1,400	-	-	-	89,179
Ore processing expenses	105,402	-	-	3,362,747	2,126	-	-	-	3,470,275
Road maintenance	21,647	-	-	-	108,202	-	-	-	129,849
Explosives	2,241	-	-	-	-	-	-	-	2,241
Assets retirement costs	-	-	-	220,464	-	-	-	-	220,464
Amortization	46,748	-	-	1,106,717	-	-	-	-	1,153,465
Accretion expense	-	-	-	263,724	-	-	-	-	263,724
Royalties	-	-	-	620,039	-	-	-	-	620,039
Compensation	15,480	-	-	-	-	-	-	-	15,480
Stock-based compensation	46,240	-	-	10,000	-	-	-	-	56,240
TOTAL	9,736,360	298,128	10,141	8,287,330	1,401,706	37,301	10,078	77,686	19,858,730

The Company recorded a write down of its deferred exploration expenses incurred on the Barry property for an amount of \$4,141,150 on Barry. This reduction of values allows the Company to comply with the auditing and accounting standards on the deferred exploration expenses. Furthermore, for the Barry property, the Company deducted the gold sales for the amount of \$4,146,180.

CASH FLOWS

For the financial year ending on June 30 2011, the cash flow used for **operating activities** was of \$5,154,747 compared to \$5,110,421 \$ in 2010. The increase is mainly caused by the increase in the net loss of \$11,607,082 compared to \$7,858,468 in 2010 and the variance of the accounts payable and accrued liabilities generated of \$3,205,609 in 2011 compared to \$914,498 used in 2010. An amount of \$4,144,359 (\$3,561,406 in 2010) was recorded as a write down of mineral properties and deferred exploration expenses.

During the year, \$28,458,531 was used for **investing activities** compared to \$4,446,461 for the corresponding year ended on June 30, 2010. During the year 2011, these expenses included a use of \$10,687,794 in temporary investments, \$3,823,803 in property, plant and equipment, \$19,188,758 in deferred exploration expenses and generated \$5,060,335 in gold sales. During the previous year, the expenses relating to investing activities used \$4,956,073 in property, plant and equipment, \$29,722,597 in deferred exploration expenses and generated \$4,285,980 in restricted funds for exploration, \$3,755,220 in term deposit and \$20,792,329 in gold sales.

In 2011, the investments were incurred mainly for the acquisition of property, plant and equipment and for exploration and development of the Barry United, Hewfran and Nelligan properties. Preparatory work was also incurred to permit the underground exploration of the Bachelor Lake property which required major investments.

The **financing activities** generated cash flows of \$35,289,548 for the year ended June 30, 2011 compared to \$10,530,559 in 2010. During the year, an amount of \$28,889,034 (\$12,180,649 in 2010) was received due to the closing of private placements and the exercise of warrants and stock options and share issuance expenses were incurred for an amount of \$1,877,292 (\$1,110,225 in 2010). An amount of \$5,216,540 (\$200,120 in 2010) was used to reimburse the revolving credit. New loans generated \$322,328 (\$103,810 in 2010) and payments on the long-term debt used \$522,582 in 2011 compared to \$443,555 in 2010. The Sandstorm Gold Ltd.'s transaction (see details provided in the commitments) generated \$13,694,600 as at June 30, 2011 (\$nil in 2010).

Overall, the operating, investing and financing activities generated an increase in the cash of \$1,676,270 in 2011 compared to \$973,677 in 2010.

BALANCE SHEET

As at June 30, 2011, the total assets of the Company amounted to \$88,724,462 compared to \$64,018,180 as at June 30, 2010. This difference is mainly due to the increase of the cash, temporary investments, the deferred exploration expenses and the security deposits.

The assets are detailed as follows:

Assets	June 30, 2011 \$	June 30, 2010 \$
Cash	2,649,947	973,677
Temporary investments	10,692,452	4,658
Taxes receivable and other	436,569	560,011
Tax credits receivable related to exploration	1,450,685	1,450,685
Other receivables	44,464	959,135
Prepaid expenses	289,193	436,466
Material and supplies for exploration	891,160	845,130
Deposits on contracts	171,876	123,153
Advances on production royalties	215,703	240,820
Security deposit	236,938	-
Property, plant and equipment	27,836,247	26,205,345
Mineral properties (acquisition cost)	8,772,244	8,753,516
Deferred exploration expenses	35,036,984	23,465,584

BALANCE SHEET (continued)

On June 30, 2011 the liabilities of the Company totalled \$23,799,303 compared to \$12,891,596 on June 30, 2010. The current liabilities decreased from \$10,299,300 on June 30, 2010 to \$7,184,452 on June 30, 2011.

The items composing the liabilities are:

Liabilities	June 30, 2011 \$	June 30, 2010 \$
Accounts payable and accrued liabilities	6,570,500	4,388,812
Royalties payable	469,193	284,704
Short-term instalments on long-term debt and obligations under capital leases	144,759	409,244
Revolving credit	-	5,216,540
Long-term debt	269,673	205,442
Unearned revenue	13,694,600	-
Assets retirement obligations	2,650,578	2,386,854

Net Working Capital

As at June 30, 2011, the Company had a net working capital of \$8,378,858 compared to a negative net working capital of \$5,914,668 as at June 30, 2010. The negative net working capital in 2010 is mainly due to the disclosure of the revolving credit in the current liabilities due to the expiry date which was November 30, 2010.

Shareholders' Equity

The Shareholders' Equity as at June 30, 2011 include the capital stock of \$93,658,962 to which is added the accounting value of \$734,656 for the warrants and \$6,759,021 for the contributed surplus for a total amount of \$101,152,639 less the deficit of \$36,227,480. As at June 30, 2011, the Shareholders' Equity amounted to \$64,925,159.

Capital Structure

The capital stock of the Company is composed of an unlimited number of Common shares and of Preferred Shares, issuable in series, the directors defining the rights and privileges of these shares upon issuance.

On June 30, 2011, the capital structure of the Company was:

Common Shares	201,686,865
Stock Options	7,865,000
Warrants	49,975,840

As at October 24, 2011, a total of 201,686,865 shares were issued and outstanding and none were subject to an escrow agreement.

Source of financing

During the year ended June 30, 2011, the Company completed three private placements for a total amount of \$5,201,700 (\$6,595,000 in 2010) and seven flow-through private placements for a total amount of \$22,762,334 (\$5,351,792 in 2010) and one private placement which are qualifying shares under the Stock Savings Plans II program for a total amount de \$750,000 (\$nil in 2010). The Company also entered into a gold sale agreement with Sandstorm Gold Ltd which generated unearned revenue of \$13,694,600 (\$nil en 2010). Share issuance expenses of \$1,877,292 (\$1,110,225 in 2010) were incurred during the year ended June 30, 2011.

SUMMARY OF FINANCIAL INFORMATION

Information for the three month periods ended on:

	June 30, 2011 \$	March 31, 2011 \$	Dec. 31, 2010 \$	Sept. 30, 2010 \$	June 30, 2010 \$	March 31, 2010 \$	Dec. 31, 2009 \$	Sept. 30, 2009 \$
Total revenues	23,776	8,603	2,374	868	162	531	10 032	8
Net loss	(3,338,610)	(1,174,953)	(3,645,700)	(3,447,819)	(4,919,263)	(801,486)	(1,661,948)	(475,771)
Net loss/ basic and diluted share	(0.014)	(0.006)	(0.026)	(0.026)	(0.007)	(0.007)	(0.015)	(0.004)

Information for the fiscal years ended on:

	June 30, 2011	June 30, 2010	June 30, 2009
Total revenues	35,621	\$10,733	\$28,211
Net loss	(\$11,607,082)	(\$7,858,468)	(\$5,991,552)
Basic and diluted net loss per share	(\$0.072)	(\$0.067)	(\$0.072)

MINING PROPERTIES AND FUTURE EXPLORATION WORK

Nelligan property

The Nelligan property includes 58 claims covering 2,880.83 hectares and lies immediately west of the Bachelor property. Since September 2007, the Company has had an option to acquire a 70% interest in the property in return for \$450,000 in exploration expenditures incurred over three (3) years on the property. The exploration expenditures were incurred thus the Company acquired 70% of this property.

Barry property

The Barry property is located in the central part of the Abitibi Greenstone Belt. Mineralization at the Barry mine is structurally controlled and associated with orogenic-type quartz veins. The gold mineralization is mainly associated with a series of quartz-ankerite-albite veins with a halo of biotite-carbonate veinlets and disseminated pyrite. Development work and exploration in recent years on Barry has helped significantly increase resources; the Barry deposit now contains an indicated resource of 7,701,000 tonnes grading 1.29 g/t Au for a total of 309,000 ounces of gold, and an inferred resource of 10,411,000 tonnes grading 1.65 g/t Au for a total of 431.950 ounces of gold.

At the request of the Company, SGS Geostat prepared and submitted a series of sections having to accompany the 43-101 report of resources evaluation and showing the interpretation of the mineralized zones used during their calculation and the indicated and inferred resources which resulted from it. These sections will allow comparing the source of these resources with those obtained during calculation carried out at the intern and that of MRB which is always pending.

Since the high cost of transporting material to the Bachelor mill reduces the deposit's potential, the concept of building a concentrator on site, allowing the deposit to be mined with high tonnage and low grade, was developed in 2010. The Company has therefore begun to investigate the concept of a traditional concentrator, as well as a new concentration method developed by Nichromet Exploration Inc. (Nichromet).

Barry United property

Additional exploration is needed to discover more about the Barry mineralization system, investigate geophysical targets in order to locate new gold zones, and increase the resources of the Barry deposit.

During the year, magnetic and resistivity/induced polarization surveys were carried out by TMC Géophysique of Val d'Or on parts of the Barry property. Two hundred twenty three (223) kilometres of magnetic survey and one hundred ninety five (195) kilometres of IP survey (dipole-dipole, $a=25\text{m}$, $n=1$ to 6) were carried out to cover extensions of the preceding IP surveys on parts of the Barry United and Barry Extension East properties. In this area, the Urban volcanic formation is northeast trending and contains several $N030^\circ$ to $N045^\circ$ trending anomalies which are characteristic of disseminated to massive sulphide mineralisation.

A total of ninety-nine (89) IP anomalies were detected as new anomalies or like extensions of the anomalies detected during preceding surveys. They were correlated with the magnetic pattern oriented WSW-ENE and are numbered BU-1 to BU-23 on the west block and BU-24 to BU-89 on the east block.

On the West block of the Barry United property, several strong intensity IP anomalies extend over long distance and can coincide with deformation zones containing disseminated to massive sulphides within the volcanic units and associated sills. Those continuous IP anomalies were detected up to the property boundary over a distance of 6.5 km and coincide with the south-west extension of sheared zone containing the Barry deposit.

On the East bloc of the Barry United property, several IP anomalies characteristics of gold bearing mineralisation of the vein type were localized in the strike of the Main zone over a distance of 6.5 km up to the eastern property boundary. Those IP anomalies forming segmented or continuous features associated with a major deformation corridor (Mazère fault), oriented $N060^\circ$ reach more than 6 km. Those IP anomalies with locally strong intensity, similar to those defining the gold bearing zones of the Barry mine (Main zone, 43, Centre and 48).

On the northeast extremity of the property a series of subparallel IP anomalies were detected in a 2.5 km wide deformation corridor extending $N60^\circ\text{E}$ which represent a very promising environment for the search of gold bearing zones of the same type and in the prolongation of those of the Barry mine. Those anomalies may represent the southwest extension of mineralized zones intersected on the adjacent property hold by Eagle Hill Exploration Corporation and were a sheared zone extending over 7.5 km returned a gold intersection of 7.47 g/t Au over 14.2m.

Barry Extension Property

On the Barry East Extension block a series of very strong IP anomalies oriented $N60^\circ\text{E}$ was detected over a distance of 3km in a deformation corridor crossing the eastern part of the property over a width of 600m. Those very strong IP anomalies are located 2.5 km south of the Barry deposit and represent southwest extension of mineralized zones which returned an intersection of 2,84 g/t Au over 31m, including 18,16 g/t Au over 4,5m on the adjacent property hold by Bonterra Resources (Press release of August 08, 2011).

This geophysical survey allowed to complete the IP coverage on the Barry property and to extend the conducting zones associated with mineralized zones over a distance of more than 13km. A follow-up field work being composed of prospection, stripping and trenching, as well as diamond drilling is strongly recommended to investigate the most promising anomalies.

Bachelor Lake Property

During the three month period ending June 30th, 2011, Metanor Resources progressed the shaft sinking by 210 feet, including the development of level 14 shaft station of over 150 feet. Since the beginning of the bulk sampling project in 2010, the Company completed 503 feet of new section in the shaft, the development of two new level stations along with the complete rehabilitation of the upper portion of the shaft. As of June 30th, 2011, 36 feet of shaft is left to complete, as well as the development of the level 15 spill station.

These 2 new levels will provide access to the lower portion of the Bachelor deposit identified in the 43-101 resource estimates, and allow access to complete a 5,000 tonne bulk sample. Metanor Resources Inc. mandated Stantec Inc. (TSX: STN) as independent consultant to complete a Prefeasibility Study in collaboration with the Bachelor Lake technical team. The results from the Bachelor lake Prefeasibility Study as well as the reserves estimates were published during the quarter ending March 31st, 2011. The Prefeasibility confirms an internal rate of return of 85%. The project will generate a cash flow of \$96 million from 200,000 ounces of gold to be mined during the initial 3 years of the project. The yearly production is planned at 60,000 ounces. The Bachelor Lake project is using the resource calculated in the 2005 NI 43-101 Technical Report published by Innov-Explo.

The measured and indicated resources consist of 841,591 tonnes grading 7.79 grams per tonne representing 210,857 ounces of gold with a cut-off grade of 3.43 gpt. In the prefeasibility study, the proven and probable reserves were determined at 843,772 tonnes grading 7.38 g/t Au for 200,177 oz Au using the same cut-off grade of 3.43 g/t.

Mining equipment continue to be purchased ahead of forecast due to their scarcity, and to assure availability for drift development when the shaft sinking is completed.

CONTINGENCIES

Flow-through financings

The Company is partly financed by issuance of flow-through common shares. However, there are no guarantees that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has taken all the necessary measures to meet its commitment. The Company recognizes allowances when judged necessary.

Lawsuit proceedings by the estate of an employee of Montali Inc.

The estate of an employee of a contractor (Montali Inc.) commenced a lawsuit against the Company for an amount of \$1,121,394 concerning an industrial accident. The Company considers the above mentioned lawsuit as unfounded considering the contract intervened between the Company and Montali. Furthermore, the amount claimed will have to be reduced by the CSST benefits considering that it was an industrial accident. Moreover, the insurer bond to take up the interest of the Company. As at June 30, 2011, no amount was recognized concerning this lawsuit.

SUBSEQUENT EVENT

On September 2, 2011, Sandstorm Gold Ltd. remitted the US\$6 million final payment to the Company in accordance with the gold purchase agreement announced on January 14, 2011. Under the terms of the agreement, Sandstorm is entitled to purchase 20% of the life of mine gold produced from the Bachelor Lake property at a per ounce price equal to the lesser of US\$500 and the then prevailing market price of gold.

COMMITMENTS

On January 14, 2011, the Company entered into a gold sale agreement with Sandstorm to sell a portion of the gold production from its Bachelor Lake gold mine. Sandstorm has agreed to purchase 20% of the life of mine gold produced from its Bachelor Lake gold mine for US\$20 million, plus ongoing per ounce payments equal to the lesser of US\$500 and at the then prevailing market price per ounce of gold. Sandstorm will be making the following staged payments: (i) US\$5 million at the signature of the agreement (received), (ii) US\$9 million once the Company has achieved certain funding conditions relating to financing (received) and (iii) US\$6 million, on September 1st, 2011. The initial payments were recorded as unearned revenue.

The Company is committed to providing a minimum of 50,000 ounces over a period of 12 consecutive months and this, within 48 months of signing the agreement. If it does not meet this guarantee, the Company will have to reimburse part of the deposit of US\$20 million to Sandstorm.

The Company has provided a guarantee that Sandstorm will receive a minimum of US\$20 million in pre-tax cash flow over the next six years. If, at the end of the agreement expected in 40 years, the Company has not paid to Sandstorm an amount corresponding to the cash flows determined at the signature of the agreement, it will have to reimburse a portion of the prepaid unearned revenue.

The Company is committed to spend \$14,568,420 in exploration expenses relating to flow-through financings closed in 2010 and 2011. Expenses for an amount of \$3,136,654 must be spent before December 31, 2011 and \$11,431,766 before December 31, 2012.

The Company has a lease commitment for the rent of the head office. The rental agreement expires during the following year end and the minimum payments payable totals \$21,000.

RELATED PARTY TRANSACTIONS

During the exercise, the Company incurred the following expenses and fees with related parties (directors, officers or companies under their control), compared to the previous exercise:

Expenses	June 30, 2011 \$	June 30, 2010 \$
Administrative expenses		
Professional fees	72,000	41,000
Consulting fees	300,500	123,000
Rental expenses	36,000	36,000

In 2011, director's fees for an amount of \$15,000 were paid to Ronald Perry, \$17,000 to Raymond Couture, \$25,000 to Tristram Coffin and \$15,000 to Robert C Bryce. Consulting fees of \$300,500 were paid to Briolijor Corporation, a company controlled by Mr. Ronald Perry. Rent expenses were paid to a company controlled by Serge Roy for the Company's head office for an amount of \$36,000 in 2011 and 2010. During the year ended of June 30, 2010, the Company paid director's fees for an amount of \$3,000 to Malcolm Duncan, \$8,000 to Ronald Perry and \$14,000 to Raymond Couture, \$9,000 to Tristram Coffin and \$7,000 to Robert C. Bryce. An amount of \$123,000 was paid to a company controlled by Ronald Perry for consulting fees regarding special mandates and other services. These transactions occurred during the normal course of operations and were measured at the exchange amount, which is the amount established and accepted by the parties.

DIVIDEND POLICY

The Company has not declared any cash dividend on its outstanding common shares since its incorporation. Any decision to pay dividends to holders of common shares will be made by the Board of Directors based on its assessment of the Company's financial position, taking into account the funds required to ensure future growth and other factors deemed pertinent under the circumstances. It is unlikely that a dividend will be paid in the foreseeable future.

INFORMATIONS REGARDING THE ISSUED AND OUTSTANDING SHARES

Schedule –Outstanding Shares

	Actions ordinaires / Common shares	Montant / Amount \$
Balance, June 30, 2009	105,807,582	59,069,123
Cash, private placements	13,190,000	6,595,000
Cash, flow-through private placements	9,227,227	5,351,792
Exercise of options	125,000	125,000
Exercise of broker warrants	342,696	226,186
Less: share issue expenses	-	(2,419,222)
	128,692,505	68,947,879
Balance, June 30, 2010		
Cash, private placements	18,305,668	5,951,700
Cash, flow-through private placements	54,338,692	22,762,334
Exercise of broker warrants	350,000	231,000
Less: share issue expenses (a)	-	(4,233,951)
	201,686,865	93,658,962
Balance, June 30, 2011		

(a) Including an amount of \$1,816,000 (\$1,115,000 in 2010) of future income taxes regarding flow-through financing which have been devaluated.

Outstanding Stock Options

	<u>2011</u>	<u>2010</u>	
	<u>Shares</u>	<u>Shares</u>	<u>Weighted average exercise price</u>
	<u>\$</u>	<u>\$</u>	
Outstanding, beginning of year	7,487,250	4,843,000	0.80
Granted	669,000	3,404,000	0.45
Exercised	-	(125,000)	0.50
Expired	(291,250)	(609,750)	0.32
Cancelled	-	(25,000)	0.38
Outstanding, end of year	7,865,000	<u>7,487,250</u>	0.77
Exercisable, end of year	7,795,500	<u>7,320,250</u>	0.78

Exercisable and outstanding granted stock options as at June 30, 2011

Expiry Date	Exercise Price	2011		2010	
		Number of shares exercisable	Number of shares outstanding	Number of shares exercisable	Number of shares outstanding
	\$				
September 18, 2010	0.50	-	-	3,750	3,750
November 6, 2010	0.48	-	-	10,000	10,000
November 6, 2010	0.49	-	-	30,000	30,000
November 6, 2010	0.66	-	-	7,500	7,500
November 6, 2010	0.68	-	-	40,000	40,000
January 18, 2011	0.48	-	-	15,000	15,000
January 18, 2011	0.66	-	-	15,000	15,000
February 28, 2011	0.90	-	-	35,000	35,000
February 28, 2011	1.00	-	-	30,000	30,000
July 21, 2011	0.49	20,000	20,000	-	-
July 21, 2011	0.56	20,000	20,000	-	-
July 21, 2011	0.82	20,000	20,000	-	-
March 22, 2012	0.50	175,000	175,000	87,500	175,000
September 22, 2012	0.43	100,000	100,000	-	-
September 22, 2012	0.50	100,000	100,000	-	-
September 22, 2012	0.67	100,000	100,000	-	-
September 22, 2012	0.70	100,000	100,000	-	-
September 22, 2012	0.87	100,000	100,000	-	-
September 22, 2012	1.00	100,000	100,000	-	-
November 28, 2012	0.50	100,000	100,000	100,000	100,000
November 28, 2012	0.60	35,000	35,000	35,000	35,000
November 28, 2012	1.00	150,000	150,000	150,000	150,000
October 6, 2013	1.00	30,000	30,000	30,000	30,000
January 21, 2014	1.00	440,000	440,000	440,000	440,000
March 17, 2014	0.97	30,000	30,000	40,000	40,000
January 26, 2015	0.60	150,000	150,000	160,000	160,000
October 5, 2015	0.70	50,000	50,000	50,000	50,000
November 29, 2016	0.50	375,000	375,000	390,000	390,000
May 28, 2017	0.80	100,000	100,000	100,000	100,000
August 30, 2017	0.67	75,000	75,000	175,000	175,000
September 17, 2017	0.68	5,000	5,000	5,000	5,000
January 10, 2018	0.82	15,000	15,000	35,000	35,000
January 23, 2018	0.80	28,000	28,000	28,000	28,000
February 3, 2018	1.00	1,875,000	1,875,000	1,995,000	1,995,000
June 30, 2018	0.87	-	-	100,000	100,000
September 15, 2018	0.48	20,000	20,000	20,000	20,000
February 16, 2019	0.59	59,000	59,000	59,000	59,000
Mai 14, 2019	0.49	15,000	15,000	35,000	35,000
July 1, 2019	0.43	75,000	75,000	175,000	175,000
September 2, 2019	0.41	100,000	100,000	100,000	100,000
September 28, 2019	0.66	120,000	120,000	120,000	120,000
January 17, 2020	0.57	100,000	100,000	50,000	100,000
February 18, 2020	0.50	59,000	59,000	29,500	59,000
March 31, 2020	0.70	2,125,000	2,125,000	2,125,000	2,125,000
April 11, 2020	0.70	350,000	350,000	500,000	500,000
July 18, 2020	0.70	75,000	75,000	-	-
September 2, 2020	0.56	15,000	15,000	-	-
September 22, 2020	0.50	95,000	120,000	-	-
February 25, 2021	0.32	294,500	339,000	-	-
		7,795,500	7,865,000	7,320,250	7,487,250

Outstanding purchase warrants as at June 30, 2011

Expiry date	Exercise price	2011	2010
		Number	Number
	\$		
March 20, 2011	0.50	-	1,118,657
March 20, 2011	0.65	-	13,079,229
April 20, 2011	0.50	-	149,700
April 20, 2011	0.65	-	1,322,350
May 16, 2011	0.99	-	3,000,000
December 12, 2011	0.65	6,739,517	6,739,517
January 8, 2012	0.65	2,000,000	2,000,000
February 17, 2012	0.40	6,865,221	-
March 3, 2012	0.40	9,946,200	-
March 5, 2012	0.65	2,850,000	2,850,000
March 29, 2012	0.65	60,000	60,000
May 15, 2012	1.00	9,375,001	9,375,001
June 20, 2012	1.00	1,250,000	1,250,000
July 19, 2012	1.00	312,500	312,500
February, 17, 2013	0.40	4,045,834	-
March 3, 2013	0.40	3,957,000	-
May 31, 2013	0.48	2,574,567	-
		49,975,840	41,256,954

FUTURE ACCOUNTING STANDARD

International Financial Reporting Standards («IFRS»)

In February 2008, the Accounting Standards Board (“AcSB”) announced that generally accepted accounting principles in Canada (“GAAP”) are to converge with International Financial Reporting Standards (“IFRS”) and that public companies will be required to present their financial statements, with comparative data, under these standards for fiscal years beginning on or after January 1, 2011. As a result, the Company will be required to report under IFRS for its 2011 fiscal year starting July 1, 2011 for interim and annual financial statements. In addition, 2011 comparative data will need to be reprocessed so that it may be presented according to the same accounting rules. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements.

An IFRS conversion plan has been developed. The conversion is progressing according to plan, and the Company foresees that it will be completed in time for the production of the quarterly reports of 2012, the first financial statements drawn up according to IFRS, as well as for the annual report for the financial period ending June 30, 2012.

Staff with appropriate qualifications and experience has been assigned to the project. Moreover, these individuals regularly attend thorough training sessions so that they may follow the changes to IFRS, which is in constant evolution. This team conducts technical research, provides issue identification and formulates recommendations to management, who then transmit the information to the audit committee.

FUTURE ACCOUNTING STANDARD (Continued)

International Financial Reporting Standards («IFRS»)

The Company has completed phase 1, diagnosis, which included a thorough examination of the differences between the Canadian GAAP and the IFRS, as well as a study of possible options to be adopted. The consequences of first time adoption of the IFRS will be detailed initially, followed by the expected resulting implications on subsequent financial statements. The items and comments below should not be regarded as a complete list of changes that will result from the transition to IFRS. It is intended to highlight the areas that the Company believes to be most significant. Additionally, the present IFRS may undergo modifications until June 30, 2012, following recommendations made by the International Accounting Standards Board ("IASB"), the organization responsible for continuous updates of the IFRS. The Company actively monitors the IASB's schedule of projects, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP.

First time adoption of IFRS

IFRS 1 "First-time adoption of International Financial Reporting Standards" is a financial reporting standard that provides the framework for the transition to IFRS. The general principle under IFRS 1 is retroactive application, such that the opening balance sheet for the comparative year financial statements is to be restated as though the Company had always applied IFRS, with the net impact shown as an adjustment to opening retained earnings. However, IFRS 1 contains certain mandatory exceptions and permits certain optional exemptions from full retroactive application. The mandatory exceptions include among others, a revision of accounting estimates previously made by the Company. Past accounting estimates cannot be revised as a result of information obtained a posteriori during the application of the IFRS. With regards to the optional exemptions, the Company has decided to apply certain exemptions, hereafter described.

The diagnosis completed at the initial stage of its planned conversion to the IFRS, as well as the choices carried out via IFRS 1, will allow the Company to finish phase 2 of the plan, which is to determine the impact of the differences between GAAP and IFRS at the transition date. Consequently, through this analysis, the Company will be able to proceed to create its opening balance sheet as of July 1, 2010. The differences between GAAP and IFRS that have been identified as significant to the Company are explained below.

Stock-based compensation

IFRS 1 encourages, but does not require the application of IFRS 2 "Share-based Payment" to equity instruments that were granted on or before November 7, 2002. A first-time adopter is also encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the date of transition or on January 1, 2005, whichever is later. The Company has elected to apply IFRS 2 only to equity instruments that were granted before the date of transition but that were not vested at this time. The main resulting modifications, and their consequences, are below:

Recognition of expense

GAAP – For grants of share-based awards with graded vesting, the total fair value of the award is recognized on a straight-line basis over the employment period necessary to vest the award.

IFRS – Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis. As a result, the Company adjusted its expense for share-based awards to reflect this difference in recognition.

FUTURE ACCOUNTING STANDARD (Continued)

Stock-based compensation (Continued)

Forfeitures

GAAP – Forfeitures of awards are recognized as they occur.

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

Asset retirement obligations

The Company has elected to apply the exemption from full retrospective application of asset retirement obligations as allowed under IFRS 1. This will enable it to avoid restating property, plant and equipment, depreciation and depletion of property, plant and equipment as well as accretion expenses for all previous years, and instead to make the adjustment to Shareholder's equity as at July 1, 2010. As such, the Company has remeasured the provisions as at July 1, 2010 under IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and estimated the amount that will be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. The Company will do this using the best estimate of the historical risk-adjusted discount rates. The main resulting modifications are below:

Discount rate

GAAP – The provision for asset retirement obligations is not adjusted for changes in the discount rate.

IFRS – The provision for asset retirement obligations must be adjusted for changes in the discount rate. Consequently, the Company will have to adjust its liability, its property, plant and equipment and its exploration and evaluation assets.

Incidences on the subsequent financial statements

The differences between the GAAP and the IFRS seen previously will affect the 2012 financial statements and the comparable 2011 financial statements, the latter of which will be converted according to IFRS. At the present time, we cannot determine the quantitative impact that the adoption of these new rules will have on these financial statements.

Here are other important elements to consider with respect to recognition, measurement, presentation and disclosure of financial information. These elements should not be considered as an exhaustive list of changes that will result from the transition to IFRS, but rather as a brief summary of the accounting differences that management currently believes to be most significant.

Presentation of financial statements

Under IAS 1 "Presentation of Financial Statements", expenses must be classified by their nature or by their function in the statement of earnings. The Company elected to present the statement of earnings by nature. For example, upon the adoption of IFRS, depreciation and depletion expenses will be allocated as a separate line in the statement of earnings as currently permitted under Canadian GAAP.

Moreover, the IAS 1 prohibits the offsetting of income and expenses. Consequently, the income generated from gold sales that were previously accounted for as a reduction of deferred exploration expenses henceforth will have to be presented as income.

FUTURE ACCOUNTING STANDARD (Continued)

Incidences on the subsequent financial statements (Continued)

Exploration and project evaluation

The Company expects to retain its policy, in force before the transition of not capitalizing expenditures relating to exploration and project evaluation. The capitalization of expenditures begins when management and the Board of Directors decide to bring a project into commercial production. This decision is made when the findings of a feasibility study demonstrate the advantages and viability of said project. Consequently, the Company does not anticipate any changes regarding the recording of exploration and project evaluation expenditures.

Property, Plant & Equipment

International Accounting Standards IAS 16 "Property, Plant & Equipment" and Canadian GAAP contain the same basic principles, however there are some differences. IFRS require that significant parts of an asset be depreciated separately and that depreciation commences when the asset is available for use. Based on our latest analysis, this requirement should not have a material impact. IFRS also permit property, plant and equipment to be measured using the fair value model or the historical cost model. The Company is not planning on adopting the fair value measurement model for its property, plant and equipment. The Company will continue to measure its property, plant and equipment at amortized cost.

Impairment of assets

Under Canadian GAAP, the impairment test for assets or asset groups is a two-step process. The first step involves comparing undiscounted future cash flows of an asset or asset group to the carrying value. If the undiscounted cash flows are below its carrying value, the second step is required whereby an impairment charge is calculated as the difference between the asset or asset group discounted future cash flows and its carrying amount. Impairments under IAS 36 "Impairment of assets" only require a one-step impairment test. Using this test, the carrying value of an asset or asset group (referred to as a Cash Generating Unit) is compared to its recoverable amount, which is the higher of fair value less costs to sell, and value-in-use, which involves discounted future cash flows. Also, unlike Canadian GAAP, IFRS require impairment charges to be reversed when circumstances indicate that the impairment no longer exists. In the short term, the Company does not believe this will impact its financial results.

Activities in progress

A model of IFRS financial statements has been developed. The Company is completing the related notes. Overall, a lot of effort will be put on the presentation of financial statements, as IFRS requires more disclosure. The Company is also assessing the impact of the adoption of the IFRS on information technology and data systems. Although new reports will likely be required to determine new information required for reporting, presentation and disclosure under IFRS, we currently do not expect the transition to IFRS to require significant changes to our information technology systems and reports. We also expect that our systems will be adequate for generating the comparative fiscal 2011 information, required in accordance with IFRS.

For all the identified accounting changes, the Company also plans to assess impact on the design and effectiveness of its controls. According to a preliminary examination of environmental controls, the Company does not foresee important changes to its internal controls. Similarly, no impact has been identified on commercial activities to date.

These changes will come into effect in phase 3 of the plan, that is, during implementation of the conversion. The changes identified in phase 2 will be implemented and tests will be carried out to ensure that differences, should there be any, will be resolved. Subsequently, the Company will be able to develop its first interim financial statements and accompanying notes for the quarter ending September 30, 2011.

ASSETS RETIREMENT OBLIGATIONS

The Company's assets retirement obligations are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of future timing of the costs. Amounts of incurred liabilities of \$2,103,541 and \$547,037 were respectively estimated for the mill and the Barry deposit, for total obligations of \$2,650,578.

As at June 30, 2011, the Company has \$236,938 in deposits with Quebec's government for the settlement of asset retirement obligations of which \$51,438 is for the Bachelor Lake mine site and \$185,500 for the Barry mine site.

FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks.

The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risk

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Generally, the carrying amount on the balance sheet of the Company's financial assets exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

As at June 30, 2011, the cash and temporary investments are held by Canadian financial institutions and the Company diversifies its holdings to limit its credit risk. Furthermore, the Company is subject to concentration credit risk.

The Company does not obtain any security to support financial instruments subject to credit risk but mitigates this risk by dealing only with a diverse group of financially sound counterparties and accordingly, does not anticipate any loss for non-performance.

Liquidity risk

The liquidity risk is the risk that the Company experiences difficulty honouring commitments related to financial liabilities. The management approach concerning cash management is to ensure, as much as possible, that the Company has the necessary funds to meet its financial obligations at maturity. If considered necessary, management renegotiates extensions to maturity dates to balance the needs in cash and financings.

The Company expects to satisfy obligations under accounts payable and accrued liabilities, revolving credit and repayment of the short-term part of long-term debts. Management intends to continue, as was done in the past, to finance its activities by raising funds by private equity investments. Even if it succeeded in financing its activities in the past, management cannot comment on the success of its future fund raising and it believes that the liquidity risk is high.

Financial risk (Continued)

The following chart summarizes the Company's financial liabilities as at June 30, 2011:

	Less than one year	Between one and two years	More than two years
	\$	\$	\$
Accounts payable and accrued liabilities	6,570,500	-	-
Long-term debt	144,759	98,881	170,792
	<u>6,715,259</u>	<u>98,881</u>	<u>170,792</u>

Market risk

Interest rate risk

The Company's accounts payable and accrued liabilities do not comprise any interest rate risk since they do not bear interest.

The notes payable and the obligations under capital leases bear interest at a fixed rate thus exposing the Company to the risk of changes in fair value arising from interest rate fluctuations.

Exchange risk

As at June 30, 2010, the Company was exposed to exchange risk as a result of the revolving credit denominated in U.S. dollars.

A 10% weakening of the exchange rate of the US currency at June 30, 2010 would have the effect of reducing the book value of the revolving credit of \$521,600, and reduce the interest on the revolving credit and the financial fees for an amount of \$86,200 resulting in a reduction of the net loss of \$607,800. This analysis assumes that other variables, especially interest rates would remain constant. A 10% strengthening of the US currency would have had the equal effects on the revolving credit, the net loss, but reversed.

Interest rate sensitivity analysis

Furthermore, a 1% increase in the interest rate would not have decreased the fair value of the notes payable and the obligations under capital leases because the value of these financial liabilities is low. However, this variance would have had an impact of \$54,900 as at June 30, 2010.

Fair value of financial instruments

Short-term financial assets and liabilities and restricted funds for exploration are financial instruments whose fair value approximates their carrying amount given that they will mature shortly. The fair value of the revolving credit is equivalent to the carrying amount based on future cash flows. The fair value of long-term debt and obligations under capital leases is equivalent to the carrying amount given that management believe that interest rates on loans contracted during the year carry market interest rates.

As at June 30, 2010, the fair value of the revolving credit was equivalent to the carrying amount based on future cash flows.

RISKS AND UNCERTAINTIES

As at June 30, 2011, the Company is considered as an exploration company. Many external factors influence and should have significant impact on the results of the Company and on its financing and capital needs. In the future, additional funds will be necessary to finance exploration work, development and acquisitions. The fund sources available to the Company are share issuance or debt. There is no assurance that such financing will be available to the Company. Also, if this financing should be completed successfully, there is no assurance as to the effect that the financing will be on favourable conditions for the Company or that it will provide enough funds to reach its objectives, which could affect negatively the activities of the Company or its financial situation.

Risk due to the state of the industry:

Exploration and advanced development of mining resources are risky endeavours that even careful planning associated with experience and knowledge cannot eliminate. Even if the discovery and exploitation of mineral resources may be extremely lucrative, only a few sites prospected become profitable mines. Significant expenses may prove to be required to determinate mineral reserves, establish metallurgical processes and built the installation needs to extract and treat the minerals from a particular site.

Risk due to the uncertainty of title:

Although the Company has obtained title opinions with respect to certain of its properties and has taken reasonable measure to ensure proper title to its properties, there is no guarantee that title to any of its properties will not be challenged or impugned. Third parties may have valid claims underlying portions of the Company's interest. Exploration and advanced development of mining resources are risky endeavours that even careful planning associated with experience and knowledge cannot eliminate. Even if the discovery and exploitation of mineral resources may be extremely lucrative, only a few sites prospected become profitable mines. Significant expenses may prove to be required to determinate mineral reserves, establish metallurgical processes and built the installation needs to extract and treat the minerals from a particular site.

Risk due to the Governmental regulation:

The activities of the Company must respect the multiple laws and regulations which regulate exploration, advanced development and exploitation of mineral resources, the protection of the environment, the acquisition of permits and the authorizations of mining authorities for the work performed. The Company believes that its activities are in conformity with all respects of the law. A change in legislation could have a negative impact on the activities of the Company.

Uninsured Risks

The Company could become liable for subsidence, pollution and other risks against which it cannot insure itself or chooses not to insure itself due to the high cost of premiums or for some other reason. Payment of such liabilities could decrease or even eliminate the funds available for exploration and mining activities.

Commodity Prices

The market for uranium, gold, diamond, base metals or other mineral discovered can be affected by factors beyond the Company's control. Commodity prices have fluctuated widely, particularly in recent years. The impact of these factors cannot be accurately predicted.

FORWARD-LOOKING STATEMENTS - CAUTION

Our report contains « forward-looking statements », not based on historical facts. Forward-looking statements reflect, as at the date of this report, our estimates, forecasts, projections, expectations and beliefs as to future events or results. Forward-looking statements are reasonable estimates, but involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events to differ materially from current expectations expressed or implied by the forward-looking statements include, but are not limited to, factors associated with fluctuations in the market price of precious metals, mining industry risks, uncertainty as to calculation of mineral reserves and requirements of additional financing and the capacity of the Company to obtain financing.

The Company believes that the assumptions inherent in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document. The Company disclaims any intention or obligation to update or revised any forward-looking statements, whether as a result of new information, future events or otherwise.

This management's discussion and analysis contains forward looking statements reflecting the Company's objectives, estimates and expectations. These statements are identified by the use of verbs such as «believe», «anticipate», «estimate» and «expect» as well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

(s) Serge Roy
Serge Roy, President and CEO

(s) Claudine Lévesque
Claudine Lévesque, CFO

Metanor Resources Inc.

(an exploration Company)

Financial Statements June 30, 2011 and 2010

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Independent Auditor's Report

To the shareholders of
Metanor Resources Inc.

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We have audited the accompanying financial statements of the company Metanor Resources Inc., which comprise the balance sheets as at June 30, 2011 and 2010 and the statements of Earnings and comprehensive loss 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 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 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

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

Raymond Chabot Grant Thornton LLP¹

Montreal
October 24, 2011

¹ Chartered accounted auditor permit no. 22865

Metanor Resources Inc.

(an exploration Company)

Loss and comprehensive loss and Deficit

Years ended June 30, 2011 and 2010

	2011	2010
	\$	\$
LOSS AND COMPREHENSIVE LOSS		
Expenses		
Administration expenses	7,057,989	2,610,307
Loss (gain) on exchange rate	17,739	(408,500)
Management, directors and employees stock-based compensation	138,800	1,343,000
Interest on revolving credit	476,411	862,116
Interest on long-term debt	42,213	31,259
Financing fees	1,221,299	826,871
Loss on disposal of equipment	218,052	1,565
Depreciation of equipment	90,920	79,639
Part XII.6 income taxes	50,921	76,538
Write down of mineral properties and deferred exploration expenses	4,144,359	3,561,406
Net loss before investment income and comprehensive loss	13,458,703	8,984,201
Net investment income	35,621	10,733
Loss before income taxes	13,423,082	8,973,468
Future income taxes (Note 16)	1,816,000	1,115,000
Net loss and comprehensive loss	(11,607,082)	(7,858,468)
Basic and diluted net loss per share	(0.072)	(0.067)
Weighted average number of shares outstanding	161,532,891	116,637,734
DEFICIT		
Deficit, beginning of year	(24,620,398)	(16,761,930)
Net loss	(11,607,082)	(7,858,468)
Deficit, end of year	(36,227,480)	(24,620,398)

The accompanying notes are an integral part of the financial statements.

Metanor Resources Inc.

(an exploration Company)

Cash Flows

Years ended June 30, 2011 and 2010

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Net loss	(11,607,082)	(7,858,468)
Non-cash items		
Stock-based compensation	153,675	1,357,875
Depreciation of equipment	90,920	79,639
Gain on exchange rate	-	(631,438)
Loss on disposal of equipment	218,052	1,565
Write down of mineral properties and deferred exploration expenses	4,144,359	3,561,406
Future income taxes	(1,816,000)	(1,115,000)
Changes in working capital items:		
Taxes recoverable and others	123,442	310,447
Other receivables	516	173,011
Prepaid expenses	147,273	(235,824)
Royalties payable	184,489	160,864
Accounts payable and accrued liabilities	3,205,609	(914,498)
Cash flows used in operating activities	(5,154,747)	(5,110,421)
INVESTING ACTIVITIES		
Temporary investments	(10,687,794)	(4,658)
Restricted funds for exploration	-	4,285,980
Advances on production royalties	25,117	101,857
Security deposits	(236,938)	
Term deposit	-	3,755,220
Property, plant and equipment	(3,823,803)	(4,956,073)
Material and supplies for exploration	(46,030)	(294,201)
Disposal of equipment	510,000	1,500
Acquisition of mineral properties	(21,937)	(629)
Deposits on contracts	(160,000)	-
Reimbursement of deposits on contracts	111,277	168,723
Deferred exploration expenses	(19,188,758)	(29,722,597)
Gold sales	5,060,335	20,792,329
Tax credit received	-	1,426,088
Cash flows used in investing activities	(28,458,531)	(4,446,461)
FINANCING ACTIVITIES		
Revolving credit	(5,216,540)	(200,120)
Long-term debt	322,328	103,810
Payments on long-term debt	(186,031)	(49,928)
Payments on obligations under capital leases	(336,551)	(393,627)
Revenue received from the transaction with Sandstorm	13,694,600	-
Issuance of shares	28,889,034	12,180,649
Share issue expenses	(1,877,292)	(1,110,225)
Cash flows from financing activities	35,289,548	10,530,559
Net increase in cash	1,676,270	973,677
Cash, beginning of year	973,677	-
Cash, end of year	2,649,947	973,677

Additional disclosures on cash flows information (Note 3)

The accompanying notes are an integral part of the financial statements.

Metanor Resources Inc.

(an exploration Company)

Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	\$	\$
ASSETS		
Current assets		
Cash (Note 19b)	2,649,947	973,677
Temporary investments	10,692,452	4,658
Taxes receivable	436,569	560,011
Tax credits receivable related to exploration	1,450,685	1,450,685
Other receivables (Note 4)	44,464	959,135
Prepaid expenses	289,193	436,466
	<u>15,563,310</u>	4,384,632
Material and supplies for exploration	891,160	845,130
Deposits on contracts, without interest or terms of payment	171,876	123,153
Advances on production royalties, without interest	215,703	240,820
Security deposits (Note 11b)	236,938	-
Property, plant and equipment (Note 5)	27,836,247	26,205,345
Mineral properties		
Acquisition cost (Note 6)	8,772,244	8,753,516
Deferred exploration expenses (Note 7)	35,036,984	23,465,584
	<u>88,724,462</u>	<u>64,018,180</u>

Metanor Resources Inc.

(an exploration Company)

Balance Sheets

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	\$	\$
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	6,570,500	4,388,812
Royalties payable	469,193	284,704
Revolving credit (Note 8)	-	5,216,540
Short-term instalments on long-term debt and obligations under capital leases	144,759	409,244
	7,184,452	10,299,300
Long-term debt (Note 9)	269,673	205,442
Unearned revenue (Note 10)	13,694,600	-
Assets retirement obligations (Note 11)	2,650,578	2,386,854
	23,799,303	12,891,596
SHAREHOLDERS' EQUITY		
Capital stock (Note 12)	93,658,962	68,947,879
Warrants (Notes 13 and 15)	734,656	1,758,076
Contributed surplus (Notes 14 and 15)	6,759,021	5,041,027
Deficit	(36,227,480)	(24,620,398)
	64,925,159	51,126,584
	88,724,462	64,018,180

The accompanying notes are an integral part of the financial statements.

(s) Serge Roy

Serge Roy, - President and CEO

(s) Claudine Lévesque

Claudine Lévesque, - CFO

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

1 – GOVERNING STATUTES, NATURE OF OPERATIONS AND GOING CONCERN

Metanor Resources Inc. (the «Company»), incorporated under the Canada Business Corporations Act, is an exploration company with activities in Canada.

The Company is in the process of exploring its mining property interests and has not yet determined whether its mining property interests contain mining deposits that are economically recoverable.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of the going concern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. Management has assessed that the Company has enough money as it closed many private placements and has collected large sums relatively to the Sandstorm Gold Ltd.'s transaction (Note 10) during the year. The Company will therefore be able to finance its exploration programs and incur discretionary expenses for the next twelve months ending June 30, 2012.

2 - ACCOUNTING POLICIES**Accounting estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates include those related to the recoverability of the stated value of the mineral properties and deferred exploration expenses, assets retirement obligation and stock-based compensation. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Basis of presentation

The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of the fair value.

Revenue recognition

The proceeds from the sale of gold are recognized when persuasive evidence of an arrangement exists, delivery has occurred, that is, that the customer has taken possession of the gold, the price to the buyer is fixed or determinable and collection is reasonably assured. Since the Company has not reached the stage of commercial production, the sale of gold is recorded as a reduction of deferred exploration expenses.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

2 - ACCOUNTING POLICIES (Continued)

Unearned revenue

The Company concluded a gold sale agreement with Sandstorm Gold Ltd. ("Sandstorm"), formerly Sandstorm Resources Ltd., (Note 10). The Company received two payments that were recorded as unearned revenue. The initial payments received were for the future delivery of gold ounces at contractual prices. When the Company will proceed with the delivery of the gold to Sandstorm, it will recognize the revenue au prorata of the quantity of delivered gold.

Financial assets and liabilities

On initial recognition, all financial assets and liabilities are measured and recognized at their fair value, except for financial assets and liabilities resulting from certain related party transactions. Transaction costs from financial assets and liabilities held-for-trading are recognized in earnings and presented under administrative expenses.

Subsequently, financial assets and liabilities are measured and recognized as follows.

Held-for-trading financial assets and liabilities

Held-for-trading financial assets and liabilities are measured at their fair value and changes in fair value are recognized in earnings. Changes in fair value that are recognized in earnings include interest and realized and unrealized gains or losses and are presented under «Net investment income».

Cash and temporary investments are classified as held-for-trading financial assets.

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data. Cash and temporary investments are considered as level 1.

Loans and receivable and other financial liabilities

Loans and receivable and other financial liabilities are measured at amortized cost using the effective interest method. Interest calculated using the effective interest method is presented in "Interest on long-term debt" and "Interest on revolving credit". Transaction costs related to the revolving credit are included in financing fees in the income statement.

Financial assets and liabilities (Continued)

Other receivables are classified as loans and receivables. Accounts payable and accrued liabilities, royalties' payable and long-term debt are classified as other financial liabilities.

In 2010, the revolving credit was classified as other financial liabilities.

Temporary investments

Temporary investments are composed of Canadian and foreign money market funds.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

2 - ACCOUNTING POLICIES (Continued)**Mining rights tax credit and tax credit for mining exploration companies**

The Company is entitled to refundable mining rights tax credit on mining exploration charges incurred in Quebec. This tax credit has been applied against the expenses incurred.

The Company is also entitled to the refundable tax credit for mining exploration companies on qualified expenditures incurred. This tax credit may reach 15% and has been applied against the expenses incurred.

The exploration tax credits are recorded provided that the Company is reasonably certain that these credits will be received.

Property, plant and equipment

Property, plant and equipment are amortized over their estimated useful lives using the straight - line method over the following years :

	<u>Years</u>
Leasehold improvements	5
Office equipment	10
Vehicles	8
Mine buildings – Bachelor and Barry	15
Equipment and tools	10
Computer and telecommunications equipment	5
Mining equipment	10
Ore mill	15
Assets retirement costs	8

The underground infrastructures in development are not amortized.

Mineral properties

Mineral properties are composed of mining exploration permits and mining claims and are accounted for at their acquisition cost.

Acquisition cost and exploration expenses relating to a non-producing property are deferred until the property is brought into production or abandoned. If commercial production is achieved, the capitalized costs are amortized over the estimated useful life of the project. Upon abandonment or if the costs to date are determined to be unrecoverable, the accumulated costs are charged to earnings. Government assistance, mining duties credits and other credits related to exploration work are applied against the deferred exploration expenses. Revenue from precious metals sales are recorded against deferred exploration expenses until the beginning of commercial production.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

2 - ACCOUNTING POLICIES (Continued)**Mineral properties (Continued)**

Mineral properties and deferred exploration expenses are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company performs a recoverability test when estimate future cash flows are available. If management has not enough information to estimate future cash flows to evaluate the recoverability of capitalized amounts, management will evaluate it by comparing the fair value and the carrying value, without doing a recoverability test. Management will also consider whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties will be for proceeds in excess of their carrying value.

Impairment of long-lived assets

Property, plant and equipment are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

Assets retirement obligations

Total estimated cash flow required to settle the obligations arising from environmentally acceptable closure plans are discounted based on the credit-adjusted risk-free interest rate and are recorded as a liability with a corresponding increase to property, plant and equipment, which is depreciated over 8 years, or to deferred exploration expenses, which will be depreciated in accordance with the units-of-production method based on the estimated life of the mine upon beginning of commercial production. The asset retirement obligations are adjusted for accumulated accretion in accordance with the expected timing of payment of the cash flow required to settle these obligations.

Foreign currency translation

Transactions pertaining to the statement of loss are translated at the rate of exchange prevailing at the date of the transaction. Monetary assets and liabilities resulting from these transactions are translated at the rate of exchange in effect at the balance sheet date. Exchange gains or losses are included in losses of the year.

Basic or diluted net loss per share

Basic net loss per share is calculated using the weighted average number of shares outstanding during the year. The diluted net loss per share, which is calculated using the treasury method, is equal to the basic net loss per share due to the anti-dilutive effect of stock options and warrants outstanding and described in Note 15.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

2 - ACCOUNTING POLICIES (Continued)**Stock-based compensation**

The Company has a stock option plan described in Note 15. The Company uses the fair value method based on the Black-Scholes pricing model to record the compensation cost related to the issue of stock options to its employees, directors, officers and consultant. When the options are granted, the compensation charge is recorded in the statement of loss or in deferred exploration expenses and the counterpart is credited to contributed surplus. The expense is recorded over the vesting period for employees and over the performance period for consultants. Any consideration received when options are exercised is credited to capital stock together with the related compensation cost recorded as contributed surplus.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to difference between the carrying amounts and tax bases of assets and liabilities. They are measured by applying substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

The Company establishes a valuation allowance against future income tax assets if, based on available information, it is more likely than not that some or all of the future income tax assets will not be realized.

Capital stock

Capital stock issued for non-monetary consideration is generally recorded at the fair market value on the date the shares were issued, or the date the agreement to issue the shares was entered into as determined by the Board of Directors. Costs incurred on the issue of share capital are deducted from the proceeds.

Capital stock – Flow through shares

Under the recommendations of the Emerging Issues committee (EIC 146), future income tax liabilities resulting from the renunciation of qualified mineral expenditures by the Company has to be recorded when the Company renounces to expenses in favour of investors. Under the liability method of accounting of income taxes, the future income taxes related to temporary differences arising at the renunciation are recorded at that time together with a corresponding charge in the share issue expense.

Fair value of option units to intermediaries

The Company uses the fair value method based on the Black-Scholes pricing model to record the fair value of the option units issued to intermediaries and recognizes a debit in the share issue expense and a corresponding credit to contributed surplus. When the units are exercised, the proceeds and the fair value related to these units are recorded to share capital.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

2 - ACCOUNTING POLICIES (Continued)**Fair value of the warrants**

Proceeds from unit placements to investors are allocated between shares and warrants issued using the residual method to determine the fair value of warrants issued. Proceeds are first allocated to shares according to their market value at the time of issuance and any residual in the proceeds is allocated to warrants.

With respect to warrants issued to lenders, they are measured at fair value using the Black-Scholes pricing model. When the warrants are exercised, the proceeds and the contributed surplus related to these warrants are recorded to share capital.

3 - ADDITIONAL DISCLOSURES ON CASH FLOWS INFORMATION

	<u>2011</u>	<u>2010</u>
	\$	\$
Non-cash investing and financing activities :		
Accounts payable related to exploration	1,181,010	2,204,931
Tax credits receivable in deduction of deferred exploration expenses	-	794,480
Issuance of warrants in the share issue expenses	-	193,997
Contributed surplus - exercise of options	-	62,500
Stock-based compensation accounted for in deferred exploration expenses	56,240	170,650
Fair value of the warrants exercised	56,000	54,829
Future income taxes accounted for in share issue expenses	1,816,000	1,115,000
Accretion expense – asset retirement obligations accounted in deferred exploration expenses	263,724	254,514
Amortization of equipment charged to deferred exploration expenses	1,153,465	1,646,658
Amortization of the asset retirement cost accounted for in deferred exploration expenses	220,464	220,464
Fixed assets acquired under capital leases	-	526,373
Cash flows relating to interest are detailed as follows :		
Interest paid accounted for in earnings	518,624	893,375
Interest paid accounted for in deferred exploration expenses	-	26,557
	518,624	919,932

4 - OTHER RECEIVABLES

	<u>2011</u>	<u>2010</u>
	\$	\$
Gold Sales receivable	-	914,155
Other	44,464	44,980
	44,464	959,135

Metanor Resources Inc.
(an exploration Company)
Notes to Financial Statements
June 30, 2011 and 2010

5 - PROPERTY, PLANT AND EQUIPMENT

	2011		
	Cost	Accumulated amortization	Net value
	\$	\$	\$
Leasehold improvements	48,422	38,789	9,633
Office equipment	282,553	121,233	161,320
Vehicles	596,899	161,828	435,071
Mine buildings – Bachelor and Barry	5,469,524	957,202	4,512,322
Underground infrastructures in development	6,099,592	-	6,099,592
Equipment and tools	671,417	175,196	496,221
Computer and telecommunications equipment	645,714	461,821	183,893
Mining equipment	893,620	254,475	639,145
Ore mill	15,515,470	1,920,321	13,595,149
Assets retirement costs	1,525,035	643,135	881,900
	<u>31,748,246</u>	<u>4,734,001</u>	<u>27,014,245</u>

Capital leased assets

Mining Equipment	544,000	190,400	353,600
Mine buildings – Bachelor and Barry	526,373	57,971	468,402
	<u>1,070,373</u>	<u>248,371</u>	<u>822,002</u>
	<u>32,818,619</u>	<u>4,982,372</u>	<u>27,836,247</u>

	2010		
	Cost	Accumulated amortization	Net value
	\$	\$	\$
Leasehold improvements	48,422	29,105	19,317
Office equipment	282,553	92,978	189,575
Vehicles	359,331	102,064	257,267
Mine buildings – Bachelor and Barry	5,216,623	592,721	4,623,902
Underground infrastructures in development	3,671,438	-	3,671,438
Equipment and tools	671,417	133,250	538,167
Computer and telecommunications equipment	645,714	334,086	311,628
Mining equipment	1,686,717	366,989	1,319,728
Ore mill	14,761,290	1,506,158	13,255,132
Assets retirement costs	1,525,035	422,671	1,102,364
	<u>28,868,540</u>	<u>3,580,022</u>	<u>25,288,518</u>

Capital leased assets

Mining Equipment	544,000	136,000	408,000
Mine buildings – Bachelor and Barry	526,373	17,546	508,827
	<u>1,070,373</u>	<u>153,546</u>	<u>916,827</u>
	<u>29,938,913</u>	<u>3,733,568</u>	<u>26,205,345</u>

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

6 - MINERAL PROPERTIES

		Balance as at June 30, 2010	Addition	Write-off	Balance as at June 30, 2011
		\$	\$	\$	\$
<u>Name</u>					
Bachelor Lake	a)	5,596,772	806	-	5,597,578
Wahnapitei	b)	-	3,209	(3,209)	-
Hewfran	c)	444,623	1,699	-	446,322
MJL-Hansen	d)	190,350	1,471	-	191,821
Barry	e)	1,840,921	564	-	1,841,485
Barry United	f)	-	4,291	-	4,291
Barry Extension	g)	157,000	-	-	157,000
MJL-2	h)	434,250	2,535	-	436,785
Nelligan	i)	89,600	7,362	-	96,962
		<u>8,753,516</u>	<u>21,937</u>	<u>(3,209)</u>	<u>8,772,244</u>

		Balance as at June 30, 2009	Addition	Write-off	Balance as at June 30, 2010
		\$	\$	\$	\$
<u>Name</u>					
Bachelor Lake	a)	5,596,532	240	-	5,596,772
Wahnapitei	b)	-	390	(390)	-
Hewfran	c)	444,623	-	-	444,623
MJL-Hansen	d)	190,350	-	-	190,350
Barry	e)	1,840,921	-	-	1,840,921
Barry United	f)	-	-	-	-
Barry Extension	g)	157,000	-	-	157,000
MJL-2	h)	434,250	-	-	434,250
Nelligan	i)	89,600	-	-	89,600
		<u>8,753,276</u>	<u>630</u>	<u>(390)</u>	<u>8,753,516</u>

Some of these properties are attached with a royalty in case of production.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

6 - MINERAL PROPERTIES (Continued)**(a) Bachelor Lake**

The Company holds a 100% interest in the Bachelor Lake property located in the Lesueur Township, Province of Québec. There is a royalty on the net smelter return ("NSR") payable to a former owner on the property. This royalty will be calculated with a percentage varying from 0.25% to 2% referring to the price of gold being between \$425 and \$560 per ounce, with a maximum amount totaling \$1,750,000. This property is also subject to 1% NSR royalty.

(b) Wahnapeitei

The Company holds a 90% interest in a property, comprised of 2 mining leases located in Sudbury, Ontario. During the year, the Company wrote down the mining property for an amount of \$3,209 (\$390 in 2010).

(c) Hewfran

The Company holds a 100% interest in 38 mining claims adjacent to the Bachelor Lake property.

(d) MJL – Hansen

The Company holds a 100% interest in 88 mining claims located near the Bachelor Lake property. The property is subject to a 2% NSR royalty, 1% of which is redeemable for the sum of \$1,000,000.

(e) Barry

The Company holds a 100% interest in the Barry gold deposit located 65 Km southeast of the Bachelor Lake mine.

On August 29th, 2007, the Company repurchased 7% of the 8% NSR royalty, for which an advance on royalty of \$250,000 was paid. In return, the Company paid \$800,000 and issued 1,000,000 shares. The Company disbursed a further \$200,000 advance on the 1% NSR royalty. This advance will be reimbursed as contemplated in the December 12, 2006 agreement.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

7 - MINERAL PROPERTIES (Continued)**(f) Barry United**

The Company holds a 100% interest in the Barry United property. The property is subject to NSR royalties of 1% and 3% of which half of 1% royalty is redeemable for the sum of \$500,000. Furthermore, the property is subject to another 2% NSR royalty.

(g) Barry Extension

The Company holds a 100% interest in this property. The property is subject to a 2% NSR royalty, half of which is redeemable for the sum of \$1,000,000 and the other half at conditions to be agreed upon by the parties.

(h) MJL – 2

The Company holds a 100% interest in 63 mining claims located on the neighboring land of the Bachelor Lake property. The property is subject to a 2% NSR royalty, half of which is redeemable for the sum of \$1,000,000 and the other half at conditions to be agreed upon by the parties.

(i) Nelligan

On August 29, 2007, the Company was granted an option to acquire a 70% interest in 58 mining claims located immediately to the west of the Bachelor property. Under the terms of the agreement, the Company paid \$50,000, issued 60,000 shares and incurred a total of \$450,000 in exploration expenses over a three-year period ending August 29, 2010. The property is subject to a 2% NSR royalty. Having respected these conditions, the Company acquired the property during the year.

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

7 - DEFERRED EXPLORATION EXPENSES

Description	Bachelor Lake	Hewfran	MJL- Hansen	Barry	Barry United	Barry Extension	MJL-2	Nelligan	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at June 30, 2010	9,297,760	1,163,193	70,077	12,303,987	76,603	139,966	87,545	326,453	23,465,584
Exploration expenses	9,689,612	298,128	10,141	6,916,889	1,401,706	37,301	10,078	77,686	18,441,541
Accretion expense	-	-	-	263,724	-	-	-	-	263,724
Amortization	46,748	-	-	1,106,717	-	-	-	-	1,153,465
	19,034,120	1,461,321	80,218	20,591,317	1,478,309	177,267	97,623	404,139	43,324,314
Less									
Net gold sales	-	-	-	(4,146,180)	-	-	-	-	(4,146,180)
Write-down	-	-	-	(4,141,150)	-	-	-	-	(4,141,150)
Balance as at June 30, 2011	19,034,120	1,461,321	80,218	12,303,987	1,478,309	177,267	97,623	404,139	35,036,984

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

7 - DEFERRED EXPLORATION EXPENSES (Continued)

Description	Bachelor Lake	Hewfran	MJL- Hansen	Barry	Barry United	Barry Extension	MJL-2	Nelligan	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance as at June 30, 2009	3,588,034	1,180,961	56,931	11,451,182	-	-	107,095	145,216	-	16,529,419
Exploration expenses	6,639,204	23,773	21,983	24,232,313	86,579	155,493	3,979	238,044	4,343	31,405,711
Accretion expense	-	-	-	254,514	-	-	-	-	-	254,514
Amortization	6,444	-	-	1,640,214	-	-	-	-	-	1,646,658
	10,233,682	1,204,734	78,914	37,578,223	86,579	155,493	111,074	383,260	4,343	49,836,302
Less										
Net gold sales	-	-	-	(20,969,508)	-	-	-	-	-	(20,969,508)
Write-down	-	-	-	(3,556,673)	-	-	-	-	(4,343)	(3,561,016)
Tax credits	(935,922)	(41,541)	(8,837)	(748,055)	(9,976)	(15,527)	(23,529)	(56,807)	-	(1,840,194)
Balance as at June 30, 2010	9,297,760	1,163,193	70,077	12,303,987	76,603	139,966	87,545	326,453	-	23,465,584

Metanor Resources Inc.

(an exploration Company)

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8 - REVOLVING CREDIT

On May 14, 2008, the Company entered into a revolving credit facility agreement with a syndicate of lenders. The agreement provides for a \$US 10,000,000 secured renewable credit facility. The credit facility bears interest at the greater of the U.S. prime rate or 7% plus a premium of 5% margin increasing to 15% in case of default. In 2010, the revolving credit bears interest at 12%. The agreement also provides for standby fees varying upon the use of the credit facility and annual renewal and collateral management fees. The credit facility is secured by a hypothec on the universality of all assets and was maturing on May 13, 2011. On July 31, 2010, the Company entered into a new agreement which modifies the terms of the May 14, 2008 agreement and provides a secured renewable credit facility of \$US 4,900,000 at the same conditions mentioned above with the exception of the maturing date being November 30, 2010 with renewal possibilities if the Company is not in default.

The credit facility contains covenants that restrict, among other things, the ability of the Company in its annual capital expenditures, to make distributions in certain circumstances, sell material assets and carry on a business other than a mining business. Beginning on October 1, 2008, the Company is also required to maintain a working capital ratio equal or greater than 1.1 as well as a minimum tangible net worth not less than \$26,000,000. On July 31, 2010, the Company entered into a new agreement which requires maintaining a working capital ratio equal or greater than 1.0. The calculation of the working capital ratio includes the material and supplies for exploration classified in the long term assets and excludes the revolving credit included in the current liabilities. This new agreement is retroactive to June 30, 2010. As at June 30, 2010, the Company was in compliance with the working capital ratio.

On July 31, 2010, the Company issued 2,574,567 share purchase warrants to the lenders. Each purchase warrant entitles the holder to purchase one share at \$0.48 for a 34 month period beginning on the issuance date. The fair value of these warrants was evaluated at \$540,659 and was accounted for in earnings.

On August 30, 2010, the lender exercised the choice to convert \$US 3,675,000 of the revolving credit in Canadian dollars for a converted amount of \$3,951,727.

On January 31, 2011, the Company reimbursed the total amount due in accordance with this revolving credit.

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9 - LONG-TERM DEBT

	<u>2011</u>	<u>2010</u>
	\$	\$
Notes payable, secured by rolling stock and mining equipment having a net book value of \$429,427, 4.5% to 8.64%, payable in monthly instalments, maturing in 2013 and 2016.	362,896	226,599
Obligations under capital leases, 9.46% to 12.17%, payable in monthly instalments, maturing in 2012.	<u>51,536</u>	<u>388,087</u>
	414,432	614,686
Instalments due within one year	<u>(144,759)</u>	<u>(409,244)</u>
	<u>269,673</u>	<u>205,442</u>

The instalments on long-term debt for the next years are as follows :

	Obligation under capital leases	Other loans
	\$	\$
2012	52,484	93,223
2013	-	98,881
2014	-	79,823
2015	-	56,317
2016	-	34,652
Total minimum payments	<u>52,484</u>	<u>362,896</u>
Amount included in minimum payments		
Interest expenses	<u>(948)</u>	
	<u>51,536</u>	

10- UNEARNED REVENUE

On January 14, 2011, the Company entered into a gold sale agreement with Sandstorm to sell a portion of the gold production from its Bachelor Lake gold mine. Sandstorm has agreed to purchase 20% of the life of mine gold produced from its Bachelor Lake gold mine for US\$20 million, plus ongoing per ounce payments equal to the lesser of US\$500 and at the then prevailing market price per ounce of gold. Sandstorm will be making the following staged payments: (i) US\$5 million at the signature of the agreement (received), (ii) US\$9 million once the Company has achieved certain funding conditions relating to financing (received) and (iii) US\$6 million, on September 1st, 2011. The initial payments were recorded as unearned revenue.

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Notes to Financial Statements

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10- UNEARNED REVENUE (Continued)

The Company is committed to providing a minimum of 50,000 ounces over a period of 12 consecutive months and this, within 48 months of signing the agreement. If it does not meet this guarantee, the Company will have to reimburse part of the deposit of US\$20 million to Sandstorm.

The Company has provided a guarantee that Sandstorm will receive a minimum of US\$20 million in pre-tax cash flow over the next six years. If, at the end of the agreement expected in 40 years, the Company has not paid to Sandstorm an amount corresponding to the cash flows determined at the signature of the agreement, it will have to reimburse a portion of the prepaid unearned revenue.

11 - ASSETS RETIREMENT OBLIGATIONS

- a) The Company's assets retirement obligations are based on management's estimates of costs to abandon and reclaim mineral properties and facilities as well as an estimate of future timing of the costs to be incurred.

The following table presents the reconciliation of the asset retirement obligations:

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, beginning of year	2,386,854	2,132,340
Accretion expense	263,724	254,514
Balance, end of year	<u>2,650,578</u>	<u>2,386,854</u>

The Company has estimated the present value of its total assets retirement obligations to be \$2,650,578 at June 30, 2011, based on a total future liability of \$3,547,000 for the ore mill and \$612,000 for the Barry site and a credit adjusted risk-free rate of 12%. Reclamation is expected to take place in 2019 for the Barry site and for the ore mill.

- b) Restricted Deposits: As at June 30, 2011, the Company has \$236,938 in deposits with Quebec's government for the settlement of asset retirement obligations of which \$51,438 is for the mill and \$185,500 for the Barry site.

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12 – CAPITAL STOCK

Authorized

Unlimited number of shares without par value

Common shares, voting and participating

Preferred, issuable in series, the directors defining the rights and privileges of these shares upon issuance

Issued and fully paid

	Common shares	Amount \$
	<u> </u>	<u> </u>
Balance, June 30, 2009	105,807,582	59,069,123
Cash, private placements	13,190,000	6,595,000
Cash, flow-through private placements	9,227,227	5,351,792
Exercise of options	125,000	125,000
Exercise of broker warrants	342,696	226,186
Less: share issue expenses	-	(2,419,222)
	<u> </u>	<u> </u>
Balance, June 30, 2010	128,692,505	68,947,879
Cash, private placements	18,305,668	5,951,700
Cash, flow-through private placements	54,338,692	22,762,334
Exercise of broker warrants	350,000	231,000
Less: share issue expenses (a)	-	(4,233,951)
	<u> </u>	<u> </u>
Balance, June 30, 2011	<u>201,686,865</u>	<u>93,658,962</u>

(a) Including an amount of \$1,816,000 (\$1,115,000 in 2010) of future income taxes regarding flow-through financing which have been devaluated.

As at June 30, 2011, no common shares were subject to an escrow agreement.

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13 - WARRANTS

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, beginning of year	1,758,076	1,687,010
Issued (Note 15)	540,659	193,997
Expired	(1,508,079)	(68,102)
Exercised	(56,000)	(54,829)
Balance, end of year	<u>734,656</u>	<u>1,758,076</u>

14 - CONTRIBUTED SURPLUS

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, beginning of year	5,041,027	3,506,900
Options granted (Note 15)	209,915	1,528,525
Options exercised	-	(62,500)
Warrants expired	1,508,079	68,102
Balance, end of year	<u>6,759,021</u>	<u>5,041,027</u>

15 - STOCK OPTION PLAN AND WARRANTS

The Company has established a stock option plan pursuant to which options to purchase common shares may be granted to certain officers, directors and employees of the Company as well as persons providing services to the Company. Under this plan, options to purchase the common shares from time-to-time may be granted for a variable number whereby the number should never represent more than 10% of the issued and outstanding capital stock of the Company. Exercise price of options equals the market price of the Company's stock on the date of grant. Stock options are exercisable on the day of grant and are for a maximum term of ten years except for consultants for who the options are acquired gradually on a period of 12 months. Among the options outstanding, none is subject to an escrow agreement.

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15 - STOCK OPTION PLAN AND WARRANT (Continued)

The grant of options during the year resulted in a charge to the operations as stock-based compensation and an increase of contributed surplus for an amount of \$209,915 (\$1,528,525 in 2010) with a counterpart in the operations for an amount of \$138,800 (\$1,343,000 in 2010) as stock-based compensation and \$14,875 (\$14,875 in 2010) as stock-based compensation to consultants in investor relations and to deferred exploration expenses for an amount of \$56,240 (\$170,650 in 2010). The fair value of each option granted was estimated on the grant date with the assumptions of an expected dividend yield at 0% (0% in 2010), an expected weighted average volatility estimated at 64.86% (65.89% in 2010), a risk-free weighted average interest rate at 2.93% (3.44% in 2010) and an expected weighted average life of 8.80 years (9.59 years in 2010). The weighted average fair value of options granted during the year was \$0.27 (\$0.45 in 2010).

A summary of the status of the Company's stock option plan and change during the years ending on those dates is presented below:

	2011		2010	
	Weighted average exercise price \$	Shares	Shares	Weighted average exercise price \$
Outstanding, beginning of year	0.77	7,487,250	4,843,000	0.80
Granted	0.43	669,000	3,404,000	0.45
Exercised	-	-	(125,000)	0.50
Expired	0.72	(291,250)	(609,750)	0.32
Cancelled	-	-	(25,000)	0.38
Outstanding, end of year	<u>0.75</u>	<u>7,865,000</u>	<u>7,487,250</u>	0.77
Exercisable, end of year	<u>0.75</u>	<u>7,795,500</u>	<u>7,320,250</u>	0.78

Metanor Resources Inc.

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Notes to Financial Statements

June 30, 2011 and 2010

15- STOCK OPTION PLAN AND WARRANTS (Continued)

Expiry Date	Exercise Price	2011		2010	
		Number of shares exercisable	Number of shares outstanding	Number of shares exercisable	Number of shares outstanding
	\$				
September 18, 2010	0.50	-	-	3,750	3,750
November 6, 2010	0.48	-	-	10,000	10,000
November 6, 2010	0.49	-	-	30,000	30,000
November 6, 2010	0.66	-	-	7,500	7,500
November 6, 2010	0.68	-	-	40,000	40,000
January 18, 2011	0.48	-	-	15,000	15,000
January 18, 2011	0.66	-	-	15,000	15,000
February 28, 2011	0.90	-	-	35,000	35,000
February 28, 2011	1.00	-	-	30,000	30,000
July 21, 2011	0.49	20,000	20,000	-	-
July 21, 2011	0.56	20,000	20,000	-	-
July 21, 2011	0.82	20,000	20,000	-	-
March 22, 2012	0.50	175,000	175,000	87,500	175,000
September 22, 2012	0.43	100,000	100,000	-	-
September 22, 2012	0.50	100,000	100,000	-	-
September 22, 2012	0.67	100,000	100,000	-	-
September 22, 2012	0.70	100,000	100,000	-	-
September 22, 2012	0.87	100,000	100,000	-	-
September 22, 2012	1.00	100,000	100,000	-	-
November 28, 2012	0.50	100,000	100,000	100,000	100,000
November 28, 2012	0.60	35,000	35,000	35,000	35,000
November 28, 2012	1.00	150,000	150,000	150,000	150,000
October 6, 2013	1.00	30,000	30,000	30,000	30,000
January 21, 2014	1.00	440,000	440,000	440,000	440,000
March 17, 2014	0.97	30,000	30,000	40,000	40,000
January 26, 2015	0.60	150,000	150,000	160,000	160,000
October 5, 2015	0.70	50,000	50,000	50,000	50,000
November 29, 2016	0.50	375,000	375,000	390,000	390,000
May 28, 2017	0.80	100,000	100,000	100,000	100,000
August 30, 2017	0.67	75,000	75,000	175,000	175,000
September 17, 2017	0.68	5,000	5,000	5,000	5,000
January 10, 2018	0.82	15,000	15,000	35,000	35,000
January 23, 2018	0.80	28,000	28,000	28,000	28,000
February 3, 2018	1.00	1,875,000	1,875,000	1,995,000	1,995,000
June 30, 2018	0.87	-	-	100,000	100,000
September 15, 2018	0.48	20,000	20,000	20,000	20,000
February 16, 2019	0.59	59,000	59,000	59,000	59,000
Mai 14, 2019	0.49	15,000	15,000	35,000	35,000
July 1, 2019	0.43	75,000	75,000	175,000	175,000
September 2, 2019	0.41	100,000	100,000	100,000	100,000
September 28, 2019	0.66	120,000	120,000	120,000	120,000
January 17, 2020	0.57	100,000	100,000	50,000	100,000
February 18, 2020	0.50	59,000	59,000	29,500	59,000
March 31, 2020	0.70	2,125,000	2,125,000	2,125,000	2,125,000
April 11, 2020	0.70	350,000	350,000	500,000	500,000
July 18, 2020	0.70	75,000	75,000	-	-
September 2, 2020	0.56	15,000	15,000	-	-
September 22, 2020	0.50	95,000	120,000	-	-
February 25, 2021	0.32	294,500	339,000	-	-
		7,795,500	7,865,000	7,320,250	7,487,250

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15 - STOCK OPTION PLAN AND WARRANTS (Continued)**Warrants**

During the year, the Company issued to investors 24,814,255 share purchase warrants at an exercise price of \$0.40 (11,649,517 at \$0.65 in 2010). The Company issued in favor of lenders 2,574,567 share purchase warrants at an exercise price of \$0.48 (\$nil in 2010) and in favor of a broker relating to private placements 175,000 share purchase warrants at an exercise price of \$0.65 (171,250 at \$0.65 in 2010).

The fair value of each warrant granted in favor of lenders and a broker was estimated on the grant date using the Black-Scholes option-pricing model with the assumptions of an expected dividend yield at 0%, an expected volatility estimated at 63%, a risk-free interest rate at 1.7% and an expected life of 3 years. The weighted average fair value of warrants granted during the year was \$0.21.

The outstanding warrants are as follows:

Expiry date	Exercise price	2011	2010
		Number	Number
	\$		
March 20, 2011	0.50	-	1,118,657
March 20, 2011	0.65	-	13,079,229
April 20, 2011	0.50	-	149,700
April 20, 2011	0.65	-	1,322,350
May 16, 2011	0.99	-	3,000,000
December 12, 2011	0.65	6,739,517	6,739,517
January 8, 2012	0.65	2,000,000	2,000,000
February 17, 2012	0.40	6,865,221	-
March 3, 2012	0.40	9,946,200	-
March 5, 2012	0.65	2,850,000	2,850,000
March 29, 2012	0.65	60,000	60,000
May 15, 2012	1.00	9,375,001	9,375,001
June 20, 2012	1.00	1,250,000	1,250,000
July 19, 2012	1.00	312,500	312,500
February, 17, 2013	0.40	4,045,834	-
March 3, 2013	0.40	3,957,000	-
May 31, 2013	0.48	2,574,567	-
		49,975,840	41,256,954

Option units to intermediaries

In the private placement closed on December 12, 2009, the Company issued, as remuneration to intermediaries, 881,806 options to acquire units at a price of \$0.50 each until December 12, 2011. A unit consists of one common share and one-half warrant giving the right to buy a common share at a price of \$0.65 before or on December 12, 2011.

The fair value of each option on unit granted in 2010 was estimated on the grant date using the Black-Scholes option pricing model with the assumptions of an expected dividend yield at 0%, an expected volatility estimated at 65%, a risk-free interest rate at 1.25% and an expected life of 2 years. The fair value of the options on units to intermediaries granted was \$0.22 and was recorded in the share issue expenses for an amount of \$193,997.

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16 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

	<u>2011</u>	<u>2010</u>
	\$	\$
Loss before income taxes	<u>(13,423,082)</u>	<u>(8,973,468)</u>
Income taxes at the combined federal and provincial statutory rate of 30.4% (30.4% in 2010)	(3,912,800)	(2,727,900)
Stock-based compensation	218,800	412,800
Adjustment of prior future income taxes	(1,197,200)	-
Difference in tax rates	-	-
Other items	1,049,400	-
Other non deductible items	13,000	18,900
Valuation allowance (a)	1,809,400	1,181,200
Income taxes	<u>(1,816,000)</u>	<u>(1,115,000)</u>

- (a) The change in valuation allowance of the future income tax of \$650,400 (\$413,500 in 2010) related to the issuance expenses of shareholder's equity instruments was applied against the deficit.

Future income tax asset and liability result from differences between the carrying amount and the tax basis of the following:

	<u>2011</u>	<u>2010</u>
	\$	\$
Future income tax liability		
Restricted funds for exploration	(491,000)	(765,000)
Property, plant and equipment	-	-
Mineral properties	(4,947,000)	(2,838,000)
	<u>(5,438,000)</u>	<u>(3,603,000)</u>
Future income tax asset		
Property, plant and equipment	1,213,000	845,000
Share issue expenses	1,213,000	895,000
Losses to be carried forward	9,974,000	7,560,000
	<u>12,400,000</u>	<u>9,300,000</u>
Valuation allowance	(6,962,000)	(5,697,000)
	<u>5,438,000</u>	<u>3,603,000</u>
	<u>-</u>	<u>-</u>

Metanor Resources Inc.

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Notes to Financial Statements

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16 - INCOME TAXES (Continued)

The Company has cumulated non-capital losses for income tax purposes for which future income tax asset was not recorded. These losses, which are available to reduce income taxes in future years, are detailed as follows:

	Federal	Provincial
	\$	\$
2014	347,000	334,000
2015	774,000	721,000
2026	1,009,000	892,000
2027	2,128,000	1,944,000
2028	3,384,000	3,340,000
2029	8,556,000	8,514,000
2030	12,122,000	12,091,000
2031	8,984,000	8,957,000
	<u>37,304,000</u>	<u>36,793,000</u>

The Company has share issue expenses that will be deductible in the next years. The amount of these expenses is \$4,510,348 (\$3,326,419 in 2010). Finally, the Company has federal non refundable tax credits of \$547,000 and Québec non refundable tax credits of \$691,000. These credits will be applicable in reduction of income taxes payable for an indefinite period.

17 - RELATED PARTY TRANSACTIONS

During the year, the Company incurred the following expenses with officers, directors or companies under their control. These transactions occurred during the normal course of operations, except for the purchase of equipment, and were measured at the exchange amount, which is the amount established and accepted by the parties.

	2011	2010
	\$	\$
Administrative expenses		
Professional fees	72,000	41,000
Consultant fees	300,500	123,000
Rental expenses	36,000	36,000

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Notes to Financial Statements

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18 - FINANCIAL INSTRUMENTS**Financial risk management objectives and policies**

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks.

The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Company's main financial risk exposure and its financial risk management policies are as follows:

Credit risk

Generally, the carrying amount on the balance sheet of the Company's financial assets exposed to credit risk, net of any applicable provisions for losses, represents the maximum amount exposed to credit risk.

As at June 30, 2011, the cash and temporary investments are held by Canadian financial institutions and the Company diversifies its holdings to limit its credit risk. Furthermore, the Company is subject to concentration credit risk.

The Company does not obtain any security to support financial instruments subject to credit risk but mitigates this risk by dealing only with a diverse group of financially sound counterparties and accordingly, does not anticipate any loss for non-performance.

Liquidity risk

The liquidity risk is the risk that the Company experiences difficulty honouring commitments related to financial liabilities. The management approach concerning cash management is to ensure, as much as possible, that the Company has the necessary funds to meet its financial obligations at maturity. If considered necessary, management renegotiates extensions to maturity dates to balance the needs in cash and financings.

The Company expects to satisfy obligations under accounts payable and accrued liabilities, revolving credit and repayment of the short-term part of long-term debts. Management intends to continue, as was done in the past, to finance its activities by raising funds by private equity investments. Even if it succeeded in financing its activities in the past, management cannot comment on the success of its future fund raising and it believes that the liquidity risk is high.

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18 - FINANCIAL INSTRUMENTS (Continued)

Liquidity risk (continued)

The following chart summarizes the Company's financial liabilities as at June 30, 2011 :

	Less than one year	Between one and two years	More than two years
	\$	\$	\$
Accounts payable and accrued liabilities	6,570,500	-	-
Long-term debt	144,759	98,881	170,792
	<u>6,715,259</u>	<u>98,881</u>	<u>170,792</u>

Market risk

Interest rate risk

The Company's accounts payable and accrued liabilities do not comprise any interest rate risk since they do not bear interest.

The notes payable and the obligations under capital leases bear interest at a fixed rate thus exposing the Company to the risk of changes in fair value arising from interest rate fluctuations.

Exchange risk

As at June 30, 2010, the Company was exposed to exchange risk as a result of the revolving credit denominated in U.S. dollars.

A 10% weakening of the exchange rate of the US currency at June 30, 2010 would have the effect of reducing the book value of the revolving credit of \$521,600, and reduce the interest on the revolving credit and the financial fees for an amount of \$86,200 resulting in a reduction of the net loss of \$607,800. This analysis assumes that other variables, especially interest rates would remain constant. A 10% strengthening of the US currency would have had the equal effects on the revolving credit, the net loss, but reversed.

Interest rate sensitivity analysis

Furthermore, a 1% increase in the interest rate would not have decreased the fair value of the notes payable and the obligations under capital leases because the value of these financial liabilities is low. However, this variance would have had an impact of \$54,900 as at June 30, 2010.

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18 - FINANCIAL INSTRUMENTS (Continued)

Fair value of financial instruments

Short-term financial assets and liabilities and restricted funds for exploration are financial instruments whose fair value approximates their carrying amount given that they will mature shortly. The fair value of long-term debt and obligations under capital leases is equivalent to the carrying amount given that management believes that interest rates on loans contracted during the year carry market interest rates.

As at June 30, 2010, the fair value of the revolving credit was equivalent to the carrying amount based on future cash flows.

The fair value of financial instruments is summarized as follows:

	2011	
	Carrying value	Fair value
	\$	\$
Financial assets		
<i>Held-for-trading</i>		
Cash	2,649,947	2,649,947
Temporary investments	10,692,452	10,692,452
 <i>Loans and receivables</i>		
Other receivables	44,464	44,464
 Financial liabilities		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	6,570,500	6,570,500
Royalties payable	469,193	469,193
Long-term debt	414,432	414,432
	2010	
	Carrying value	Fair value
	\$	\$
Financial assets		
<i>Held-for-trading</i>		
Cash	973,677	973,677
Temporary investments	4,658	4,658
 <i>Loans and receivables</i>		
Other receivables	959,135	959,135
 Financial liabilities		
<i>Other financial liabilities</i>		
Accounts payable and accrued liabilities	4,388,812	4,388,812
Royalties payable	284,704	284,704
Revolving credit	5,216,540	5,216,540
Long-term debt	614,686	614,686

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19 - COMMITMENTS

- (a) The Company has a lease commitment for the rent of the head office. The rental agreement expires during the following year end and the minimum payments payable totals \$21,000.
- (b) The Company is committed to spend \$14,568,420 in exploration expenses relating to flow-through financings closed in 2010 and 2011. Expenses for an amount of \$3,136,654 must be spent before December 31, 2011 and \$11,431,766 before December 31, 2012.

20 - CAPITAL DISCLOSURES

The Company's objective in managing capital is to safeguard its ability to continue its operations as well as its acquisition and exploration programs. The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire or sell mining properties or contract additional debt to improve its financial performance and flexibility.

The Company's capital is defined as shareholders' equity and revolving credit. To effectively manage the Company's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to endure the Company has appropriate liquidity to meet its operating and growth objectives. Furthermore, the Company closed flow-through private placements for which funds are restricted in use for exploration expenses. During the year, the Company has complied with the requirements.

	<u>2011</u>	<u>2010</u>
	\$	\$
Revolving credit	-	5,216,540
Shareholders' equity	64,925,159	51,126,584
Capital	<u>64,925,159</u>	<u>56,343,124</u>

Metanor Resources Inc.

(an exploration Company)

Notes to Financial Statements

June 30, 2011 and 2010

21 - CONTINGENCIES**Flow-through financings**

The Company is partly financed by issuance of flow-through common shares. However, there is no guarantee that the funds spent by the Company will qualify as Canadian exploration expenses, even if the Company has taken all the necessary measures to meet its commitment. The Company recognizes provisions when deemed necessary.

Lawsuit proceedings by the estate of an employee of Montali Inc.

The estate of an employee of a contractor (Montali Inc.) commenced a lawsuit against the Company for an amount of \$1,121,394 concerning an industrial accident. The Company considers the above mentioned lawsuit as unfounded considering the contract intervened between the Company and Montali. Furthermore, the amount claimed will have to be reduced by the CSST benefits considering that it was an industrial accident. Moreover, the insurer bond to take up the interest of the Company.

As at June 30, 2011, no amount was recognized concerning this lawsuit.

22 - SUBSEQUENT EVENTS

On September 2, 2011, Sandstorm Gold Ltd. remitted the US\$6 million final payment to the Company in accordance with the gold purchase agreement announced on January 14, 2011. Under the terms of the agreement, Sandstorm is entitled to purchase 20% of the life of mine gold produced from the Bachelor Lake property at a per ounce price equal to the lesser of US\$500 and the then prevailing market price of gold.

23 - COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform with the presentation adopted in the current year.

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INC.

**RESSOURCES MÉTANOR INC.
// METANOR RESOURCES INC.**

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