

Beaufield Resources Inc.

Annual Financial Statements

For the years ended

August 31, 2011 and 2010



Raymond Chabot Grant Thornton

Independent Auditor's Report

To the Shareholders of
Beaufield Resources Inc.

Raymond Chabot Grant Thornton LLP

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We have audited the accompanying financial statements of Beaufield Resources Inc., which comprise the balance sheets as at August 31, 2011 and 2010 and the statements of operations and comprehensive loss, 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 Beaufield Resources Inc. as at August 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

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Val-d'Or
December 8, 2011

¹ Chartered accountant auditor permit no.13953

Beaufield Resources Inc.

Balance Sheets

	As at August 31,	
	2011	2010
	\$	\$
Assets		
Current assets		
Cash	2,580,187	4,173,522
Gold coins (Note 3)	999,420	999,420
Marketable securities (Note 3)	1,020,925	822,939
Sales taxes recoverable	227,977	66,330
Due from partners, without interest	19,808	-
Exploration taxes credits receivable	1,326,870	501,669
Prepaid expenses	14,491	11,948
	<u>6,189,678</u>	<u>6,575,828</u>
Cash held for exploration expenses	1,298,814	-
Mineral Properties (Note 4)		
Acquisition cost	2,467,233	2,307,431
Deferred exploration expenses	7,971,925	5,858,465
	<u>17,927,650</u>	<u>14,741,724</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	396,870	453,484
Future income taxes liability (Note 7)	139,000	-
	<u>535,870</u>	<u>453,484</u>
Shareholders' equity		
Capital stock (Note 5)	35,028,870	31,324,120
Compensation options (Note 5b)	1,397,187	719,000
Contributed surplus (Note 5c)	536,760	365,760
Deficit	(19,571,037)	(18,120,640)
	<u>17,391,780</u>	<u>14,288,240</u>
	<u>17,927,650</u>	<u>14,741,724</u>

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

On behalf of the Board,

(S) Jens E. Hansen
Jens E. Hansen
President and Director

(S) John MacLatchy
John MacLatchy
Director

Beaufield Resources Inc.

Statement of Operations and Comprehensive Loss and Deficit

Statement of Operations and Comprehensive Loss

	For the years ended	
	August 31,	
	2011	2010
	\$	\$
Expenses		
Professional fees	238,410	124,376
Salaries and management fees	184,704	236,274
Stock-based compensation (Note 5b)	855,000	102,000
Rent and office expenses	67,991	65,857
Shareholders' information, trustee and registration fees	41,075	39,408
Investors relations and promotion	130,721	51,203
Insurance	28,610	29,309
Write-off of mineral properties (Note 4)	-	35,616
	<u>1,546,511</u>	<u>684,043</u>
Loss before the following items	<u>(1,546,511)</u>	<u>(684,043)</u>
Investment income (Note 6)	488,907	(107,195)
Project management fees	29,780	81,823
Gain on sale of mineral property	12,208	-
	<u>530,895</u>	<u>(25,372)</u>
Loss before income taxes	<u>(1,015,616)</u>	<u>(709,415)</u>
Recovery of future income taxes (Note 7)	<u>300,000</u>	<u>-</u>
Net loss and comprehensive loss	<u>(715,616)</u>	<u>(709,415)</u>
Basic and diluted net loss per share	<u>(0.01)</u>	<u>(0.01)</u>
Weighted average number of outstanding common shares	<u>88,968,219</u>	<u>83,349,519</u>

Statement of Deficit

	For the years ended	
	August 31,	
	2011	2010
	\$	\$
Deficit, beginning of year	(18,120,640)	(17,411,225)
Net loss	(715,616)	(709,415)
Share issue expenses	(734,781)	-
Deficit, end of year	<u>(19,571,037)</u>	<u>(18,120,640)</u>

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

Beaufield Resources Inc.

Statement of Cash Flows

	For the years ended August 31,	
	2011	2010
	\$	\$
Operating activities		
Net loss	(715,616)	(709,415)
Non-cash items:		
Stock-based compensation	855,000	102,000
Gain on disposal of marketable securities (Note 6)	(355,830)	(56,951)
Unrealized fair value variation of marketable securities (Note 6)	(87,327)	179,966
Gain on sale of mineral property	(12,208)	-
Write-off of mineral properties	-	35,616
Future income taxes recovery	(300,000)	-
	<u>(615,981)</u>	<u>(448,784)</u>
Changes in non-cash working capital items:		
Sales taxes recoverable	(161,647)	(62,351)
Due from partners	(19,808)	2,596
Prepaid expenses	(2,543)	-
Accounts payable and accrued liabilities	58	8,702
	<u>(183,940)</u>	<u>(51,053)</u>
Cash flows from operating activities	<u>(799,921)</u>	<u>(499,837)</u>
Financing activities		
Issuance of shares and warrants	3,404,250	-
Share issue expenses	(233,594)	-
Cash flow from financing activities	<u>3,170,656</u>	<u>-</u>
Investing activities		
Cash held for exploration expenses	(1,298,814)	-
Purchase of marketable securities	(3,103,191)	(814,004)
Disposal of marketable securities	3,372,362	528,800
Acquisition of mineral properties	(91,691)	(213,459)
Deferred exploration expenses	(3,284,303)	(719,895)
Exploration taxes credits received	441,567	236,344
Cash flows from investing activities	<u>(3,964,070)</u>	<u>(982,214)</u>
Net change in cash	(1,593,335)	(1,482,051)
Cash, beginning of year	<u>4,173,522</u>	<u>5,655,573</u>
Cash, end of year	<u>2,580,187</u>	<u>4,173,522</u>

Additional cash flow information (Note 9)

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

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

1. **Governing statutes and nature of operations**

The Company, incorporated under the British Columbia Company Act, is in the business of acquiring and exploring mineral properties and has not yet determined whether the properties contain economically recoverable reserves.

The recovery of expenditures on mineral properties are dependent upon the existence of economically recoverable mineralization, securing and maintaining title and beneficial interest in properties, the ability of the Company to obtain financing necessary to complete the exploration and the development of the mineral properties, obtaining certain government approvals and upon future profitable production or alternatively, on the sufficiency of proceeds from disposition.

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.

2. **Summary of significant accounting policies**

Accounting estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to the financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Significant estimates include the carrying amount of mineral properties and initial value of equity instruments. Actual results could differ from those estimates and such differences could be material.

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.

Gold coins

Gold coins are recorded at cost. When there is a loss in value that is other than a temporary decline, gold coins will be written down to recognize the loss.

Marketable securities

Marketable securities in publicly traded shares on a recognized securities exchange are recorded at fair values based on quoted closing bid prices at the balance sheet date or the closing bid price on the last day the security traded if there were no trades at the balance sheet date with realized and unrealized gains and losses recorded in the statement of operations under investment income.

Investment revenue recognition

Investment transactions are accounted for on a settlement date basis. Gains or losses on the sale of marketable securities are determined using the average cost basis. Upon disposal of a marketable security, previously recognized unrealized gains or losses are reversed, so as to recognize the full realized gain or loss in the period of disposition. Interest income is accounted for on an accrual basis.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

2. Summary of accounting policies (Cont'd)

Exploration taxes credits

Mining duties credits and Tax credits for resources

The Company is entitled to refundable mining duties credits and tax credits on eligible exploration expenditures incurred in Québec. The refundable mining duties and tax credits on qualified charges have been applied against the costs incurred and are recorded, provided that the Company has reasonable assurance that these credits will be received.

Cash held for exploration expenses

These funds are restricted in use for exploration expenses pursuant to flow-through financing agreements.

Mineral properties

Exploration, evaluation and development expenditures are accumulated and accounted for in each separate area of interest or mineral resource.

The Company follows the practice of capitalizing all costs related to acquisition, exploration and development of mineral properties until such time as mineral properties are put into commercial production, sold or abandoned. If commercial production commences, these capitalized costs will be amortized prospectively on a unit-of-production basis. If the mineral properties are abandoned, the related capitalized costs are expensed.

The amounts shown for mineral properties represent costs incurred to date less write-offs, and are not intended to reflect present or future values. Government assistance, and mining duties and tax credits are applied against the deferred exploration expenses. Proceeds on the sale of mineral properties or option payments received are applied by property in reduction of the acquisition cost, then in reduction of the deferred exploration expenses and any residual is recorded in the statement of operations and comprehensive loss.

Mineral properties are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the carrying value of the assets may not be recoverable. The Company performs a recoverability test when estimate future cash flows are available. In the event that management has insufficient information about its mineral properties to estimate future cash flows to test the recoverability of the capitalized costs, the Company will test the impairment by comparing the fair value to the carrying amount, without performing a test for recoverability. To test impairment, management, directors and technical advisors review the merits of each Company property interest to assess where the property merits further exploration and development expenditures. Empirical evidence such as geochemical analysis, drilling results, assays, mapping and field observation are the primary evidence that is then assessed against other factors such as commodity markets, exchange rates, and closeness to other known operations when making decisions on impairment.

Capital stock

Capital stock issued for non-monetary consideration is 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 of the Company. The fair market value is based on the trading price of the shares.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

2. Summary of accounting policies (Cont'd)

Share and warrant issue expenses

Share and warrant issue expenses are accounted for as an increase of the deficit.

Basic or diluted net loss per common share

Basic net loss per share is calculated based upon the weighted average number of shares outstanding during the year. The diluted net loss per share, which is calculated using the treasury stock method, is equal to the basic net loss per share due to the anti-dilutive effect of stock options and agent compensation options.

Stock-based compensations plans

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 directors, officers, employees and consultants. When the options are granted, the compensation charge is recorded to the statement of operations or in deferred exploration expenses and the counterpart is credited to compensation options. 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 compensation options.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income taxes assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or 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 resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for 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.

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

- Held for trading financial assets are measured at their fair value and changes in fair value are recognized in the statement of operations. Changes in fair value of marketable securities are recognized in the statement of operations under investment income. Cash and marketable securities are classified as held for trading;
- Loans and receivable are measured at amortized cost which is generally the initially recognized amount, less any allowance for doubtful account. Due from partners is classified as loans and receivable;
- Other financial liabilities are measured at amortized cost using the effective interest method. Interest calculated using the effective interest method is presented in the statement of operations. Account payable and accrued liabilities are classified as other financial liabilities;

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

3. Gold coins and marketable securities

a) *Gold coins*

At August 31, 2011, gold coins of 839 ounces at an acquisition cost of \$999,420 have a market value of \$1,496,400 (\$1,115,077 – August 31, 2010) based on a gold spot price of \$1,784 or US\$1,823 (\$1,329 or US\$1,246 – August 31, 2010) per ounce.

b) *Marketable securities*

	<u>Acquisition cost</u>	<u>Unrealized loss</u>	<u>Fair value</u>
	\$	\$	\$
<i>Securities of publicly traded companies</i>			
As at August 31, 2011	1,105,905	(84,980)	1,020,925
As at August 31, 2010	995,246	(172,307)	822,939

4. Mineral properties

Acquisition cost	<u>August 31, 2010</u>	<u>Addition</u>	<u>Option Payments</u>	<u>Write-off</u>	<u>August 31, 2011</u>
	\$				\$
Québec					
Opinaca	615,491	335	-	-	615,826
Tortigny	738,421	31,458	-	-	769,879
Frotet	184,604	-	-	-	184,604
Schefferville	103,146	7,704	-	-	110,850
Raglan Ungava	26,784	-	-	-	26,784
Urban project	418,980	3,291	-	-	422,271
Casa Berardi	-	8,345	(8,345)	-	-
Ontario					
Hemlo properties	220,005	31,594	-	-	251,599
Nova Scotia					
Cape Breton	-	85,420	-	-	85,420
	<u>2,307,431</u>	<u>168,147</u>	<u>(8,345)</u>	<u>-</u>	<u>2,467,233</u>

Acquisition cost	<u>August 31, 2009</u>	<u>Addition</u>	<u>Option Payments</u>	<u>Write-off</u>	<u>August 31, 2010</u>
	\$				\$
Québec					
Opinaca	579,388	36,103	-	-	615,491
Tortigny	715,751	22,670	-	-	738,421
Frotet	178,937	5,667	-	-	184,604
Schefferville	-	103,146	-	-	103,146
Raglan Ungava	20,260	6,524	-	-	26,784
Urban project	535,026	8,954	(125,000)	-	418,980
Eastmain Lithium	-	35,616	-	(35,616)	-
Ontario					
Hemlo properties	219,182	823	-	-	220,005
	<u>2,248,544</u>	<u>219,503</u>	<u>(125,000)</u>	<u>(35,616)</u>	<u>2,307,431</u>

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

4. Mineral properties (Cont'd)

Deferred exploration expenses	August 31, 2010	Expenditures	Taxes credits	Option Payments	August 31, 2011
	\$				\$
Québec					
Opinaca	1,859,722	13,824	(5,512)	-	1,868,034
Tortigny	2,170,578	2,567,664	(945,974)	-	3,792,268
Schefferville	50,770	773,765	(310,009)	-	514,526
Raglan Ungava	83,168	284	(110)	-	83,342
Urban project	1,294,270	7,614	(3,243)	-	1,298,641
Casa Berardi	-	5,367	(1,920)	(3,447)	-
Ontario					
Hemlo properties	399,957	8,453	-	-	408,410
Nova Scotia					
Cape Breton	-	6,704	-	-	6,704
	<u>5,858,465</u>	<u>3,383,675</u>	<u>(1,266,768)</u>	<u>(3,447)</u>	<u>7,971,925</u>

Deferred exploration expenses	August 31, 2009	Expenditures	Taxes credits	Write-off	August 31, 2010
	\$				\$
Québec					
Opinaca	1,726,445	231,564	(98,287)	-	1,859,722
Tortigny	1,763,264	734,321	(327,007)	-	2,170,578
Schefferville	-	92,225	(41,455)	-	50,770
Raglan Ungava	82,414	1,400	(646)	-	83,168
Urban project	1,284,576	16,593	(6,899)	-	1,294,270
Ontario					
Hemlo properties	395,845	4,112	-	-	399,957
	<u>5,252,544</u>	<u>1,080,215</u>	<u>(474,294)</u>	<u>-</u>	<u>5,858,465</u>

- a) Opinaca, Québec
A 100% interest. Parts of this property is subject to a 0.5% net smelter return ("NSR").
- b) Tortigny and Frotet, Québec
The Company earned a 50% interest in the Tortigny property with the total work expenditures of \$2.2 million completed as of October 31, 2006.

In November 2007, the Company acquired from Xstrata Canada Corporation ("Xstrata"), Xstrata's 50% interest in the Tortigny property for \$700,000 in cash. In addition to the cash payment, Xstrata retains a 1% NSR in the property, except for a portion of the property subject to a 2% NSR in favour of Inco Limited (The Company has an option to purchase one-half of Inco's NSR at any time for \$1,000,000). Under the terms of the agreement, Xstrata retains the first right of purchase up to 100% of ore concentrate produced from the property under competitive purchase terms in the then prevailing marketplace. Following the transaction, the Company owns 100% of the entire Tortigny property.

Since acquiring the interest from Xstrata, the Company has staked additional claims in this area; those are not subject to an NSR.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

4. Mineral properties (Cont'd)

b) Tortigny and Frotet, Québec (Cont'd)

The Company has decided to divide the area claim blocks into two main groups. The one, known as the Tortigny property, which is 100% owned by Beaufield contains the Tortigny, Moleon, Crab Lake and Inco Boulder areas. The other group consists mostly of newly staked claims. These are referred to as the Frotet property.

Pursuant to an agreement dated October 20, 2008, and amended on August 24, 2011, the Company entered into an option agreement to advance exploration of the Frotet property, whereby Melkior Resources Inc ("Melkior") will earn a 50% interest on the Frotet property by spending \$500,000 on exploration over a four year period. The Company is the operator and therefore charges project management fees. Melkior exploration cost on the Frotet property including project management fees totalled \$463,137 (\$461,547 - August 31, 2010) as at August 31, 2011. The President of the Company is also the President of Melkior. The Boards of Directors of both companies have approved this transaction.

c) Schefferville, Québec

A 100% interest.

d) Raglan Ungava, Québec

A 100% interest.

e) Urban project – Barry, Urban, Carpiquet and Souart Townships, Québec

A 100% interest. Parts of this property are subject to a 2% NSR and other parts are subject to a 10% net profits interest («NPI»).

In March 2010, the Company entered into an option agreement with Amseco Exploration Ltd. ("Amseco"), a corporation listed on the TSX Venture Exchange, on its Urban property (the "Option Property"). Amseco has an option (the "Option") to acquire an undivided 50% of the Company's 100% interest in the Urban property by performing a total of \$1,980,000 of exploration work on the Option Property over a four year period ending on March 8, 2014. The claims are subject to a 2% NSR upon production, payable to the Company. Half of said NSR can be bought back by Amseco for a payment of \$1,000,000 at any time. In addition, Amseco also issued 1,250,000 of its common shares to the Company valued at \$125,000, being the fair market value.

Amseco will be the operator during the earn-in period. Once Amseco has earned its 50% interest, the Company will be the operator unless its participation in the project becomes less than 50% in which case Amseco will resume acting as operator.

f) Eastmain Lithium, Québec

A 100% interest. The Company doesn't anticipate any exploration expenditures of its own on this property in the near future. Accordingly, the Company decided to take a write-off on this property in August 2010.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

4. Mineral properties (Cont'd)

g) Casa Berardi, Quebec

In December 2010, the Company entered into an option agreement with Actus Minerals Corp. ("Actus"), a corporation listed on the TSX Venture Exchange, on its Casa Berardi property (the "Option Property"). Actus has an option to acquire an undivided 50% of the Company's 100% interest in the property by performing a total of \$650,000 of exploration work on the Option Property over a three year period ending February 14, 2014. The claims are subject to a 2% NSR upon production, payable to the Company. One-half of said NSR can be bought back by Actus for a payment of \$1,000,000 at any time. In addition, Actus has issued 300,000 of its common shares to the Company (valued at \$24,000, being the fair market value) and will issue an additional 950,000 of its common shares to the Company over the next three years.

Actus will be the operator during the earn-in period. Once Actus has earned its 50% interest, the Company could elect at its option to become the operator unless its participation in the project becomes less than 50% in which case Actus will resume acting as operator.

h) Hemlo properties, Ontario

The Company owns a 100% interest in two groups of claims in the Hemlo gold camp known as Northern Eagle and Fowler. The claims are subject to an NSR varying between 0.5% and 2% with options to purchase one-half of some of the NSR's at any time for \$1,000,000.

Northern Eagle

The claims are located along Highway 17 on the Hemlo shear zone approximately 14 kilometres due west of the Hemlo gold mines and cover approximately 10 kilometres of the favourable Hemlo zone.

In April 2009, the Company signed an agreement (The "Agreement") whereby Jiminex Inc. ("Jiminex") has an option to acquire an undivided 50% of the Company's undivided interest in the Northern Eagle gold property. Jiminex paid \$10,000 cash on signing and issued 900,000 common shares to the Company at a deemed price of \$0.10 per share.

In addition, Jiminex must make exploration expenditures of \$1,300,000 over a three year period ending on August 31, 2012, all subject to an up to 2 % NSR to outside non-related parties. Jiminex will be operator during the option earn-in period. When Jiminex fulfills the preceding terms, earning its 50% interest, exploration will proceed pursuant to a joint venture with the Company acting as operator.

Fowler

The claims are located approximately 25 kilometres northeast of the Hemlo gold mines.

i) Cape Breton, Nova Scotia

The Company entered into a purchase agreement to acquire, on an arm's length basis, the Nova Scotia Zinc property consisting of three mineral licenses located in Nova Scotia in consideration for a total of 300,000 common shares of the Company (valued at \$82,500, being the fair market value). The Company has also agreed to grant to the vendor a 2% NSR subject to the Company's right to purchase one-half of said royalty at any time for \$1,000,000.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

5. Capital-stock

Authorized

An unlimited number of common shares without par value.

Issued and fully paid:

	2011		2010	
	Number	\$	Number	\$
Balance, beginning of year	83,349,519	31,324,120	83,349,519	31,324,120
Issued for cash on private placement	5,455,000	3,000,250	-	-
Issued for cash on exercise of options	1,400,000	404,000	-	-
Transferred from compensation options upon exercise of options	-	218,000	-	-
Acquisition of exploration property	300,000	82,500	-	-
Balance, end of year	<u>90,504,519</u>	<u>35,028,870</u>	<u>83,349,519</u>	<u>31,324,120</u>

As at August 31, 2011, 129,750 shares (129,750 in 2010) are under escrow.

a) *Private placement*

On October 20, 2010 the Company closed a private placement financing consisting of 5,455,000 flow-through common shares (the "Flow-Through Common Shares") at a price of \$0.55 per Flow-Through Common Share, for gross proceeds of \$3,000,250. The agent received a cash commission equal to 6% of the gross proceeds raised and compensation options ("Agent Compensation Options") equal to 6% of the number of Flow-Through Common Shares sold. Accordingly, a total of 327,300 Agent Compensation Options were issued, each of which is exercisable to purchase one common share of the Company at \$0.55 per share until April 20, 2012.

A fair value of \$62,187 was calculated for those compensation options using the Black-Scholes option pricing model based on the following assumptions: average interest rate without risk of 1.37%, an estimated average volatility of 123%, an expected dividend yield of nil and an average expected life of the compensation options of 18 months resulting in an average fair value of \$0.19 per each compensation option granted. The total amount of \$62,187 was expensed in the statement of deficit.

b) *Stock option plan and Agent Compensation Options*

Stock option plan

The Company maintains two stock option plans (the "2002 Plan" and "2006 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 ongoing services to the Company.

Under the 2002 Plan, options to purchase an aggregate of up to 5,300,000 of the common shares outstanding from time-to-time may be granted by the Board of Directors. Under the 2006 Plan as amended in October 2009, options to purchase an aggregate of up to 7,000,000 of the common shares outstanding from time-to-time may be granted by the Board of Directors.

Beaufield Resources Inc.

Notes of Financial Statements

Years ended August 31, 2011 and 2010

5. Capital-stock (Cont'd)

b) *Stock option plan and Agent Compensation Options (Cont'd)*

Stock option plan (Cont'd)

In 2011, all options granted under the 2002 Plan were either exercised or expired and the 2002 Plan lapsed and all future options will be granted pursuant to the 2006 Stock Option Plan.

Under these plans, no optionee shall be granted options which exceed 5% of the issued shares of the Company at the time the options are granted; however, the limit for services providers or persons engaged in investor relations activities is 2%. Exercise price of options shall not be less than \$0.10 per share or the last closing price of the Company's stock before the day of grant less the maximum allowable discount from such closing price as may be permitted under the policies of the stock exchange.

Under these plans, the option period shall be for a period of up to 10 years. Options granted to employees are exercisable on the day of grant, unless otherwise stated by the Board of Directors. Options granted to persons performing investor relations activities must at a minimum vest in stages over a period not less than 12 months with no more than one fourth of the options vesting in any three-month period. Unexercised options are cancelled 90 days after the termination of employment, directorship or consultancy (30 days in the case of a person engaged in investor relations activities).

A summary of changes of the Company's common share purchase options is presented below:

	2011		2010	
	Number of option	Weighted average exercise price	Number of option	Weighted average exercise price
Balance, beginning of year	5,200,000	0.24	4,600,000	0.27
Granted	3,500,000	0.38	1,200,000	0.15
Exercised	(1,400,000)	0.29	-	-
Expired	(1,200,000)	0.36	(600,000)	0.25
Balance, end of year - outstanding	<u>6,100,000</u>	0.29	<u>5,200,000</u>	0.24
Balance, end of year - exercisable	<u>6,100,000</u>	0.29	<u>5,000,000</u>	0.25

During 2011, the total stock option compensation fair value for the 3,500,000 (1,200,000 in 2010) options granted amounts to \$995,000 (\$112,000 in 2010) including \$150,000 (nil in 2010) capitalized to deferred exploration expenses on the basis that options were granted to employees involved in the exploration program. The balance of \$845,000 (\$102,000 in 2010) was expensed in the statements of operations and comprehensive loss, in addition to a \$10,000 (nil in 2010) relating to options vested this year and granted in 2010.

Beaufield Resources Inc.

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5. Capital-stock (Cont'd)

b) Stock option plan and Agent Compensation Options (Cont'd)

Stock option plan (Cont'd)

For options granted, the weighted exercise price of the options compared to the weighted market price on grant date and their estimated weighted fair values were as follows:

	Weighted Fair value	Weighted Exercise price	Weighted Market price
3,500,000 options granted in 2011 which exercise price equals the market price	\$0.28	\$0.38	\$0.38
1,200,000 options granted in 2010 which exercise price exceeds the market price	\$0.09	\$0.15	\$0.14

The weighted average of the fair value was estimated using the Black-Scholes model based on the following weighted average assumptions:

	2011	2010
Dividend yield	-%	-%
Average projected volatility	95%	92%
Risk-free interest rate	2.54%	2.51%
Expected life of options	5 years	4.5 years

Option outstanding and exercisable as at August 31, 2011 are as follows:

Number of options	Exercise price	Expiry date
400,000	\$0.40	November 1, 2011 ⁽¹⁾
400,000	\$0.25	April 1, 2013
1,100,000	\$0.12	August 29, 2013
1,000,000	\$0.15	October 22, 2014
1,800,000	\$0.40	December 15, 2015
200,000	\$0.41	January 13, 2016
400,000	\$0.38	March 28, 2016
300,000	\$0.42	April 21, 2016
500,000	\$0.29	July 20, 2016
6,100,000		

(1) Unexercised on expiry date

Agent Compensation Options

Agent Compensation Options outstanding and exercisable as at August 31, 2011 are as follows:

	Number of option	Exercise price	Expiry date
		\$	
Balance, beginning of year	-	-	-
Granted	327,300	0.55	April 20, 2012
Balance, end of year	327,300		

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5. Capital-stock (Cont'd)

A summary of changes of the Company's compensation options is presented below:

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, beginning of year	719,000	713,000
Stock-based compensation cost when vested	1,005,000	102,000
Agent Compensation Options cost (Note 5a)	62,187	-
Stock-based compensation cost credited to capital stock when exercised	(218,000)	-
Stock-based compensation cost credited to contributed surplus when expired	(171,000)	(96,000)
Balance, end of year	<u>1,397,187</u>	<u>719,000</u>

c) *Contributed surplus*

Net change in contributed surplus is as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, beginning of year	365,760	269,760
Stock-based compensation cost credited to contributed surplus when expired	171,000	96,000
Balance, end of year	<u>536,760</u>	<u>365,760</u>

d) *Policies and processes for managing capital*

The capital of the Company consists of the items included in shareholders' equity.

The Company's objectives when managing its capital are to safeguard its ability to continue its operations as a going concern, in order to develop and realize the full potential of its mining assets and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable risk.

To reach its objectives, the Company raises funds mainly through the issuance of share capital. Considering the nature of its activities, the Company does not expect to have access to long term debt since it does not generate operating revenues. At this stage of its development, it is the policy of the Company to preserve cash to fund its operations and not to pay dividends.

The Company is not subject to any externally imposed capital requirements unless the Company closes a flow-through private placement where the funds are restricted in use for exploration expenses. The Company complied with the requirements in the fiscal year.

The Company's main investment policy is to hold cash in a financial institution variable interest rate cash account or to invest the majority of its cash in highly liquid short-term interest bearing investments, selected with regards to the expected timing of expenditures from continuing operations. In addition, the Company decided to invest up to \$1,000,000 in shares of publicly traded companies in the resource sector and up to \$1,000,000 in gold coins.

6. Investment income

	<u>2011</u>	<u>2010</u>
	\$	\$
Interest income	45,750	15,820
Gain on disposal of marketable securities	355,830	56,951
Unrealized fair value variation of marketable securities	87,327	(179,966)
	<u>488,907</u>	<u>(107,195)</u>

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7. 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	(1,015,616)	(709,415)
Income taxes at the combined federal and provincial tax rate of 28.90% (30.23% in 2010)	(294,000)	(214,000)
Stock-based compensation cost	291,000	31,000
Non taxable gain on disposal of marketable securities	(64,000)	19,000
Expired tax loss	-	41,000
Valuation allowance	(255,000)	121,000
Other non-deductible expenses	17,000	(18,000)
Change in enacted rates	5,000	20,000
Income taxes	<u>(300,000)</u>	<u>-</u>

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Future income taxes assets		
Operating losses carried forward	721,000	592,000
Share issue expenses deductible	50,000	-
Marketable securities	12,000	23,000
Equipment	7,000	7,000
Future income taxes liability		
Exploration taxes credits receivable	(139,000)	-
Mineral properties	<u>(790,000)</u>	<u>(367,000)</u>
	(139,000)	255,000
Valuation allowance	<u>-</u>	<u>(255,000)</u>
	<u>(139,000)</u>	<u>-</u>

In 2011, a \$63,000 future income tax asset was calculated on the share issue expenses and a valuation allowance was calculated on that asset as at August 31, 2011.

As at August 31, 2011, the Company has accumulated non-capital losses in Canada of approximately \$2,731,000. These losses will expire as follows:

<u>Years ending August 31</u>	<u>\$</u>
2014	92,000
2015	362,000
2026	307,000
2027	193,000
2028	388,000
2029	437,000
2030	470,000
2031	482,000
	<u>2,731,000</u>

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Years ended August 31, 2011 and 2010

7. Income taxes (Cont'd)

As at August 31, 2011, the unamortized balance for tax purposes of share issue expenses amounting to approximately \$187,000 is deductible over the next four years.

As at August 31, 2011, the cost for income tax purposes of mineral properties totalled \$6,477,000 in Canada.

In October 2010, the Company issued flow-through shares for gross proceeds of \$3,000,250. Under the flow-through share agreements, the Company renounced in February 2011 to \$3,000,250 of qualifying expenditures to the investors effective December 31, 2010, although under the Canadian Income Tax Act, the expenditures may actually be incurred up to December 31, 2011. The Company is required to record a tax liability at the time the renunciation is filed with the tax authorities by an increase in the share issue expenses relating to the flow-through shares for the future income taxes related to the tax deductions the Company had forgone. The Company has estimated that the future income taxes recorded at the time of renunciation would be \$502,000. Consequently, the Company has recognized share issue expenses and an increase in future income tax liability of \$502,000 respectively in February 2011.

The Company has a federal non refundable tax credit of \$295,000 and a Québec non refundable tax credit of \$429,000. These credits will be applicable in reduction of income taxes payable for an indefinite period.

8. Related party transactions

The principal transactions concluded with companies controlled by officers are as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Deferred exploration expenses ¹⁾	45,890	31,770
Professional fees ²⁾	136,545	85,176
Management fees ³⁾	64,400	68,025
Rent ³⁾	30,000	30,000
Investor relations and promotion ⁴⁾	20,000	-
	<u>296,835</u>	<u>214,971</u>

1) Fees paid to a private company controlled by the President of the Company, for geological services rendered by the president of the Company who is also a director;

2) Professional fees paid to a private company controlled by the Chief Financial Officer of the Company for bookkeeping, accounting and administrative services;

3) Management fees and rental office spaces paid to a private company controlled by the President of the Company.

4) Fees paid to a director for promotion services since April 2011.

There were accounts payable or accrued liabilities as at August 31, 2011 to companies controlled by officers in the amount of \$32,644 (\$20,315 as at August 31, 2010).

These transactions were concluded in normal course of operations and were measured at the exchange amount that is the amount established and accepted by the parties.

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Years ended August 31, 2011 and 2010

9. Additional information to the statement of cash flows

	<u>2011</u>	<u>2010</u>
	\$	\$
Exploration taxes receivable credited to mineral properties	1,266,768	474,294
Depreciation included in deferred exploration expenses	-	6,831
Stock based compensation capitalized in deferred exploration expenses	150,000	-
Mineral property acquired with shares	82,500	-
Option payment for a mineral property received in marketable securities	24,000	125,000
Due from a partner received in marketable securities	-	90,000
Accounts payable and accrued liabilities related to mineral properties	-	6,044
Accounts payable and accrued liabilities related to deferred exploration expenses	328,256	378,884
Share issue expenses related to future income taxes on flow-through shares	439,000	-
Agent compensation options issued as share issue expenses	62,187	-

10. Financial instruments

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 risks management policies are as follows:

Fair Value

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 assets 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 marketable securities are considered a level 1.

The fair value of shares in publicly traded companies held for trading is measured based on the quoted closing bid prices on the stock market at the balance sheet date or the closing bid price on the last day the security traded if there were no trades at the balance sheet date. The fair value and cost of the marketable securities is reflected on Note 3.

The fair value of cash, due from partners, cash held for exploration activities and accounts payable and accrued liabilities is comparable to their carrying value due to the relatively short period to maturity of the instruments.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Financial instruments that potentially subject the Company to credit risk consist of cash as at August 31, 2011 and 2010. During the years ended August 31, 2011 and 2010, the Company has minimized its credit risk by holding the majority of its cash with a Canadian chartered bank. Management believes that the credit risk concentration with respect to these financial instruments is remote.

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Years ended August 31, 2011 and 2010

10. Financial instruments (Cont'd)

The Company aims at signing partnership agreements with established companies and follows closely their cash position to reduce its credit risk on due from its partners.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. Liquidity risk management serves to maintain a sufficient amount of cash and cash equivalents and to ensure that the Company has at his disposal sufficient sources of financing such as private placement. The Company's policies and processes for managing capital are set out in note 5c). As the Company currently has no debt, the Company establishes cash estimates to ensure that there are adequate funds to fulfill its obligations and to meet its commitments, for the next year, as they become due under normal operating conditions.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

Cash bear interest at a variable rate (1% as at August 31, 2011 and 2010) and the Company is therefore exposed to the risk of changes in future cash flows resulting from interest rate fluctuations but the risk is not significant. The Company's other financial assets and liabilities do not comprise any significant interest rate risk. The Company does not use financial derivatives to decrease its exposure to interest risk.

Currency risk

As at August 31, 2011, the Company has no exposure to currency risk. As at August 31, 2010, the exposure to currency risk as a result of marketable securities denominated in U.S. dollars amounted to \$135,600. The Company does not enter into any agreements to hedge its currency risk exposure.

Other risk

Other risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to other risk in trading its investments and unfavourable market conditions could result in the disposal of investments at less than favourable prices.

As at August 31, 2011, a 10% increase or decrease in the closing bid prices on its publicly traded companies would result in an estimated decrease or increase in loss before income taxes of approximately \$102,000.

11. Subsequent event

Private placement

In September 2011, the Company closed a brokered private placement financing of 4,777,000 Flow-Through Common Shares at a price of \$0.36 per Flow-Through Common Share, for gross proceeds of \$1,719,720. The agent received a cash commission equal to 6% of the gross proceeds raised and Agent Compensation Options equal to 6% of the number of Flow-Through Common Shares sold. Accordingly, a total of 286,620 Agent Compensation Options were issued, each of which is exercisable to purchase one common share of the Company at \$0.36 per share until March 20, 2013.

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11. Subsequent event (Cont'd)

A fair value of \$22,930 was calculated for those compensation options using the Black-Scholes option pricing model based on the following assumptions: average interest rate without risk of 0.94%, an estimated average volatility of 74%, an expected dividend yield of nil and an average expected life of the compensation options of 18 months resulting in an average fair value of \$0.08 per each compensation option granted. The total amount of \$22,930 was expensed in the statement of deficit.

Concurrent with this financing, the Company issued on a non-brokered basis 1,000,000 Flow-Through Common Shares at a price of \$0.36 per Flow-Through Common Share, for gross proceeds of \$360,000. No commission was paid for this financing.

12. Comparative figures

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

Presentation of statements of operations and comprehensive loss:

The Company combined the presentation of "Directors' fees" and "Salaries, benefits and management fees" into one account under "Salaries, benefits and management fees" since Directors' fees are considered as salaries.

The Company combined the presentation of "Investors relations" and "Travelling and promotion" into one account under "Investors relations and promotion".