(an exploration stage enterprise)

# INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**(Expressed in United States Dollars, unless otherwise stated)**
**June 30, 2011**

(unaudited)

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**Notice of no auditor review of interim financial statements:**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

(an exploration stage enterprise)

# INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(Expressed in United States Dollars - Unaudited)**

**AS AT June 30 2011**

| | Note | June 30, 2011 | December 31, 2010 (Note 13) |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | | **$ 1,352,637** | $ 950,662 |
| Accounts receivable | | **1,007,233** | 94,097 |
| Prepaid expenses | | **15,964** | 33,817 |
| | | **2,375,834** | 1,078,576 |
| Security deposits | 4(a) | **162,827** | 134,528 |
| Mineral property costs | 4 | **28,284,423** | 27,905,180 |
| Capital Assets | 5 | **785,873** | 796,484 |
| | | **$ 31,608,958** | $ 29,914,768 |
| **LIABILITIES** | | | |
| **Current** | | | |
| Accounts payable and accrued liabilities | 7 | **$ 191,301** | $ 52,078 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 6 | **$ 40,514,400** | 37,277,999 |
| Contributed Surplus | | **5,104,222** | 4,760,497 |
| Deficit | | **(14,200,965)** | (12,175,806) |
| | | **31,417,657** | 29,862,690 |
| | | **$ 31,608,958** | $ 29,914,768 |

**Nature of operations and going concern considerations** (Note 1)
**Commitments** (Notes 4 and 8)

**Approved on Behalf of the Board**

*'Edward J. Munden'* Director

*'Robin Dunbar'* Director

(an exploration stage enterprise)

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(Expressed in United States Dollars - Unaudited)**

| | Note | For the Three Months Ended June 30, 2011 | For the Three Months Ended June 30, 2010 (Note 13) | For the Six Months Ended June 30, 2011 | For the Six Months Ended June 30, 2010 (Note 13) |
|---|---|---|---|---|---|
| **Expenses** | | | | | |
| Depreciation | | 4,586 | 5,199 | 9,170 | 10,098 |
| Consulting fees | | 33,719 | 6,768 | 67,694 | 15,414 |
| Director's fees | 7 | 8,881 | 11,402 | 20,670 | 29,415 |
| Filing and regulatory fees | | 39,198 | 6,832 | 74,015 | 25,558 |
| Foreign exchange (gain) loss | | 212,193 | (407,003) | (27,261) | (396,200) |
| Interest and bank charges | | 507 | 856 | 2,066 | 1,599 |
| Mineral property expenses | | 6,615 | 37,061 | 10,167 | 81,755 |
| Management fees | 7 | 17,687 | 10,262 | 34,726 | 19,268 |
| Office, general and admin | | 29,943 | 28,941 | 49,499 | 43,714 |
| Professional fees | | 67,411 | 17,175 | 134,712 | 46,658 |
| Rent | 7 | 6,845 | 3,941 | 10,496 | 7,399 |
| Salaries and benefits | | 77,932 | 48,755 | 235,288 | 75,363 |
| Stock-based compensation | 6(d) | | 22,721 | 1,363,681 | 50,719 |
| Travel and promotion | | 100 | 20,926 | 43,535 | 33,001 |
| **Loss (income) before undernoted** | | 505,617 | (186,164) | 2,028,458 | 43,760 |
| Interest income and other income | | (1,759) | (1,662) | ( 3,299) | (3,162) |
| **Net loss and comprehensive loss for the period** | | 503,858 | (187,826) | 2 ,025,159 | 40,598 |
| **Loss per common share** | | | | | |
| Basic and fully diluted loss per share | | $0.01 | - | $0.02 | - |
| Weighted average number of common shares outstanding | | 85,701,000 | 81,755,608 | 85,129,000 | 81,755,608 |

See accompanying notes to the unaudited interim consolidated financial statements

(an exploration stage enterprise)

# INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE SIX MONTH PERIODS ENDED June 30, 2011 and 2010
**(Expressed in United States Dollars - Unaudited)**

| | Share Capital | | Contributed | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Surplus | Deficit | Total |
| Balance, Jan 1, 2010 (Note 13) | 81,770,529 | 36,977,430 | 4,774,519 | (11,486,815) | 30,265,134 |
| Fair value of options | | 2,374 | (2,374) | | - |
| Options granted | | | 22,721 | | 22,721 |
| Proceeds on exercise of options | 21,250 | 3,180 | | | 3,180 |
| Share-based payment | | | 50,719 | | 50,719 |
| To adjust to closing balance | | (3,633) | (3,286) | (31,662) | (38,581) |
| Net loss | | | | (40,598) | (40,598) |
| Balance, June 30, 2010 (Note 13) | 81,791,779 | 36,979,351 | 4,842,299 | (11,559,075) | 30,262,575 |

| | Share Capital | | Contributed | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Surplus | Deficit | Total |
| Balance, January 1, 2011 (Note 13) | 82,656,711 | 37,277,999 | 4,760,497 | (12,175,806) | 29,862,690 |
| Fair value of options | | 1,019,956 | (1,019,956) | | - |
| Share-based payment | | | 1,363,681 | | 1,363,681 |
| Proceeds of exercise of options | 1,313,625 | 216,445 | | | 216,445 |
| Private Placement | 2,226,514 | 2,000,000 | | | 2,000,000 |
| Net loss | | | | (2,025,159) | (2,025,159) |
| Balance, June 30, 2011 | 86,196,850 | 40,514,400 | 5,104,222 | (14,200,965) | 31,417,657 |

See accompanying notes to the unaudited interim consolidated financial statements

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**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Expressed in United States Dollars - Unaudited)**

| | Note | For the Six Months Ended June 30, 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the period | | (2,025,159) | (40,598) |
| Adjustment for: | | | |
| Depreciation | | 9,170 | 10,098 |
| Stock-based compensation | 6(d) | 1,363,681 | 50,719 |
| Other | | 1,441 | (15,859) |
| | | (650,867) | 4,369 |
| Changes in non-cash working capital | 9 | (784,360) | (42,422) |
| Cash flows used in operating activities | | (1,435,227) | (38,062) |
| **Cash flows from investing activities** | | | |
| Capital assets | | | (38,975) |
| Increase in mineral properties | | (379,243) | (294,341) |
| Cash flows used in investing activities | | (379,243) | (333,316) |
| **Cash flows from financing activities** | | | |
| Issuance of common shares | | 2,216,445 | 3,180 |
| Cash flows provided from financing activities | | 2,216,445 | 3,180 |
| Net increase (decrease) in cash | | 401,975 | (368,198) |
| Cash, beginning of period | | 950,662 | 1,791,853 |
| Cash, end of period | | 1,352,637 | 1,423,655 |

## 1. Nature of operations and going concern considerations:

Aquila Resources Inc. (the "Company") was incorporated under the Business Corporations Act ("Canada") and is involved in the mineral exploration business.

The Company is listed on The Toronto Stock Exchange ("TSX") and is in the business of exploring for and developing mineral properties. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenues and is considered an exploration stage company. For the three month period ended June 30, 2011, the Company incurred a loss (income) of $503,858 (June 30, 2010-$(187,826)) and had an accumulated deficit of $14,200,965 at that date (June 30, 2010-$11,559,075). The ability of the Company to carry out its business plan rests with its ability to secure equity and other financing.

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

These interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary should the going concern assumption be inappropriate. These adjustments could be material.

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 development 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.

Although the Company has taken steps to verify title to the 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 government licensing requirements or regulations, unregistered prior agreements, undetected defects, unregistered claims, native land claims, and non-compliance with regulatory and environmental requirements.

## 2. Basis of Presentation:

These unaudited interim consolidated financial statements represent part of the period covered by the Company's first IFRS annual consolidated financial statements. IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS Interpretations Committee ("IFRICs") or the former Standing Interpretations Committee ("SICs"). These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting and on the basis of IFRS standards and interpretations expected to be effective at the Company's first IFRS annual reporting date, December 31, 2011, with significant accounting policies as described herein.

These unaudited interim consolidated financial statements should be read in conjunction with the Company's unaudited interim consolidated financial statements for the three month period ended March 31, 2011.

An explanation of how the transition to IFRS with a transition date of January 1, 2010 has affected the reported financial position and financial performance of the Company is provided in note 13. Note 13 includes reconciliations of the Company's consolidated balance sheets and statements of earnings and comprehensive income for comparative periods prepared in accordance with Canadian GAAP and as previously reported to those prepared and reported in these unaudited interim consolidated financial statements in accordance with IFRS.

IFRS 1 - First-time Adoption of International Financial Reporting Standards ("IFRS 1") governs the first-time adoption of IFRS. IFRS 1 in general requires accounting policies under IFRS to be applied retrospectively to determine the opening balance sheet of the Company as of the transition date of January 1, 2010, and allows certain exemptions which the Company has elected to apply as follows:

(i) On the Transition Date, the Company has elected not to retrospectively apply IFRS 2, Share-based Payments ("IFRS 2") to all share-based transactions at the date of transition. IFRS 2 will only be applied to equity instruments issued on or after, and that have not vested by the Transition Date.

(ii) The Company has elected not to retrospectively apply IFRS 3, Business Combinations, to any business combinations that occurred prior to the Transition Date.

The Company's interim results are not necessarily indicative of its results for a full year.

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies applied by the Company for the Company's first IFRS annual consolidated financial statements will be determined as at December 31, 2011. The significant accounting policies used in the preparation of these unaudited condensed interim consolidated financial statements are as follows:

**Basis of Measurement**

These interim consolidated financial statements have been prepared on a historical cost basis except for other financial assets classified as at fair value through profit or loss which are measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The consolidated financial statements include all the accounts of the Company including those of its principal subsidiary, Aquila Resources Corp. as well as other non-significant subsidiaries. All inter-company balances and transactions have been eliminated. The financial statements of the subsidiaries are consolidated from the date that control commences until the date that control ceases.

**Functional and Presentation Currency**

These interim consolidated financial statements are presented in US dollars, which is the functional currency and presentation currency of the Company.

**Use of Estimates and Judgement**

The preparation of interim consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions about future events that affect the amounts reported in the interim consolidated financial statements and related notes to the financial statements. Actual results may differ from those estimates. In preparing these interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the recoverability of exploration and evaluation assets, useful lives of capital assets, decommissioning liabilities (asset retirement

obligation), share-based payment, income taxes, and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from management's best estimates.

## 3. Significant Accounting Policies:

Summarized below are the policies considered significant to the Company. References to the Company herein are inclusive of the accounts of Aquila Resources Inc.'s wholly-owned subsidiary Aquila Resources Corp. and its subsidiaries.

**Principles of Consolidation**

These interim consolidated financial statements include the accounts of the Company and all of its subsidiaries. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from the entity's activities. Subsidiaries are included in the consolidated financial results of the Company from the effective date of acquisition up to the effective date of disposal or loss of control. The Company's principal subsidiary, Aquila Resources Corp., is located in Michigan USA.

**Deferred mineral property costs:**

The Company capitalizes all costs, net of any recoveries, during the evaluation and exploration and development stage of its mineral properties. These costs will be amortized on the units-of-production basis over the estimated useful life of the properties following commencement of production or written-off if the properties are sold, allowed to lapse, or abandoned.

Cost includes the cash, consideration paid and the fair market value of any common shares issued on the acquisition of mineral properties. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at such time as the payments are made. The recorded cost of mineral claims and deferred exploration and development costs represent costs incurred and are not intended to reflect present or future values.

The recoverability of costs incurred on the exploration properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks, and the Company's ability to attain profitable production. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for, and amount of, any write down.

The Company reviews capitalized costs on its property interests on a periodic, or annual, basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review and the assessment of the ability to recover capitalized costs based on technical, social and environmental issues.

Administrative costs, other than for those that are charged to deferred mineral property costs, are expensed as incurred.

The proceeds of options granted on a mining property are recorded as a reduction of the amounts recorded for mineral property costs and amounts exceeding cost are recorded as income.

**Capital assets:**

Capital assets consist of land and buildings, furniture fixtures and equipment which are initially recorded at cost. Depreciation is recorded using the following rates and methods:

| | | |
|---|---|---|
| Buildings | 4% | Declining balance |
| Furniture, fixtures and equipment | 20% | Declining balance |

Depreciation on additions commences when assets are available for use.

**Share capital:**

Share capital issued for non-monetary consideration is recorded at an amount based on the quoted trading price of those shares on the TSX for a reasonable period before and after the transaction.

Share issue costs are recorded as a reduction of share capital when the related shares are issued.

Proceeds from unit placements are allocated between shares and warrants issued according to the residual value method. The fair value of the shares is determined based on the quoted market price on the date the shares are issued with the residual value being allocated to the warrants

**Revenue recognition:**

Interest income is recognized on an accrual basis as it is earned.

**Assets retirement obligation:**

The Company recognizes a liability for an asset retirement obligation when it is determinable and calculates the liability based upon undiscounted future payments to be made. A corresponding amount is added to the carrying amount of the related long-term asset, and this amount is subsequently allocated to expense over its expected life. Adjustments will also be made in subsequent periods to changes in asset retirement obligations due to changes in estimates. The Company does not have any asset retirement obligations.

**Impairment:**

When events or changes in the economic environment indicate a risk of impairment of mineral properties or property and equipment, an impairment test is performed to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Recoverable amount is defined as the higher of an asset's fair value (less costs to sell) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

**Income taxes:**

The Company accounts for and measures deferred tax assets and liabilities in accordance with the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred taxes are not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled

entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax assets and liabilities are measured using the enacted or substantially-enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be reversed or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets is not probable, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

**Share-based payments:**

The Company has a stock option plan, which is described in note 6(d). The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock-option at the date of grant. Stock options that vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period. The amount recognized as an expense is adjusted to reflect the actual number of share options for which the related services and non-market vesting conditions are met. Stock option compensation is recognized as expense with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

**Earnings per share:**

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible warrants and share options granted to directors, officers, employees, consultants and other service providers of the Company.

**Translation of foreign currencies:**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate, and non-monetary assets and liabilities at the historical rates. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period are recognized in profit or loss.

**Property option agreements:**

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are typically exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received.

**Financial assets and liabilities:**

*Assets or liabilities at fair value through profit or loss ("FVTPL")*

Financial instruments classified as FVTPL assets or liabilities FVTPL are reported at fair value at each balance sheet date, and any change in fair value is recognized in net income (loss) in the period which the change occurs.

*Held-to-maturity investments, loans and receivables and other financial liabilities*

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities

are carried at amortized costs using the effective interest method. Interest income or expenses is included in net income (loss) over the expected life of the instrument.

*Available-for-sale*

Financial instruments classified as available for sale are recorded at fair value at each balance sheet date and any change in fair value is recognized in other comprehensive income in the period in which these changes occur. Securities classified as available for sale and with no quoted market price in an active market are carried at cost. Available-for-sale securities are written down to fair value (impairment recognized in loss) when it is necessary to reflect an other-than-temporary impairment. Upon de-recognition, any accrued gains or losses in accumulated other comprehensive income are then recognized in net income (loss).

**Classification of financial instruments:**

The Company designates its cash as *FVTPL*, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost. Due to the short-term nature of these instruments, their carrying value approximates their fair value.

**Comprehensive income:**

Comprehensive income, composed of net income and other comprehensive income, is defined as the change in shareholders' equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") includes unrealized gains and losses on available-for-sale securities, foreign currency translation adjustment and changes in the fair market value of derivatives designated as cash flow hedges, all net of related income taxes. The components of comprehensive income are disclosed in the statement of comprehensive income. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income ("AOCI") which is presented as a category in shareholders' equity.

**Future accounting changes:**

IFRS 9, Financial Instruments ("IFRS 9"):

In October 2010, the IASB issued IFRS 9, replacing IAS 39 and establishing principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the Company for its annual consolidated financial statements commencing January 1, 2013. The Company is assessing the impact of this new standard on its consolidated financial statements.

## 4. Mineral property costs and commitments:

Total accumulated deferred mineral property costs are detailed as follows:

**Mineral property costs:**

| Six mths to June 30, 2011 | Balance beginning of year | Acquisition | Exploration | JV reimbursements/ recoveries | Write-down | Balance end of period |
|---|---|---|---|---|---|---|
| Back Forty Project | $ 27,529,816 | $ 201,881 | $ 777,492 | $ (1,246,263) | | $ 27,262,926 |
| Exploration Alliance | (210,811) | 28,091 | 857,260 | (856,673) | | (182,133) |
| Michigan Gold | 311,972 | 7,440 | 294,278 | | | 613,690 |
| Reef | - | - | 245,743 | - | | 245,743 |
| Other | 274,203 | - | 69,994 | - | | 344,197 |
| | $ 27,905,180 | $ 237,412 | $ 2,244,767 | $ (2,102,936) | | $ 28,284,423 |

| Year ended Dec 31, 2010 | Balance beginning of year | Acquisition | Exploration | JV reimbursements/ recoveries | Write-down | Balance end of year |
|---|---|---|---|---|---|---|
| Back Forty Project | $ 27,384,120 | $ 2,436,988 | $ 2,309,660 | $ (4,600,952) | | $ 27,529,816 |
| Michigan Gold | | 31,162 | 280,810 | | | 311,972 |
| Other | | 63,530 | 210,673 | | | 274,203 |
| Exploration Alliance | - | - | 36,300 | (247,111) | | (210,811) |
| | $ 27,384,120 | $ 2,531,680 | $ 2,837,443 | $ (4,848,063) | | $ 27,905,180 |

### a) Back Forty Project

The Back Forty Project controls approximately 7,600 (2010-9,300) acres of surface and mineral rights which are owned or held under lease or option by a 100% owned U.S. subsidiary and are subject to the HudBay Option and Joint Venture Agreement. Some lands are subject to net smelter royalties varying from 1% to 3.5%, with certain lands subject to a 2% - 7% state royalty, which under state law can be renegotiated. The entire project is subject to a 7% net distributable earnings royalty ("Net Profits after Payback") payable to a former joint venture partner.

<u>HudBay Option and Joint Venture Agreement</u>

On August 6, 2009, the Company signed a Subscription, Option and Joint Venture Agreement (the "Agreement") with HudBay Minerals Inc. ("HudBay"). Under the terms of the agreement, the following events came into effect:

I) HudBay subscribed for 12,141,051 common shares of the Company at $0.1827 per share for gross proceeds of CDN$2,218,170. These shares were subject to a four month hold period.

II) While HudBay maintains at least a 10% ownership interest, HudBay will have the right to nominate a director to the Company's Board of Directors and will have pre-emptive rights to maintain its ownership interest. In addition, should HudBay choose to dispose of its equity interest in the Company, HudBay has agreed to do so in an orderly manner pursuant to the Agreement.

III) HudBay can earn a 51% interest in the Back Forty Project (the "Project") by expending a minimum of $10 million in aggregate over a 3 year period with a minimum of $3 million by the first anniversary, an additional US$3 million by the second anniversary, and an additional $4 million by the third anniversary (this obligation was fulfilled on August 31, 2010).

IV) After HudBay completes the initial 51% interest, HudBay and the Company will form a joint venture reflective of their proportionate ownership interest in the Project.

V) Subsequent to HudBay earning the initial 51% interest, HudBay will have the option to increase its interest in the Project to 65% by funding and completing a feasibility study, funding and submitting a permitting application, and making outstanding specified option payments.

VI) In the event a feasibility study is completed, permitting applications are submitted, HudBay elects to put the Project into production and issues a Development Notice, the Company will have 90 days to arrange financing for its share of project costs. If the Company is unable or elects not to obtain financing, HudBay, by assuming the obligation to finance 100% of the development costs, will increase its ownership in the Project by a further 10% to 75%. Pursuant to the Agreement, the Company's 25% share of the development costs would then be deducted from the Company's proportionate share from Net Proceeds from the Project.

VII) While HudBay retains the largest ownership interest in the Project, HudBay will be the manager and operator. HudBay will also have exclusive marketing rights to sell production to HudBay or third parties on commercial terms.

VIII) If the feasibility study is not completed and all applications for permitting are not submitted on or before the fourth anniversary of the Agreement, the Company has the right to reacquire HudBay's 51% joint venture interest by reimbursing HudBay 50% of its total expenditures in respect of the Project incurred from the execution of the Agreement. If the Project is not brought into commercial production within four years from the grant of mining permits, the Company may reacquire HudBay's 65% joint venture interest by reimbursing HudBay 50% of its total Project expenditures incurred after execution of the Agreement. Notwithstanding the Company exercising the foregoing right, HudBay shall retain the marketing rights and the product rights as provided for in the Agreement. In addition, if the Company exercises this right after HudBay earns a 51% interest in the Project, then HudBay shall have its participating interest converted to a 1% NSR.

During 2009, in connection with securing the Agreement with HudBay, fees of $305,000 were paid in cash, and 300,000 stock options were issued valued at $60,600 using the Black Scholes option pricing model.

On August 31, 2010, pursuant to the Agreement, HudBay acquired a 51% interest in the Project. HudBay will act as operator of the joint venture with authority and discretion as to the exploration and potential development of the Project and will have exclusive rights to purchase and market the minerals produced from the property. Although called a joint venture in the Agreement, management has determined that a joint venture under applicable accounting standards does not exist. IAS 31 requires the venturers to have joint control over the strategic financial and operating decisions of the venture for it to be considered a joint venture for accounting purposes. Under the Agreement the venturers do not have joint control.

At June 30 2011 the Company maintained cash deposits in the amount of $162,827, pursuant to escrow agreements. The amounts are being held as security for the fulfillment of obligations in accordance with certain agreements pursuant to the Back Forty Project.

Future Back Forty Project Commitments:

Estimated lease, option and property acquisition costs related to the Back Forty Project in each of the next five years, for which HudBay is materially liable throughout the duration of the Agreement, are as follows:

2012 - $1,575,741
2013 - $2,244,581
2014 - $1,527,195
2015 - $1,557,852
2016 - $148,509

**b) Michigan Gold Property**

On October 21, 2010, the Company entered into an option agreement with Minerals Processing Corporation ("MPC"), a related party, to earn a 100% interest in certain surface and mineral rights located in Marquette County, Michigan. In order for the Company to earn a 100% interest in this property, the following commitments must be fulfilled by the Company:

| Due Date | | Cash Payment | | Shares (see below) | | Exploration Expenditures |
|---|---|---|---|---|---|---|
| October 21, 2010 | $ | 25,000 | fulfilled | 100,000 | $ | - |
| October 21, 2011 | | 25,000 | | 100,000 | | 150,000 |
| October 21, 2012 | | 25,000 | | 100,000 | | 200,000 |
| October 21, 2013 | | 25,000 | | 100,000 | | 300,000 |
| October 21, 2014 | | 25,000 | | 100,000 | | 400,000 |
| | $ | 125,000 | | 500,000 | $ | 1,050,000 |

On each stock payment, MPC may elect to receive $50,000 in lieu of 100,000 common shares of the Company.

In addition, to the above noted commitments, in order to complete the 100% acquisition of the property, the Company must purchase the mineral and surface rights owned by the vendor for $1,300 per acre. The property is comprised of 332 acres for surface and mineral land and 1,799 acres of mineral rights.

MPC and the Company have common directors and officers.

A net smelter royalty ranging from 1% to 4% is payable in the event of mineral production on the property.

Future additional Michigan Gold Property Commitments:

In addition to the above mentioned commitments, estimated acquisition costs related to the Michigan Gold Property in each of the next five years are as follows:

2012 - $48,400
2013 - $54,600
2014 - $60,800
2015 - $62,000
2016 - $68,200

**c) Reef**

The Company entered into a series of agreements with private landholders in Marathon County Wisconsin for the optioning of surface and mineral rights. The agreements are by way of long term 20 year mineral lease or mineral rights options with options to purchase. Currently there are a total of 4,166 acres under the agreements. Under the terms of the option to purchase agreements the Company has 7 years to exercise the option to purchase the surface and mineral rights at a formula based on market value.

Future Reef Project Commitments:
Estimated lease, option and property acquisition costs related to the Reef Project in each of the next five years are as follows:

| Year | Cash Payments Due |
|---|---|
| 2012 | $ 35,312 |
| 2013 | $ 35,312 |
| 2014 | $ 35,312 |
| 2015 | $ 35,312 |
| 2016 | $ 35,312 |

**d) Exploration Alliance**

On October 15, 2010, the Company formed an exploration alliance with HudBay whereby HudBay will fund exploration directed at base metals conducted by the Company in Michigan and other surrounding areas. HudBay has made an initial payment to the Company of $250,000, which the Company is using to seek out exploration targets. The Company will present HudBay with a minimum of five exploration targets, and if HudBay agrees to continue to fund any such target it may fund exploration up to $2,000,000, following which the parties would form a 50/50 joint venture with respect to the project. HudBay would then be able to increase its interest on each target to 65% by funding and completing a feasibility study and required mine permit applications.

Future Exploration Alliance Project Commitments:
Estimated lease, option and property acquisition costs related to the Exploration Alliance Projects in each of the next five years are as follows:

| Year | Cash Payments Due |
|---|---|
| 2012 | $164,911 |
| 2013 | $115,911 |
| 2014 | $131,911 |
| 2015 | $12,411 |
| 2016 | $8,822 |

## 5. Capital assets:

| Cost | | Land | | Buildings | | Furniture and Fixtures | | Total |
|---|---|---|---|---|---|---|---|---|
| At January 1, 2011 | $ | 405,880 | $ | 458,314 | $ | 29,446 | $ | 893,640 |
| Additions | | - | | - | | 1,956 | | 1,956 |
| Disposals | | - | | (1,915) | | - | | (1,915) |
| At June 30, 2011 | $ | 405,880 | $ | 456,399 | $ | 31,402 | $ | 893,681 |

| Accumulated depreciation | | Land | | Buildings | | Furniture and Fixtures | | Total |
|---|---|---|---|---|---|---|---|---|
| At January 1, 2011 | $ | - | $ | (88,351) | $ | (13,934) | $ | (102,285) |
| Additions | | - | | (3,718) | | (1,805) | | (5,523) |
| Disposals | | - | | - | | - | | - |
| At June 30, 2011 | $ | - | $ | (92,069) | $ | (15,739) | $ | (107,808) |

| Net Book Value | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| June 30, 2011 | **$** | **405,880** | **$** | **364,330** | **$** | **15,663** | **$** | **785,873** |
| December 31, 2010 | **$** | **405,880** | **$** | **291,374** | **$** | **99,230** | **$** | **796,484** |

## 6. Share capital:

a) Authorized
Unlimited number of common shares

b) Issued
86,196,850 Common shares (June 30, 2010 – 81,791,779)

c) Warrants:

There were no warrants issued or outstanding as of June 30, 2011, and 2010.

d) Stock-option and stock-based compensation:

The Company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees, consultants and other service providers of the Company and its subsidiaries in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options to acquire an increased proprietary interest in the Company. Under the Plan, options are non-assignable and may be granted for a term not exceeding five years. The number of common shares that may be reserved for issuance to any one person must not exceed 5% of the outstanding common shares. The exercise price of an option may not be lower than the closing price of the common shares on the TSX, subject to applicable discounts, on the business day immediately preceding the date the option is granted. The options are non-transferable.

As at June 30, 2011, common share stock options held by directors, officers, employees and consultants are as follows:

| Number of options outstanding | Exercise Price | Expiry Date | Number of options exercisable |
|---|---|---|---|
| 1,275,000 | 2.15 | February 8, 2012 | 1,275,000 |
| 1,337,693 | 0.15 | March 2, 2014 | 1,337,068 |
| 837,500 | 0.25 | November 10, 2014 | 701,250 |
| 1,750,000 | 0.90 | February 2, 2016 | 1,750,000 |
| 5,200,193 | | | 5,063,318 |

The fair value of each option was estimated on the date of grant. Under Black-Scholes the options vested during the period ended June 30, 2011 have been valued at $nil (2010 - $22,721), and expensed to loss, using the following assumptions at the measurement date:

| | **2011** | 2010 |
|---|---|---|
| Risk-free interest rate | **2.62%** | 2.71% |
| Expected life | **5 years** | 5 years |
| Price volatility (based on 2 years historical trend) | **85%** | 137% |
| Share price | **.98** | .25 |
| Dividend yield | **Nil** | Nil |

A summary of the status of the Company's stock option plan as of June 30, 2011 and 2010, and changes during the periods are presented below:

| | **2011** | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Options | | Weighted average exercise price | Options | | Weighted average exercise price |
| Balance outstanding at beginning of the period | **5,363,818** | **$** | **0.70** | 7,705,000 | $ | 0.73 |
| Exercised | **(1,313,625)** | | **0.30** | (886,182) | | 0.21 |
| Expired | **(600,000)** | | **0.75** | (1,455,000) | | 0.97 |
| Granted | **1,750,000** | | **0.90** | - | | - |
| Balance outstanding at end of the period | **5,200,193** | **$** | **0.91** | 5,363,818 | $ | 0.70 |

## 7. Related party transactions:

For the quarter ended June 30, 2011 management fees amounting to $17,687 (2010 - $10,262) were charged by a company controlled by the CFO and a director of the Company.

During the quarter ended June 30 2011, the President and CEO, and related individuals received remuneration consisting of management fees and salaries. Total remuneration for the period ending June 30, 2011 was $65,192 (2010-$60,000). Accounts payable includes $Nil (2010-$Nil) owing to these related parties at June 30, 2011.

A total of $21,156 (2010-$40,044) was charged in the operations by a geological consulting company of which the President and CEO and another director are shareholders. A management fee calculated on a percentage of wages payable was included in the amount charged by the geological consulting company to the Company. As at June 30, 2011, accounts payable includes $Nil (2010-$Nil) owing to this related party.

During the quarter, the Company was charged Directors' fees totalling $8,881 (2010 - $11,402) by non-executive directors. Accounts payable includes $7,778 (2010 - $17,625l) owing to these related parties.

During the quarter, the Company was charged legal fees totalling $26,555 (2010-$5,435) by a law firm whose partner is an officer of the Company. As at June 30, 2011 accounts payable includes $2,517 (2010-$3,116) due to this related party.

Rental expenditures in the amount of $6,845 (2010-$3,941) were charged by a Company with common directors. As of June 30, 2011, accounts payable includes $Nil (2010-$Nil) owing to this related party.

Management believes these transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 8. Commitments:

Future minimum warehouse lease payments under a non-cancellable lease are as follows:

| | |
|---|---|
| 2011 | US $ 24,000 |
| 2012 | US $ 48,000 |
| 2013 | US $ 32,000 |

## 9. Changes in non-cash working capital:

| | Six Month's to June 30 **2011** | 2010 |
|---|---|---|
| Accounts receivable | **$ (913,136)** | $ 17,798 |
| Prepaid expenses | **17,853** | 18,121 |
| Deposits | **(28,299)** | (19,096) |
| Accounts payable and accrued liabilities | **139,222** | (59,245) |
| | **$ (784,360)** | $ (42,422) |

## 10. Capital management:

The Company considers its capital to include components of shareholders' equity.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its properties; to maintain a flexible capital structure for its projects for the benefit of its stakeholders; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

The Company's investment policy is to invest excess cash in low risk, highly liquid, short-term interest bearing investments, selected with regards to the expected timing of upcoming expenditures.

The Company expects its current capital resources will be sufficient to carry out its exploration plans, operation plans and operations through its current operating period.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the period ended June 30, 2011.

## 11. Financial instruments:

*Fair value*

The Company has determined the estimated fair value of its financial instruments based on estimates and assumptions. The actual results may differ from those estimates and the use of different assumptions or methodologies may have a material effect on the estimated fair value amounts.

The fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities are comparable to their carrying value due to the relatively short period to maturity of these instruments.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

*Credit risk*

The Company's credit risk is primarily attributable to short-term investments and receivables included in current assets. The Company has no material concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits and money market funds holding Banker's Acceptances, which have been invested with or purchased from a company controlled by a Canadian Chartered bank, from which management believes the risk of loss to be remote. Other credit risk primarily consists of GST receivable. Management believes that the credit risk concentration with respect to receivables is remote.

*Liquidity risk*

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2011, the Company had cash of $1,352,637 (June 30 2010 - $1,423,655) to settle accounts payable and accrued liabilities of $191,301 (June 30 2010 - $45,159). The ability of the Company to continue to pursue its exploration activities is dependent on its ability to secure additional equity or other financing. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

*Market risk*

(a) Interest rate risk

The Company has cash and cash equivalents bearing fixed interest rates and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

(b) Foreign currency risk

The Company is exposed to currency risk arising from fluctuations in foreign exchange rates. The Company raises funds from equity financing primarily in Canadian dollars and pays for a significant amount of expenditures relating to its mineral property interests in U.S. dollars.

(c) Commodity price risk

The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company's mineral properties. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

*Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a three month period.

i) The Corporation is exposed to foreign currency risk on fluctuations of financial instruments related to cash, receivables, and accounts payable and accrued liabilities that are denominated predominantly in Canadian Dollars. Sensitivity to a plus or minus 10% change in the foreign exchange rate would not be material to the company's results.

ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of June 30, 2011 the Company is not a producer of minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options. This may also affect the Company's liquidity and its ability to meet its ongoing obligations

## 12. Comparative Figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

## 13. Transition to IFRS:

First-time adoption of IFRS:

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS on the first date at which IFRS was applied, which was January 1, 2010 ("Transition Date"). IFRS 1 generally requires retrospective application of IFRS as effective at the end of its first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

IFRS 1 does not permit changes to estimates that have been previously made. Accordingly, estimates used in the preparation of the Company's opening IFRS statements of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

*Changes to accounting policies:*

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective or available for adoption on December 31, 2011, the Company's first annual IFRS reporting date.

The following summarizes the results and adjustments to the Company's interim consolidated financial statements upon adoption of IFRS:

a) Share-based payment

IFRS 2 requires each vesting tranche to be valued with unique assumptions, as if it were a separate grant, along with estimates on forfeitures based on historical trends experienced by the Company. Under IFRS, when a share-based payment award vests in instalments over the vesting period (graded vesting), each instalment is accounted for as a separate arrangement. Under Canadian GAAP, an entity can elect to treat the equity instruments as a pool and determine fair value using the average life of the instruments, and recognize the compensation cost on a straight-line basis, subject to at least the value of the vested portion of the award being recognized at each reporting date. Under

IFRS, the Company uses an estimate of forfeitures based on historical trends experienced by the Company. Under Canadian GAAP no estimate was used, but rather actual forfeitures were accounted for as they occurred.

b) Foreign currency translation

The Company and its subsidiaries determined their functional currency to be the US Dollar; previously the Canadian Dollar was the functional currency. The exchange differences resulting from the change in functional currency were adjusted against deficit on the Transition Date. During the June 30, 2011 quarter, to correctly account for the differences resulting from the change in functional currency, it was determined that the Deficit and Mineral Property Costs reported at the Transition Date should have been reduced by an additional $1,537,234 versus that reported in the March 31, 2011 interim consolidated financial statements; that amount has been reflected in the balances reported herein.

There were no material adjustments to the previously reported statements of cash flows.

The January 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

| | CANADIAN GAAP | CANADIAN GAAP | IFRS Adjustment | Ref: | IFRS |
|---|---|---|---|---|---|
| | CDN$ | US $ | US $ | | US $ |
| **Assets** | | | | | |
| **Current** | | | | | |
| Cash | $ 1,866,125 | $ 1,791,853 | $ - | | $ 1,791,853 |
| Accounts receivable | 105,063 | 100,882 | - | | 100,882 |
| Prepaid expenses | 37,379 | 35,891 | - | | 35,891 |
| | 2,008,567 | 1,928,626 | - | | 1,928,626 |
| Security deposits | 124,415 | 119,464 | - | | 119,464 |
| Mineral property costs | 30,120,135 | 28,921,354 | (1,537,234) | 13(b) | 27,384,120 |
| Capital assets | 976,180 | 937,328 | - | | 937,328 |
| | $ 33,229,297 | $ 31,906,772 | $ (1,537,234) | | $ 30,369,538 |
| **Liabilities** | | | | | |
| **Current** | | | | | |
| Accounts payable and accrued liabilities | 108,733 | 104,404 | - | | 104,404 |
| **Shareholders' Equity** | | | | | |
| Share capital | 38,510,133 | 36,977,430 | - | | 36,977,430 |
| Contributed surplus | 4,806,341 | 4,615,049 | 159,470 | 13(a) | 4,774,519 |
| Deficit | (10,195,910) | (9,790,111) | (1,696,704) | 13 | (11,486,815) |
| | $ 33,229,297 | $ 31,906,772 | $ (1,537,234) | | $ 30,369,538 |

The June 30, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

| | CANADIAN GAAP | CANADIAN GAAP | IFRS Adjustment | Ref: | IFRS |
|---|---|---|---|---|---|
| | CDN$ | US $ | US $ | | US $ |
| **Assets** | | | | | |
| **Current** | | | | | |
| Cash | $ 1,370,997 | $ 1,423,655 | $ - | | $ 1,423,655 |
| Accounts receivable | 83,869 | 83,084 | - | | 83,084 |
| Prepaid expenses | 17,120 | 17,770 | - | | 17,770 |
| | 1,471,986 | 1,524,508 | - | | 1,524,508 |
| Security deposits | 138,560 | 138,560 | - | | 138,560 |
| Mineral property costs | 30,219,879 | 27,678,461 | - | | 27,678,461 |
| Capital assets | 966,227 | 966,205 | - | | 966,205 |
| | $ 32,796,352 | $ 30,307,734 | $ - | | $ 30,307,734 |
| **Liabilities** | | | | | |
| **Current** | | | | | |
| Accounts payable and accrued liabilities | 43,688 | 45,159 | - | | 45,159 |
| **Shareholders' Equity** | | | | | |
| Share capital | 38,515,919 | 36,979,251 | - | | 36,979,351 |
| Contributed surplus | 4,916,488 | 4,720,370 | 121,979 | 13(a) | 4,842,299 |
| Deficit | (10,679,443) | (11,437,096) | (121,979) | 13(a) | (11,559,075) |
| | $ 32,796,652 | $ 30,307,734 | $ - | | $ 30,307,734 |

The December 31, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

| | CANADIAN GAAP | CANADIAN GAAP | IFRS Adjustment | Ref: | IFRS |
|---|---|---|---|---|---|
| | CDN$ | US $ | US $ | | US $ |
| **Assets** | | | | | |
| **Current** | | | | | |
| Cash | 1,029,747 | 950,662 | - | | 950,662 |
| Accounts receivable | 93,589 | 94,097 | - | | 94,097 |
| Prepaid expenses | 33,636 | 33,817 | - | | 33,817 |
| | 1,156,972 | 1,078,576 | - | | 1,078,576 |
| Security deposits | 133,802 | 134,528 | - | | 134,528 |
| Mineral property costs | 30,676,113 | 29,442,414 | (1,537,234) | 13(b) | 27,905,180 |
| Capital assets | 951,606 | 796,484 | - | | 796,484 |
| | $ 32,918,493 | $ 31,452,002 | $ (1,537,234) | | $ 29,914,768 |
| **Liabilities** | | | | | |
| **Current** | | | | | |
| Accounts payable and accrued liabilities | 384,952 | 52,078 | - | | 52,078 |
| **Shareholders' Equity** | | | | | |
| Share capital | 38,819,709 | 37,277,999 | - | | 37,277,999 |
| Contributed surplus | 4,882,017 | 4,729,027 | 31,470 | 13(a) | 4,760,497 |
| Deficit | (11,168,185) | (10,607,102) | (1,568,704) | 13 | (12,175,806) |
| | $ 32,918,493 | $ 31,452,002 | $ (1,537,234) | | $ 29,914,768 |

The Canadian GAAP statement of comprehensive loss for the three month period ended June 30, 2010 has been reconciled to IFRS as follows:

| | CANADIAN GAAP | CANADIAN GAAP | IFRS Adjustment | Ref: | IFRS |
|---|---|---|---|---|---|
| | CDN $ | US $ | US $ | | US $ |
| **Expenses** | | | | | |
| Depreciation | 5,233 | 5,199 | - | | 5,199 |
| Consulting fees | 6,000 | 6,768 | - | | 6,768 |
| Directors' fees | 9,875 | 11,402 | - | | 11,402 |
| Filing and regulatory fees | 9,405 | 6,832 | - | | 6,832 |
| Foreign exchange loss (gain) | (11,844) | (407,003) | | | (407,003) |
| Interest and bank charges | 852 | 856 | - | | 856 |
| Mineral property expense | 35,855 | 37,061 | - | | 37,061 |
| Management fees | 9,375 | 10,262 | - | | 10,262 |
| Office, general and administrative | 21,420 | 28,941 | - | | 28,941 |
| Professional fees | 14,981 | 17,175 | - | | 17,175 |
| Rent | 3,600 | 3,941 | - | | 3,941 |
| Salaries and benefits | 46,738 | 48,755 | - | | 48,755 |
| Share-based payment | 112,620 | 115,719 | (92,998) | 13(a) | 22,721 |
| Travel and promotion | 19,625 | 20,927 | - | | 20,927 |
| Loss before undernoted items | 283,735 | (93,166) | (92,998) | | (186,184) |
| Interest income and other income | (1,636) | (1,662) | - | | (1,662) |
| Net loss and comprehensive loss | $ 282,099 | $ (94,828) | $ (92,998) | | $ (187,826) |

The Canadian GAAP statement of comprehensive loss for the six months ended June 30, 2010 has been reconciled to IFRS as follows:

| | CANADIAN GAAP | CANADIAN GAAP | IFRS Adjustment | Ref: | IFRS |
|---|---|---|---|---|---|
| | CDN$ | US $ | US $ | | US $ |
| **Expenses** | | | | | |
| Depreciation | 10,096 | 10,098 | - | | 10,098 |
| Consulting fees | 15,000 | 15,414 | - | | 15,414 |
| Directors' fees | 28,625 | 29,415 | - | | 29,415 |
| Filing and regulatory fees | 28,897 | 25,558 | - | | 25,558 |
| Foreign exchange loss (gain) | (10,018) | (396,200) | - | | (396,200) |
| Interest and bank charges | 1,596 | 1,599 | - | | 1,599 |
| Mineral Property Expenses | 81,755 | 81,755 | | | 81,755 |
| Management fees | 18,750 | 19,268 | | | 19,268 |
| Office, general and administrative | 38,952 | 43,714 | - | | 43,714 |
| Professional fees | 45,519 | 46,658 | - | | 46,658 |
| Rent | 7,200 | 7,399 | - | | 7,399 |
| Salaries and benefits | 75,363 | 75,363 | - | | 75,363 |
| Share-based payment | 112,620 | 115,728 | (65,009) | 13(a) | 50,719 |
| Travel and promotion | 32,345 | 33,001 | - | | 33,001 |
| Loss before undernoted items | 486,700 | 108,769 | (65,009) | | 43,760 |
| Interest income and other income | (3,167) | (3,162) | - | | (3,162) |
| Net loss and comprehensive loss | $ 483,533 | $ 105,607 | $ (65,009) | | $ 40,598 |