

Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **MOSQUITO CONSOLIDATED GOLD MINES LIMITED**

Unaudited – Prepared by management without review from the Company's auditor.  
Six months ended December 31, 2009 and 2008

**MOSQUITO CONSOLIDATED GOLD MINES LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**(Unaudited - Prepared by management)**  
**AS AT December 31, 2009 AND JUNE 30, 2009**

|  | <b>December 31,<br/>2009</b> | <b>June 30,<br/>2009</b> |
|--|------------------------------|--------------------------|
| <b>ASSETS</b>  |                              |                          |
| <b>CURRENT</b>   |                              |                          |
| Cash   | \$ 273,469                   | \$ 1,733,738             |
| Marketable securities (Note 3)                             | 85,967                       | 85,967                   |
| Accounts receivable  | 173,846                      | 226,403                  |
| Prepaid expenses   | 42,909                       | 14,437                   |
|  | <u>576,191</u>               | <u>2,060,545</u>         |
| <b>INVESTMENT (Note 4)</b>                                 | 1                            | 1                        |
| <b>PROPERTY, PLANT AND EQUIPMENT (Note 6)</b>              | 3,598,227                    | 4,174,281                |
| <b>MINERAL PROPERTIES (Note 7)</b>                         | 16,819,090                   | 14,808,088               |
| <b>RECLAMATION DEPOSITS</b>                                | 65,689                       | 65,689                   |
|  | <u>\$ 21,059,198</u>         | <u>\$ 21,108,604</u>     |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |                              |                          |
| <b>CURRENT</b>   |                              |                          |
| Accounts payables and accrued liabilities                  | \$ 593,499                   | \$ 591,421               |
| Due to related parties (Note 8)                            | 152,382                      | 324,424                  |
| Current portion of bank loans (Note 10)                    | 20,140                       | -                        |
| Current portion of obligation under capital lease (Note 9) | 16,893                       | 60,691                   |
|  | <u>782,914</u>               | <u>976,536</u>           |
| <b>SHAREHOLDERS' EQUITY</b>                                |                              |                          |
| Share capital (Note 10)                                    | 39,547,332                   | 38,426,438               |
| Accumulated other comprehensive income (loss)              | 41,756                       | 41,756                   |
| Contributed surplus (Note 10)                              | 7,369,597                    | 6,081,185                |
| Deficit  | (26,682,401)                 | (24,417,311)             |
|  | <u>20,276,284</u>            | <u>20,132,068</u>        |
|  | <u>\$ 21,059,198</u>         | <u>\$ 21,108,604</u>     |

**Nature and continuance of operations (Note 1)**

**Commitments (Note 12)**

**Subsequent events (Note 14)**

ON BEHALF OF THE BOARD:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

**MOSQUITO CONSOLIDATED GOLD MINES LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**(Unaudited - Prepared by management)**  
**FOR THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008**

|  | Three Months Ended<br>December 31, 2009 | Three Months Ended<br>December 31, 2008 | Six Months Ended<br>December 31, 2009 | Six Months Ended<br>December 31, 2008 |
|--|---|---|---------------------------------------|---------------------------------------|
| <b>REVENUE</b>   |   |   |                                       |                                       |
| Drilling revenue   | \$ -                                    | \$ 963,303                              | \$ -                                  | \$ 1,106,774                          |
| Drilling operating expenses                                | -                                       | (1,081,519)                             | -                                     | (1,719,589)                           |
|  | -                                       | (118,216)                               | -                                     | (612,815)                             |
| <b>EXPENSES</b>  |   |   |                                       |                                       |
| Amortization   | 153,883                                 | 315,578                                 | 310,906                               | 407,656                               |
| Bank charges and interest                                  | 2,906                                   | 20,943                                  | 6,264                                 | 38,887                                |
| Consulting fees  | 33,745                                  | 41,001                                  | 57,145                                | 102,278                               |
| Foreign exchange (gain) loss                               | 67,903                                  | -                                       | 233,936                               | 50,290                                |
| Geological research  | -                                       | 120,133                                 | -                                     | 120,133                               |
| Investor relations and website                             | -                                       | 12,810                                  | 2,000                                 | 31,810                                |
| Management fees  | 39,000                                  | -                                       | 78,000                                | 39,000                                |
| Office and miscellaneous                                   | 21,919                                  | 28,633                                  | 29,101                                | 55,336                                |
| Professional fees  | 87,247                                  | 14,085                                  | 182,803                               | 106,206                               |
| Rent   | 19,319                                  | 20,369                                  | 32,955                                | 28,454                                |
| Repairs and maintenance                                    | 5,374                                   | 170,072                                 | 9,052                                 | 173,674                               |
| Shareholder information, transfer agent<br>and filing fees | 14,521                                  | 37,104                                  | 21,263                                | 54,837                                |
| Stock-based compensation                                   | 322,360                                 | 898,264                                 | 1,322,227                             | 1,058,169                             |
| Telephone and communications                               | 7,726                                   | 9,050                                   | 15,721                                | 19,945                                |
| Travel and promotion                                       | 53,497                                  | 18,255                                  | 63,952                                | 100,501                               |
|  | 829,400                                 | 1,706,297                               | 2,365,325                             | 2,387,176                             |
| <b>LOSS FROM OPERATIONS</b>                                | (829,400)                               | (1,824,513)                             | (2,365,325)                           | (2,999,991)                           |
| Gain on sale of mineral property                           | 100,000                                 | -                                       | 100,000                               | -                                     |
| Gain (loss) on sale of marketable securities               | -                                       | -                                       | -                                     | (357,377)                             |
| Interest income  | 11                                      | 191                                     | 235                                   | 412                                   |
| Gain (loss) on disposition of equipment                    | -                                       | 47,000                                  | -                                     | 81,650                                |
| <b>LOSS BEFORE INCOME TAXES</b>                            | (729,389)                               | (1,777,322)                             | (2,265,090)                           | (3,275,306)                           |
| <b>FUTURE INCOME TAX RECOVERY</b>                          | -                                       | -                                       | -                                     | -                                     |
| <b>NET LOSS</b>  | (729,389)                               | (1,777,322)                             | (2,265,090)                           | (3,275,306)                           |
| <b>DEFICIT, BEGINNING</b>                                  | (25,953,012)                            | (21,408,815)                            | (24,417,311)                          | (19,910,831)                          |
| <b>DEFICIT, ENDING</b>                                     | \$ (26,682,401)                         | \$ (23,186,137)                         | \$ (26,682,401)                       | \$ (23,186,137)                       |
| <b>BASIC AND DILUTED LOSS PER SHAR</b>                     | \$ (0.01)                               | \$ (0.05)                               | \$ (0.04)                             | \$ (0.09)                             |
| <b>WEIGHTED AVERAGE NUMBER OF SHARES</b>                   |   |   |                                       |                                       |
| <b>OUTSTANDING, BASIC AND DILUTED</b>                      | 60,375,213                              | 35,396,627                              | 60,375,213                            | 35,396,627                            |

**MOSQUITO CONSOLIDATED GOLD MINES LIMITED**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS AND ACCUMULATED OTHER**  
**COMPREHENSIVE INCOME (LOSS)**  
(Unaudited - Prepared by management)  
**FOR THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008**

|   | Three Months Ended<br>December 31, 2009 | Three Months Ended<br>December 31, 2008 | Six Months Ended<br>December 31, 2009 | Six Months Ended<br>December 31, 2008 |
|---|---|---|---------------------------------------|---------------------------------------|
| <b>NET LOSS</b>   | \$ (729,389)                            | \$ (1,777,322)                          | \$ (2,265,090)                        | \$ (3,275,306)                        |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>                              |   |   |                                       |                                       |
| Unrealized gain (loss) on available<br>for sale marketable securities | -                                       | -                                       | -                                     | -                                     |
| <b>COMPREHENSIVE LOSS</b>   | <b>\$ (729,389)</b>                     | <b>\$ (1,777,322)</b>                   | <b>\$ (2,265,090)</b>                 | <b>\$ (3,275,306)</b>                 |

|   | Three Months Ended<br>December 31, 2009 | Three Months Ended<br>December 31, 2008 | Six Months Ended<br>December 31, 2009 | Six Months Ended<br>December 31, 2008 |
|---|---|---|---------------------------------------|---------------------------------------|
| <b>ACCUMULATIVE OTHER COMPREHENSIVE<br/>INCOME (LOSS), BEGINNING</b>                  | <b>\$ 41,756</b>                        | <b>\$ -</b>                             | <b>\$ 41,756</b>                      | <b>\$ (354,385)</b>                   |
| Unrealized gain (loss) on available<br>for sale marketable securities                 | -                                       | -                                       | -                                     | -                                     |
| Realized loss on available for sale<br>marketable securities recognized in operations | -                                       | -                                       | -                                     | 354,385                               |
| <b>ACCUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS), ENDING</b>                         | <b>\$ 41,756</b>                        | <b>\$ -</b>                             | <b>\$ 41,756</b>                      | <b>\$ -</b>                           |

**MOSQUITO CONSOLIDATED GOLD MINES LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited - Prepared by management)**  
**FOR THREE AND SIX MONTHS ENDED DECEMBER 31, 2009 AND 2008**

|  | Three Months Ended<br>December 31, 2009 | Three Months Ended<br>December 31, 2008 | Six Months Ended<br>December 31, 2009 | Six Months Ended<br>December 31, 2008 |
|--|---|---|---------------------------------------|---------------------------------------|
| <b>CASH FLOW FROM OPERATING ACTIVITIES</b>     |   |   |                                       |                                       |
| Net loss                                       | \$ (729,389)                            | \$ (1,777,322)                          | \$ (2,265,090)                        | \$ (3,275,306)                        |
| Items not requiring (providing) cash:          |   |   |                                       |                                       |
| Amortization                                   | 153,883                                 | 315,578                                 | 310,906                               | 407,656                               |
| Foreign exchange loss (gain)                   | 45,696                                  | -                                       | 59,665                                | -                                     |
| Stock-based compensation                       | 322,360                                 | 898,264                                 | 1,322,227                             | 1,058,169                             |
| Loss (gain) on disposition of equipment        | -                                       | 47,000                                  | -                                     | 12,350                                |
| Loss (gain) on sale of mineral property        | (100,000)                               | -                                       | (100,000)                             | -                                     |
| Loss on sale of investment                     | -                                       | -                                       | -                                     | 357,377                               |
| Changes in non-cash operating working capital: |   |   |                                       |                                       |
| Accounts receivable                            | 24,968                                  | (68,858)                                | 52,557                                | 69,662                                |
| Notes receivable                               | -                                       | 25,778                                  | -                                     | 25,778                                |
| Other receivables                              | -                                       | -                                       | -                                     | 729,553                               |
| Prepaid expenses                               | 31,855                                  | -                                       | (28,472)                              | 123,645                               |
| Accounts payable and accrued liabilities       | (169,013)                               | 1,163,045                               | 2,078                                 | 1,853,497                             |
|  | (419,640)                               | 603,485                                 | (646,129)                             | 1,362,381                             |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>     |   |   |                                       |                                       |
| Due to related parties                         | (106,976)                               | (516,084)                               | (172,042)                             | 103,986                               |
| Bank loans                                     | 20,140                                  | 7,293                                   | 20,140                                | (13,448)                              |
| Payments on obligation under capital lease     | (20,188)                                | -                                       | (43,798)                              | -                                     |
| Shares issued for cash                         | 472,593                                 | 460,305                                 | 1,087,078                             | 535,305                               |
|  | 365,569                                 | (48,486)                                | 891,378                               | 625,843                               |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>     |   |   |                                       |                                       |
| Mineral property - exploration expenditures    | (676,638)                               | (573,877)                               | (1,721,479)                           | (2,544,017)                           |
| Proceeds from sale of mineral properties       | 100,000                                 | -                                       | 100,000                               | -                                     |
| Acquisition of property, plant and equipment   | (28,520)                                | -                                       | (84,040)                              | -                                     |
| Proceeds on sale of disposition of equipment   | -                                       | -                                       | -                                     | 34,650                                |
| Proceeds from sale of marketable securities    | -                                       | -                                       | -                                     | 182,755                               |
|  | (605,158)                               | (573,877)                               | (1,705,518)                           | (2,326,612)                           |
| <b>INCREASE (DECREASE) IN CASH</b>             | (659,230)                               | (18,878)                                | (1,460,269)                           | (338,388)                             |
| <b>CASH, BEGINNING</b>                         | 932,699                                 | 30,039                                  | 1,733,738                             | 349,549                               |
| <b>CASH, ENDING</b>                            | \$ 273,469                              | \$ 11,161                               | \$ 273,469                            | \$ 11,161                             |

See accompanying notes

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 1. NATURE OF AND CONTINUANCE OF OPERATIONS

Mosquito Consolidated Gold Mines Limited (the “Company”) was incorporated under the laws of British Columbia and is listed on the TSX Venture Exchange (“TSX-V”). The Company’s principal business activities include acquiring and developing mineral properties and operating drilling rigs. At December 31, 2009, the Company’s principal mineral property interests are located in Canada, and United States of America. The Company’s drilling operation is located in the United States of America.

The accompanying financial statements have been prepared on the basis of Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern. As at December 31, 2009, the Company had negative working capital of \$206,723 and has incurred losses since inception of \$26,682,401. The appropriateness of using the going concern basis is dependent upon, among other things, future profitable operations, and the ability of the Company to raise additional capital to fund ongoing exploration expenditures and operating losses and ultimately on generating profitable operations. Specifically, the recovery of the Company’s investment in resource properties and related deferred expenditures is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to develop the properties and establish future profitable production from the properties, or from the proceeds of their disposition. The Company has not generated any revenues to date from its mineral properties and is considered to be in the exploration stage.

Management is also aware that significant material uncertainties exist, related to current economic conditions that could cast doubt upon the Company’s ability to continue to finance its exploration activities. Management is not able to assess the likelihood of timing of improvements in the equity markets for raising capital for future acquisitions or expenditures. These uncertainties represent a liquidity risk and may impact the Company’s ability to continue as a going concern in the future. Management plans on raising additional funding with equity financing and/or advances from related parties to meet its exploration programs.

The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in normal operations.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *Basis of presentation*

These consolidated financial statements are expressed in Canadian dollars. They include the accounts of the Company and its wholly-owned subsidiaries, Kirkness Diamond Drilling, Inc. (from the date of acquisition on September 6, 2007), 1156207 Ontario Ltd., Mosquito Mining Corp., and Mosquito Resources Australia Pty Ltd. All significant inter-company transactions and balances have been eliminated upon consolidation.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Use of estimates and assumptions*

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Areas requiring significant management estimates relate to the determination of impairment of mineral properties, expected tax rates for future income taxes, fair value of stock-based payments, useful lives for amortization of long-lived assets, and the fair values assigned to marketable securities. Actual results could differ from those estimates.

#### *Foreign currency translation*

These financial statements are presented in Canadian dollars. The Company considers its United States operation as integrated foreign operations and uses the temporal method to translate all foreign currency transactions. Monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates which prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results.

#### *Marketable securities*

Marketable securities are classified as available for sale in accordance with the Canadian Institute of Chartered Accountants ("CICA") Handbook section 3855, "Financial instruments" which are recorded at fair value with unrealized gains and losses recorded in comprehensive income (loss).

#### *Investments*

Investments in which the Company exerts significant influence are accounted for using the equity method whereby the original cost of the investment is adjusted for the Company's share of earnings, losses and dividends. Investments in which the Company does not exert significant influence are accounted for using the cost method. Under the cost method of accounting, the investment is initially recorded at cost and earnings from such investments are recognized only to the extent they are received or receivable.

#### *Property, plant and equipment*

Property, plant and equipment are recorded at cost. One half of the normal rate is recorded in the year of acquisition. Plant and equipment are amortized at the following annual rates:

|  |                   |   |
|--|-------------------|---|
| Computer equipment                                   | 30%               | declining balance method                  |
| Field equipment                                      | 20%               | declining balance method                  |
| Vehicles   | 30%               | declining balance method                  |
| Building   | 39 years          | straight line                             |
| Office equipment and furniture                       | 5 years           | straight line                             |
| Drill rigs, mining equipment<br>and related vehicles | 5 years<br>or 30% | straight line<br>declining balance method |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Mineral properties*

All costs related to mineral property acquisition, exploration and development are capitalized by project. These costs will be amortized against revenue from future production using the units of production basis or written off if the interest is deemed impaired, abandoned or sold or the carrying value is determined to be impaired. Write-downs due to impairment in value are charged to operations.

The amounts shown for mineral interests represent costs incurred to date, less recoveries, and do not necessarily reflect present or future values. The recoverability of amounts shown for mineral interests is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the projects as well as future profitable production or proceeds from the disposition thereof.

Management evaluates the carrying value of the Company's mineral properties on a reporting period basis or as events or circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs remain capitalized, or written off as impairment charges. Mineral properties, where future cash flows are not reasonably determinable, are evaluated for impairment based on changes in events or circumstances and management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

Ownership in mineral interests involves certain inherent risks due to the difficulties of determining and obtaining clear title to the claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral interests.

#### *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 exercisable directly at the discretion of the optionee, amounts payable or receivable are not recorded. Option payments are recorded as resource property costs or recoveries when the payments are made or received. Option payments received in excess of costs incurred are recognized as revenue.

#### *Impairment of long-lived assets*

The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying value amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its recoverable value.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Environmental costs*

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of feasibility study or the Company's commitments to plan of action based on the then known facts. The Company intends to comply with all environmental authorities.

#### *Asset retirement obligations*

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. This would indicate obligations related to future removal of property and equipment, and site restoration costs. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. The Company currently does not have any significant asset retirement obligations.

#### *Revenue recognition*

Revenue from drilling contracts is recognized on the basis of actual number of hours spent on each contract plus material costs. Revenue from ancillary services such as equipment rental is recorded when the services are rendered. Revenue is recognized when the service is provided and collection is reasonably assured. The Company invoices its customers on a monthly basis. Contract prepayments (customer deposits) are recorded as deferred revenue and applied towards the contracts.

#### *Stock-based compensation*

The Company follows the recommendations of CICA Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments. Compensation expense for options granted is determined based on estimated fair values of the options at the time of grant using the Black-Scholes option pricing model.

#### *Goodwill*

Acquisition of business entities are accounted for using the purchase method whereby goodwill represents any excess of the purchase price over fair value of identifiable assets and liabilities acquired at the date of acquisition. Management evaluated goodwill on an annual basis for potential impairment in connection with other long-lived assets. Based on its annual evaluation of goodwill, management has determined that the carrying value of goodwill exceeds its fair value. Accordingly, management has concluded that impairment had occurred and the Company recognized an expense of \$557,208 for the year ended June 30, 2008.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Income tax*

The Company accounts for future income taxes using the asset and liability method, whereby future tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of the asset and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income taxes and liabilities of a change in rates is included in operations in the period that includes the substantive enactment date. Where the probability of a realization of a future income tax asset is more likely than not, a valuation allowance is recorded.

#### *Income (loss) per share*

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the period and does not include outstanding options and warrants. Dilutive loss per common share is not presented differently from basic loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive.

#### *Financial instruments*

The Company follows the CICA Handbook Section 3855, "Financial Instruments". This section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company's financial instruments consist of cash, marketable securities, accounts receivable, other receivable, reclamation deposits, accounts payable, due to related parties and bank loans. Cash, which is measured at face value, representing fair value, is classified as held-for-trading. Accounts receivable, other receivables, bank loans, and reclamation deposits, which are measured at amortized cost, are classified as loans and receivables. Accounts payable and due to related parties, which are measured at amortized cost, are classified as other financial liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Comprehensive income*

The Company adopted CICA Section 1530, Comprehensive Income effective July 1, 2007. This section establishes standards for reporting and presenting comprehensive income or loss, which is defined as the change in equity from transactions and other events from sources other than income or loss, which is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive principles such as unrealized gains or losses on available-for-sale investments. Amounts initially recorded to other comprehensive income or loss is reclassified to earnings when the financial instrument is derecognized or impaired.

#### *Accounting changes*

The Company implemented the CICA Handbook Section 1506 for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable.

#### ***Newly Adopted Accounting Policies***

##### *General standards of financial statement presentation*

The CICA accounting standards board amended section 1400 to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008. The Company has included disclosures recommended by the new Handbook sections in Note 1 to these financial statements.

##### *Capital disclosures*

The Company adopted CICA Section 1535 to interim and annual financial statements related to fiscal years beginning on or after July 1, 2008. The new standard requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The Company has included disclosures recommended by the new Handbook sections in Note 11 to these financial statements.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

December 31, 2009

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### ***Newly Adopted Accounting Policies (continued)***

##### *Financial instruments – disclosure and presentation*

The Company adopted CICA Handbook Section 3862 Financial Instruments – Disclosures and 3863 Financial Instruments – Presentation replaced accounting standard 3861 Financial Instruments – Disclosure and Presentation to interim and annual financial statements related to fiscal years beginning on or after July 1, 2008. Presentation requirements have not changed. Enhanced disclosure is required to assist users of financial statements in evaluating the significance of financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The Company has included disclosures recommended by the new Handbook sections in Note 17 to these financial statements.

##### *Mining exploration costs*

In March 2009, the CICA approved EIC 174, Mining Exploration Costs. The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The guidance is applicable to financial statements released on or after March 27, 2009. The Company has assessed and included adequate impairment on the carrying value of its mineral properties.

##### *Credit risk and the fair value of financial assets and financial liabilities*

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. The Company has evaluated the new section and determined that there will be no impact of its adoption on its financial statements.

#### ***Future Changes in Accounting Policies, not yet adopted***

##### *Goodwill and intangible assets*

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and development costs". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to fiscal years beginning on or after October 1, 2008. For the Company, this section is effective for the year commencing July 1, 2009. The Company has evaluated the new section and determined that there will be no impact of its adoption on its financial statements.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Future Changes in Accounting Policies, not yet adopted (continued)*

##### *Business combinations, consolidated financial statements and non-controlling interest*

CICA Handbook Section. 1582 Business Combinations, 1601 – Consolidated Financial Statements, and 1602 – Non-Controlling Interests: these new standards replaced accounting standard 1581 – Business Combinations and 1600 – Consolidated Financial Statements. Section 1582 establishes standards for the accounting of business combinations to match the standards of accounting for business combinations under the International Financial Reporting Standards. This section applies to business combinations with acquisition dates beginning on or after January 1, 2011. Section 1601 and 1602 establish standards for the preparation of consolidated financial statements. These sections apply to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has determined that there will be no impact of the adoption of these sections on its financial statements.

##### *International Financial Reporting Standards (“IFRS”)*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after July 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 3. MARKETABLE SECURITIES

The Company has the following marketable securities:

|                                      | December 31,<br>2009 |                | June 30,<br>2009    |                |
|--------------------------------------|----------------------|----------------|---------------------|----------------|
|                                      | Number<br>of shares  | Amount<br>(\$) | Number<br>of shares | Amount<br>(\$) |
| Golden Cariboo Resources Inc.        | 4,300                | 258            | 4,300               | 258            |
| International Wayside Gold           | 18                   | 9              | 18                  | 9              |
| Kobex Resources Limited              | -                    | -              | -                   | -              |
| Trade Winds Ventures Inc.            | 20,000               | 1,700          | 20,000              | 1,700          |
| SkyBridge Development Corp (Note 8b) | 250,000              | 75,000         | 250,000             | 75,000         |
| Salmon River Resources Ltd.(Note 8h) | 100,000              | 9,000          | 100,000             | 9,000          |
|                                      |                      | 85,967         |                     | 85,967         |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 4. INVESTMENT

The investment consists of the following items:

|   | December 31,<br>2009 | June 30,<br>2009 |
|---|----------------------|------------------|
| <u>Vicore Mining Developments Ltd.:</u> |                      |                  |
| Investment at cost                      | \$ 1                 | \$ 150,000       |
| Share of equity accounted losses        | -                    | (69,306)         |
|   | 1                    | 80,694           |
| Impairment loss                         | -                    | (80,693)         |
|   | \$ 1                 | \$ 1             |

In previous years the Company purchased a 30% interest in Vicore Mining Developments Ltd. ("Vicore") for \$150,000. The investment was accounted for under the equity method. Due to Vicore's recurring losses, during the period ended June 30, 2006, management determined that the investment was impaired and the investment was written down to \$1 resulting in a loss of \$80,693.

### 5. ACQUISITION OF DRILLING COMPANY

On September 6, 2007, the Company acquired a 100% interest in Kirkness Diamond Drilling Ltd. ("Kirkness") of Carson City, Nevada, USA for consideration of US \$3,000,000 (Cdn \$2,927,900) in cash as follows:

1. US \$100,000 (Cdn. \$105,034) deposit (paid)
2. US \$900,000 (Cdn. \$952,398) on TSX-V Exchange approval (paid)
3. US \$2,000,000 (Cdn. \$1,870,468) within 60 days of Exchange approval (paid)

The acquisition of Kirkness was accounted for using the purchase method whereby goodwill represents any excess of the purchase price over fair value of identifiable assets and liabilities acquired at the date of acquisition. The results of operations of Kirkness are included in the consolidated financial statements from the effective date of the acquisition of September 6, 2007. Kirkness is considered as integrated foreign operation of the Company.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 5. ACQUISITION OF DRILLING COMPANY (continued)

The acquisition cost of \$2,927,900 (US \$3,000,000) has been assigned as follows:

|                                 |    |           |
|---------------------------------|----|-----------|
| Cash                            | \$ | 667,890   |
| Receivable                      |    | 431,770   |
| Prepaid expenses                |    | 31,092    |
| Land and building               |    | 565,000   |
| Drill, pumps and equipment      |    | 1,097,113 |
| Asset under lease               |    | 281,187   |
| Vehicles                        |    | 193,800   |
| Office equipment                |    | 4,344     |
| Bank loans                      |    | (73,289)  |
| Obligations under capital lease |    | (161,347) |
| Drilling deposits               |    | (50,000)  |
| Accounts payables               |    | (171,592) |
| Goodwill                        |    | 557,208   |
| Future income tax               |    | (445,276) |
|                                 | \$ | 2,927,900 |

As at June 30, 2008, management evaluated goodwill and the potential impairment in connection with other long-lived assets. Based on its annual evaluation of goodwill, management has determined that the carrying value of goodwill exceeds its fair value as a result of the operating losses realized by Kirkness since acquisition. Accordingly, management has concluded that impairment has occurred and the Company recognized an impairment loss of \$557,208 for the year ended June 30, 2008.

### 6. PROPERTY, PLANT AND EQUIPMENT

| December 31, 2009                 | Cost         | Accumulated Amortization | Net Book Value |
|-----------------------------------|--------------|--------------------------|----------------|
| Land and building                 | \$ 571,493   | \$ (55,677)              | \$ 515,816     |
| Office equipment and furniture    | 201,380      | (186,593)                | 14,787         |
| Aircraft                          | 193,288      | (95,532)                 | 97,755         |
| Rigs, mine equipment and vehicles | 6,439,165    | (3,604,154)              | 2,835,011      |
| Capitalized leased equipment      | 294,998      | (160,141)                | 134,857        |
|                                   | \$ 7,700,324 | \$ (4,102,097)           | \$ 3,598,227   |

| June 30, 2009                     | Cost         | Accumulated Amortization | Net Book Value |
|-----------------------------------|--------------|--------------------------|----------------|
| Land and building                 | \$ 586,567   | \$ (58,088)              | \$ 528,479     |
| Office equipment and furniture    | 202,286      | (184,380)                | 17,906         |
| Aircraft                          | 193,288      | (78,282)                 | 115,006        |
| Rigs, mine equipment and vehicles | 6,672,773    | (3,342,102)              | 3,330,671      |
| Capitalized leased equipment      | 327,056      | (144,838)                | 182,218        |
|                                   | \$ 7,981,970 | \$ (3,807,689)           | \$ 4,174,281   |

### 7. MINERAL PROPERTIES

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

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### 7. MINERAL PROPERTIES (continued)

The Company holds interest in the following mineral properties:

| June 30, 2009                              | Note 10 | June 30,<br>2009 | Additions,<br>Expenditures<br>(Disposal)<br>(Write-downs) | December 31,<br>2009 |
|--|---------|------------------|---|----------------------|
| Cariboo Property, BC, Canada               | a       | \$ 1             | \$  | 1                    |
| Lavery & Cumming Property, Ontario, Canada | b       |                  |   |                      |
| Acquisition Cost                           |         | 1                | -   | 1                    |
| Brett 1 and 2 Property, BC, Canada         | c       |                  |   |                      |
| Exploration expenditures                   |         | 1                | 12,598  | 12,599               |
| Cumo Molybdenum Property, Idaho, USA       | d       |                  |   |                      |
| Acquisition costs                          |         | 82,674           | -   | 82,674               |
| Drilling costs                             |         | 5,133,070        | 1,616,851   | 6,749,921            |
| Geology                                    |         | 518,151          | 129,349   | 647,500              |
| Environmental study                        |         | 392,927          |   | 392,927              |
| Assays                                     |         | 146,174          | 88,016  | 234,190              |
| Other exploration costs                    |         | 591,647          | 100,286   | 691,933              |
|  |         | 6,864,644        | 1,934,502   | 8,799,146            |
| Pine Tree Property, Nevada, USA            | e       |                  |   |                      |
| Acquisition costs                          |         | 521,180          | -   | 521,180              |
| Drilling costs                             |         | 5,499,644        | -   | 5,499,644            |
| Geology                                    |         | 807,877          | 36,181  | 844,058              |
| Assays                                     |         | 237,348          | 4,015   | 241,363              |
| Other exploration costs                    |         | 649,920          | 22,003  | 671,923              |
|  |         | 7,715,970        | 62,199  | 7,778,169            |
| Blackpoint Property, Nevada, USA           | f       |                  |   |                      |
| Acquisition cost                           |         | 1                | -   | 1                    |
| Exploration expenditure                    |         | -                | 7,842   | 7,842                |
|  |         | 1                | 7,842   | 7,843                |
| Trikay Property, Queensland, Australia     | h       |                  |   |                      |
| Exploration expenditures                   |         | 0                | -   | 0                    |
| Motley Property, Idaho, USA                | i       |                  |   |                      |
| Acquisition cost                           |         | 1                | -   | 1                    |
| Statlu Aggregate Property, BC, Canada      | j       |                  |   |                      |
| Exploration expenditures                   |         | 73,989           | (60,000)  | 13,989               |
| Spruce Mountain Property, Nevada, USA      | k       |                  |   |                      |
| Acquisition cost                           |         | 1                | -   | 1                    |
| Exploration expenditures                   |         | -                | 447   | 447                  |
|  |         | 1                | 447   | 448                  |
| Spring Creek, Idaho, USA                   | l       |                  |   |                      |
| Acquisition cost                           |         | 109,051          | -   | 109,051              |
| Expenditure                                |         | 44,427           | 46,909  | 91,336               |
|  |         | 153,478          | 46,909  | 200,387              |
| Copper Chief, Nevada, USA                  | m       |                  |   |                      |
| Acquisition cost                           |         | 1                | -   | 1                    |
| Exploration expenditures                   |         | -                | 6,505   | 6,505                |
|  |         | 1                | 6,505   | 6,506                |
|  |         | 14,808,088       | 2,011,002   | 16,819,090           |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 7. MINERAL PROPERTIES (continued)

| June 30, 2009                               | Note 7 | June 30,<br>2008 | Additions,<br>Expenditures<br>(Disposal)<br>(Write-downs) | June 30,<br>2009 |
|---|--------|------------------|---|------------------|
| Cariboo Property, BC, Canada                | a      | \$ 1             | \$  | \$ 1             |
| Laverty & Cumming Property, Ontario, Canada | b      |                  |   |                  |
| Acquisition Cost                            |        | 1                | -   | 1                |
| Brett 1 and 2 Property, BC, Canada          | c      |                  |   |                  |
| Exploration expenditures                    |        | 1                | -   | 1                |
| Cumo Molybdenum Property, Idaho, USA        | d      |                  |   |                  |
| Acquisition costs                           |        | 82,674           | -   | 82,674           |
| Drilling costs                              |        | 2,114,047        | 3,019,025   | 5,133,072        |
| Geology                                     |        | 391,042          | 127,109   | 518,151          |
| Environmental study                         |        | 392,927          | -   | 392,927          |
| Assays                                      |        | 50,963           | 95,211  | 146,174          |
| Other exploration costs                     |        | 78,626           | 513,021   | 591,647          |
|   |        | 3,110,279        | 3,754,366   | 6,864,645        |
| Pine Tree Property, Nevada, USA             | e      |                  |   |                  |
| Acquisition costs                           |        | 349,807          | 171,373   | 521,180          |
| Drilling costs                              |        | 5,277,641        | 222,003   | 5,499,644        |
| Geology                                     |        | 799,939          | 7,938   | 807,877          |
| Assays                                      |        | 237,348          | -   | 237,348          |
| Other exploration costs                     |        | 370,507          | 279,413   | 649,920          |
|   |        | 7,035,242        | 680,727   | 7,715,969        |
| Blackpoint Property, Nevada, USA            | f      |                  |   |                  |
| Acquisition cost                            |        | 1                | -   | 1                |
| Trikey Property, Queensland, Australia      | h      |                  |   |                  |
| Exploration expenditures                    |        | 173,115          | (173,115)   | -                |
| Motley Property, Idaho, USA                 | i      |                  |   |                  |
| Acquisition cost                            |        | 183,700          | (183,699)   | 1                |
| Statlu Aggregate Property, BC, Canada       | j      |                  |   |                  |
| Exploration expenditures                    |        | 193,989          | (120,000)   | 73,989           |
| Spruce Mountain Property, Nevada, USA       | k      |                  |   |                  |
| Acquisition cost                            |        | 623,162          | (623,161)   | 1                |
| Spring Creek, Idaho, USA                    | l      |                  |   |                  |
| Acquisition cost                            |        | 109,051          | -   | 109,051          |
| Staking cost                                |        | -                | 44,427  | 44,427           |
|   |        | 109,051          | 44,427  | 153,478          |
| Copper Chief, Nevada, USA                   | m      |                  |   |                  |
| Acquisition cost                            |        | 29,990           | (29,989)  | 1                |
|   |        | 11,458,532       | 3,349,556   | 14,808,088       |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. MINERAL PROPERTIES (continued)

#### a. Cariboo Gold Quartz Property, British Columbia, Canada

The Company has a 100% interest, subject to a 10% net profits interest, in the mining properties known as the Mosquito Creek Gold property and the Cariboo Gold Quartz property. These properties are located in the Cariboo Mining District of British Columbia, Canada.

During August 2003 the Company entered into a Property Option Agreement with International Wayside Gold Mines Limited (“Wayside”) for the 50% interest in the Cariboo Gold Quartz Mineral Claims and a 100% interest in the Mosquito Mine Mineral Claims excluding the placer mining rights. The mill, buildings and hoist on the claims are included as part of the Property Option Agreement. The option agreement provides for the following:

- Wayside must make the following cash payments to the Company:
  - \$50,000, on the signing of the agreement (received);
  - \$450,000 on or before September 15, 2003 (received);
  - \$500,000 on or before August 31, 2004 (received);
  - \$500,000 on or before August 31, 2005 (received);
  - \$500,000 on or before August 31, 2006 (received); and,
  - \$3,500,000 on or before December 31, 2006 (received).
- Any time prior to the exercise of the option, Wayside would have the exclusive right to extract bulk samples (the “Bulk Sample”) from the properties in two stages. The first stage would involve 40,000 tons of sample material or recovery of not more than 15,000 ounces of refined gold, whichever is achieved first, followed by a second stage of bulk sampling program of the second stage 40,000 tons of sampled material or recovery of not more than 15,000 ounces of refined gold, whichever is achieved first.
- Wayside will be responsible at its cost to maintain the Properties and to keep the permits in good standing and be responsible for all environmental and reclamation compliance.
- The Company will be entitled to receive a 5% Net Smelter Return (“NSR”) derived from Bulk Samples. Upon exercise of the option by Wayside, the Company’s NSR will revert to 3% and Wayside would be responsible to satisfy 10% Net Profit Interest in relation to the property. As at December 31, 2005, Wayside had extracted a bulk sample for the NSR to be \$241,342 of which \$187,048 was outstanding as at June 30, 2006. During the year ended June 30, 2007, Wayside settled the amount outstanding for 748,182 shares of Wayside.
- During the year ended June 30, 2007, Wayside made the final cash payment and the Company recognized a gain as follows:

|  |                  |
|--|------------------|
| Cash payment, August 31, 2006                        | \$ 500,000       |
| Cash payment, December 31, 2006                      | 3,500,000        |
| Less: net book value of Cariboo Gold Quartz property | (74,863)         |
| Less: net book value of mill                         | (102,164)        |
| <u>Gain on sale of mineral property option</u>       | <u>3,822,973</u> |

The Company had expended a total of \$11,860,932 on the project and over the years has amortized and received option payments totaling \$11,786,069.

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### 7. MINERAL PROPERTIES (continued)

#### b. Lavery and Cumming Property, Red Lake, Ontario, Canada

During the year ended December 31, 2004, the Company acquired a 100% interest in 1156207 Ontario Ltd. for \$80,000 with the vendor retaining a 1% NSR. 1156207 Ontario Ltd. holds 100% interest in two groups of patented mineral claims known as the “Lavery Property”, Red Lake, Ontario and the “Cumming Property”, near Larder Lake, Ontario. In connection with the acquisition, the Company issued 15,000 shares with a fair value of \$8,700 as finder’s fee.

During the year ended June 30, 2008, the Company wrote down the property to a nominal value of \$1.

On December 23, 2008, the Company optioned this property and the Red Lake property (Note 8 g) to Skybridge Development Corp. (“Skybridge”). Terms of the 48-month option-purchase agreement between Skybridge and the Company include annual payments totaling \$500,000, issuance of 1.5 million common shares of Skybridge, along with exploration work commitments totaling \$1.5-million. Initial payment obligation at signing of the definitive agreement between the parties is \$100,000 and issuance of 250,000 Skybridge shares valued at \$35,000. The proceeds of \$135,000 were recorded as a gain on disposition of mineral properties as the property had been written down to \$1 in the prior year.

The Company retains a 2% NSR with Skybridge granted the right to purchase half within one year of the final closing of the fully vested option agreement for \$1-million.

#### c. Brett #1 and #2 Property, British Columbia, Canada

During the year ended December 31, 2002, the Company acquired a 30% interest in the Brett #1 and Brett #2 mineral claims located in the Vernon Mining District of British Columbia from Vicore for \$49,391. During the year ended December 31, 2003, the Company acquired the remaining 70% from Vicore for a consideration of 500,000 common shares of the Company at an agreed value of \$125,000. Vicore retains a 2% NSR. During the year ended December 31, 2004, the Company executed an Option Agreement whereby the Company optioned 50% of its interest in the Brett #1 and #2 Property to Running Fox Resource Corp (“Running Fox”) for 200,000 shares of Running Fox, at a fair value of \$80,000 and Running Fox to incur \$500,000 in exploration expenditures. During the year ended December 31, 2004, Running Fox incurred the required exploration expenditures and has earned its 50% interest.

During the year ended June 30, 2008, the Company wrote down the property to a nominal value of \$1.

#### d. Cumo Molybdenum Property, Idaho, USA

On October 13, 2004, the Company completed an “Option to Purchase Agreement” with Cumo Molybdenum Mining Inc. to purchase 8 unpatented mineral claims located in Boise County, Idaho, USA known as “Cumo Molybdenum Property”. The terms of the agreement call for stage advanced royalty payments scheduled as follows:

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### 7. MINERAL PROPERTIES (continued)

d. Cumo Molybdenum Property, Idaho, USA (continued)

|                  |                               |
|------------------|-------------------------------|
| i) US \$10,000   | upon signing (paid)           |
| ii) US \$10,000  | 60 days after signing (paid)  |
| iii) US \$5,000  | 6 months after signing (paid) |
| iv) US \$20,000  | year 1 after signing (paid)   |
| v) US \$20,000   | year 2 after signing (paid)   |
| vi) US \$15,000  | year 3 after signing (paid)   |
| vii) US \$15,000 | every 6 months thereafter     |

These payments are to be credited against a 1.5% NSR which reduces to 0.5% NSR after payments of US \$3 million. In addition, after 60 days of signing the agreement, the Company will issue 90,000 shares of the Company with a fair value of \$63,900 (issued), further 90,000 (issued) shares after nine months and a further 120,000 (issued) after 18 months. The shares were issued in April 2006.

The Company is required to perform at least US \$25,000 worth of work on the property during the first year and at least US \$50,000 worth of exploration work each year thereafter for as long as the Option is in effect.

The Company paid finder's fees of 60,000 share purchase warrants of the Company with a fair value of \$3,080, exercisable at \$0.71 per share warrant until December 10, 2006.

On January 21, 2005, the Company entered into an option agreement with Kobex Resources Ltd. ("Kobex"), whereby Kobex may acquire a 100% interest in two Company properties, the Cumo Molybdenum Property located in Boise County, Idaho and the Trikey Copper-Gold Property in Queensland, Australia (Note 8(h)). Under the terms of the Agreement, Kobex would earn a 100% undivided interest in these Properties in consideration of cash payment of \$5,000,000, 12,500,000 treasury shares and \$10,000,000 of work expenditure commitment.

Under the terms of the Agreement, Kobex also assumed certain obligations with respect to the "Option to Purchase Agreement" between Cumo Molybdenum Mining Inc. and the Company, including the minimum advance royalty payments.

On November 7, 2005, the Company signed an amending agreement with Kobex whereby Kobex surrendered all the rights and interest to the Trikey property. In consideration, the Company agreed to reduce all cash payments and expenditures to be made on the Cumo property by 25%, and the amount of expenditures was extended by one year.

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### 7. MINERAL PROPERTIES (continued)

#### d. Cumo Molybdenum Property, Idaho, USA (continued)

The cash payments and the number of shares to be issued to the Company by Kobex as per the terms of the amended agreement are as follows:

| Option Exercise Schedule  | Number of Shares  | Payment             | Exploration Expenditures |
|---|-------------------|---------------------|--------------------------|
| Upon execution of the agreement (1)   | -                 | \$ 50,000 (1)       | \$ -                     |
| Upon completion of due diligence and acceptance of filing by regulatory authorities (1) Earlier of 6 months after signing and the date of regulatory acceptance (1) | 375,000 (1)       | 50,000 (1)          | -                        |
| On or before January 21, 2006   | 1,125,000         | 187,500             | -                        |
| On or before July 21, 2006  | -                 | 187,500             | -                        |
| On or before January 21, 2007   | 1,500,000         | 562,500             | 750,000                  |
| On or before January 21, 2008   | 2,625,000         | 1,125,000           | 1,125,000                |
| On or before January 21, 2009   | 4,375,000         | 1,500,000           | 1,500,000                |
| On or before January 21, 2010   | -                 | -                   | 1,875,000                |
| On or before January 21, 2011   | -                 | -                   | 2,250,000                |
| <b>Total</b>  | <b>10,000,000</b> | <b>\$ 3,812,500</b> | <b>\$ 7,500,000</b>      |

(1) Amounts have been received and shares have been issued.

On October 6, 2006, Kobex delivered a “Notice of Termination” of the option agreement with the Company and surrendered all rights and interests in the Cumo Property to the Company. Kobex had not issued the shares or made the required cash payments as required by the amended agreement prior to terminating the agreement. The Company had filed a statement of claim in the Supreme Court of British Columbia against Kobex for \$375,000 and 1,125,000 shares of Kobex. Subsequently the Supreme Court of British Columbia dismissed the Company claims except for a sum of US \$20,000 plus interest.

#### e. Pine Tree Copper-Molybdenum Property, Nevada, USA

On May 10, 2005, the Company signed a “Mineral Property Option Agreement” (“Agreement”) to purchase certain unpatented mineral claims located in Mineral County, Nevada, USA known as the “Pine Tree Copper-Molybdenum Property”. Under the terms of the Agreement, the Company would earn a 100% undivided interest in the Pine Tree Property in consideration of cash payment of US\$2,000,000, 300,000 treasury shares and US\$150,000 of work expenditure commitment. The summary of the terms are as follows:

| Option Exercise Schedule                   | Shares         | Payment              | Expenditures         |
|--|----------------|----------------------|----------------------|
| Within 7 days if signing the agreement (1) | -              | US \$ 10,000 (1)     | US \$ -              |
| Upon approval of TSX-V (1)                 | 50,000 (1)     | 10,000 (1)           | -                    |
| On first anniversary of the Agreement      | 50,000 (1)     | 25,000 (1)           | 50,000               |
| On second anniversary of the Agreement     | 60,000 (1)     | 35,000 (1)           | 100,000              |
| On third anniversary of the Agreement      | 60,000 (1)     | 50,000 (1)           | -                    |
| On fourth anniversary of the Agreement     | 80,000 (1)     | 125,000 (1)          | -                    |
| On fifth anniversary of the Agreement      | -              | 25,000               | -                    |
| Each year thereafter (2)                   |                |                      |                      |
| <b>Total</b>                               | <b>300,000</b> | <b>US \$ 280,000</b> | <b>US \$ 150,000</b> |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unaudited – Prepared by Management

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### 7. MINERAL PROPERTIES (continued)

#### e. Pine Tree Copper-Molybdenum Property, Nevada, USA (continued)

- (1) Shares have been issued and amount paid
- (2) The Company will pay \$25,000 each year after the fifth anniversary until a total of US\$2,000,000 has been paid. These payments will be credited against a 1.5% NSR which after the payment of US\$2 million would reduce the NSR to 0.50%.

At any time within two years of approval by the TSX-V, the Company may purchase the property outright for US\$1,000,000 plus the share consideration. If the Company sells, assigns or creates a joint venture with any third party within two years of the date of the Agreement, the vendors would be entitled to 20% of the share consideration received.

#### f. Blackpoint Property, Nevada, USA

During the year ended December 31, 2005, the Company acquired by staking 49 claims which cover the Blackpoint exploration property near Eureka, Nevada.

During the year ended June 30, 2008, the Company wrote down the property to a nominal value of \$1.

#### g. Red Lake Gold Property, Ontario, Canada

On June 10, 2005, the Company signed an "Option to Purchase Red Lake Mineral Claims Agreement" ("Red Lake Agreement") to purchase 4 patented mineral claims located in Bateman Township on the eastern shores of Red Lake, Ontario Canada, known as the "Red Lake Gold Property". Under the terms of the Agreement, the Company would earn a 100% undivided interest in the Red Lake Property in consideration of cash payment of \$500,000 follows:

| Option Exercise Schedule                | Payment           |
|---|-------------------|
| Upon approval of TSX-V (the "Approval") | \$ 25,000 (paid)  |
| On first anniversary of the Approval    | 50,000            |
| On second anniversary of the Approval   | 75,000            |
| On third anniversary of the Approval    | 100,000           |
| On fourth anniversary of the Approval   | 250,000           |
| <u>Total</u>                            | <u>\$ 500,000</u> |

The vendors retained a 2% NSR and the Company may purchase 1% of the NSR at anytime for \$1,000,000.

During the year ended June 30, 2007, the Company terminated the agreement and no further payments are required.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. MINERAL PROPERTIES (continued)

g. Red Lake Gold Property, Ontario, Canada (continued)

On December 23, 2008, the Company optioned this property and the Red Lake property (Note 8 g) to Skybridge Development Corp. ("Skybridge"). Terms of the 48-month option-purchase agreement between Skybridge and the Company include annual payments totaling \$500,000, issuance of 1.5 million common shares of Skybridge, along with exploration work commitments totaling \$1.5-million. Initial payment obligation at signing of the definitive agreement between the parties is \$100,000 and issuance of 250,000 Skybridge shares valued at \$35,000. The proceeds of \$135,000 were recorded as a gain on disposition of mineral properties as the property had been written down to \$1 in the prior year.

The Company retains a 2% NSR with Skybridge granted the right to purchase half within one year of the final closing of the fully vested option agreement for \$1-million.

h. Trikay Property, Queensland, Australia

During the year ended December 31, 2004, the Company filed exploration permits covering the Trikay property in Queensland, Australia. On January 21, 2005, the Company entered into an option agreement with Kobex whereby Kobex may acquire a 100% interest in two Company properties, the Cumo Molybdenum Property located in Boise County, Idaho and the Trikay Copper-Gold Property in Queensland, Australia. On November 7, 2005, the Company signed an amending agreement with Kobex whereby Kobex surrendered all the rights and interest to the Trikay property and the Company granted Kobex a right of first refusal for a period of two years in the event the Company wishes to enter into an agreement with a third party. The agreement was terminated by Kobex.

On February 3, 2009, the Company optioned the property to Salmon River Resources Ltd. ("Salmon River"). Salmon River has agreed to pay the Company CAD\$50,000 and, upon TSX approval, will issue the Company 100,000 shares of Salmon River. In addition, within 30 days of the delineation by a qualified person, in accordance with NI43-101, of mineral reserves of not less than 2,000,000 ounces of gold or equivalent, Salmon River will pay to the Company a further CAD\$1,000,000, or at the Company's option, issue to the Company that number of common shares of Salmon River having a value of CAD\$1,000,000 based on the weighted average trading price of Salmon River's shares on a recognized stock exchange for the 20 trading days following the public announcement of such reserves.

As of June 30, 2009, the Company has received proceeds of \$50,000 in cash and issuance of 100,000 shares from Salmon River valued at \$6,000 resulting in a loss of \$165,136 from this disposition.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. MINERAL PROPERTIES (continued)

#### i. Motley Property, Idaho, USA

On March 9, 2007, the Company entered into an agreement to purchase six unpatented claims located in the state of Idaho, USA, known as the "Motley Property". Under the terms of the Agreement, the Company acquired a 100% undivided interest in the Property for 100,000 common shares with a fair value of \$167,000 plus a 1% NSR to the vendors and a finder's fees of 10,000 common shares with a fair value of \$16,700.

During the year ended June 30, 2009, the Company wrote down the property to a nominal value of \$1 as it has no current exploration plans.

#### j. Statlu Aggregate Property, British Columbia, Canada

On December 21, 2005, the Company entered into an option agreement whereby the Company would earn a 60% interest in the Statlu Aggregate Project near Chehalis, British Columbia. Under the terms of the Agreement, the Company would finance the project to the time a license of occupation is issued by the Department of Land and Water of British Columbia and a permit is issued which would allow sand and gravel from the property to be mined and sold.

On May 25, 2007, the Company and the vendor agreed that the Company had earned a 50% ownership in the Project and that the vendor has the option to re-acquire 100% of Company's interest for the payments totaling \$250,000, paid as follows:

1. Payment of \$10,000 within 60 days after the receipt of a License of Occupation or June 1, 2008, whichever is earlier
2. Monthly payment on the 15<sup>th</sup> thereafter until the \$250,000 is paid.

During the year ended June 30, 2009, the Company received \$120,000 from the vendor.

#### k. Spruce Mountain Property, Nevada, USA

On May 19, 2006, the Company entered into an agreement to purchase 53 patented claims located in Spruce Mountain, Elko County, Nevada, USA. Under the terms of the Agreement, the Company would earn a 100% undivided interest in the Property in consideration of cash payment of US\$550,000 paid as follows:

| Option Exercise Schedule        | Payment             |
|---------------------------------|---------------------|
| On or before May 25, 2006       | US \$ 75,000 (paid) |
| On or before July 15, 2006      | 100,000 (paid)      |
| On or before September 15, 2006 | 100,000 (paid)      |
| On or before November 15, 2006  | 125,000 (paid)      |
| On or before January 15, 2007   | 150,000 (paid)      |
| Total                           | US \$ 550,000       |

During the year ended June 30, 2009, the Company wrote down the property to a nominal value of \$1 as it had no current exploration plans.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 7. MINERAL PROPERTIES (continued)

i. Spring Creek Property, Idaho, USA

The Company staked claims in Idaho, USA.

m. Copper Chief Property, Nevada, USA

In April 2007, the Company staked 40 claims known as “Copper Chief”, in Mina, Nevada. These claims are approximately 4 miles north of the Pine Tree Project (Note 8e).

During the year ended June 30, 2009, the Company wrote down the property to a nominal value of \$1 as it has no current exploration plans.

### 8. RELATED PARTY TRANSACTIONS

Except as disclosed elsewhere in these financial statements, related party transactions are in the normal course of operations and are measured at fair value being their exchange amounts, which is the amount of consideration paid or received as agreed by the parties.

*Due to related parties*

Amounts due to related parties represent advances from directors and companies related through common directors. These amounts are unsecured, non-interest-bearing and are repayable on demand.

*Transactions with related parties*

The Company incurred expenditures for various services provided by directors and officers and corporations controlled by directors and officers of the Company during the years as follows:

|                                | December 31, |        | December 31, |        |
|--------------------------------|--------------|--------|--------------|--------|
|                                | 2009         |        | 2008         |        |
| Mineral properties exploration | \$           | -      | \$           | 39,050 |
| Consulting fees                |              | -      |              | 63,228 |
| Management fees                |              | 78,000 |              | 78,000 |
| Professional fees              |              | -      |              | -      |
| Telephone and website          |              | -      |              | -      |

### 9. OBLIGATION UNDER CAPITAL LEASE

The Company is a lessee of a drill under a non-cancelable capital lease expiring in 2010. The fair market value of the drill at the date of acquisition was \$281,187 and the obligation under the capital lease was \$161,347.

The lease agreement contains a bargain purchase option exercisable at the end of the lease term at an implied interest rate of 8%. The asset is amortized over its estimated productive life of five years. The minimum future lease payments under the capital lease are as follows:

|  | December 31, |          | June 30, |          |
|--|--------------|----------|----------|----------|
|  | 2009         |          | 2009     |          |
|  | US\$         | Cdn.\$   | US\$     | Cdn.\$   |
| 2010                                     | 16,102       | 17,515   | 54,117   | 62,938   |
| Less: amount representing interest       | (484)        | (532)    | (1,937)  | (2,247)  |
|  | 15,618       | 16,983   | 52,180   | 60,691   |
| Less current obligation                  | (15,618)     | (16,983) | (52,180) | (60,691) |
| Long term obligation under capital lease | -            | -        | -        | -        |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 10. SHARE CAPITAL

- (a) Authorized – unlimited common shares without par value  
(b) Issued and outstanding:

|  | Number<br>of Shares | Amount        |
|--|---------------------|---------------|
| Balance, June 30, 2007                                   | 27,502,877          | \$ 20,446,127 |
| For cash:  |                     |               |
| Pursuant to private placement at \$1.50                  | 5,650,000           | 8,475,000     |
| Pursuant to exercise of warrants at \$1.45               | 1,750,000           | 2,537,500     |
| Pursuant to exercise of options at \$1.00                | 110,000             | 110,000       |
| Pursuant to finder's fee for private placement, shares   | 253,750             | 380,625       |
| Pursuant to finder's fee for private placement, cash     | -                   | (26,250)      |
| Pursuant to other fees for private placement, cash       | -                   | (56,432)      |
| Pursuant to share issuance cost of finder's fee shares   | -                   | (572,407)     |
| For other consideration:                                 |                     |               |
| Pursuant to the acquisition of Pine Tree Property        | 60,000              | 66,000        |
| Re-allocation of Contributed Surplus                     | -                   | 92,432        |
| Balance, June 30, 2008                                   | 35,326,627          | 31,452,595    |
| For cash:  |                     |               |
| Pursuant to private placement at \$0.35                  | 10,597,572          | 3,709,149     |
| Pursuant to private placement at \$0.24                  | 11,500,000          | 2,760,000     |
| Pursuant to finder's fee for private placement, shares   | 134,365             | 32,247        |
| Pursuant to share issuance cost of finder's fee shares   | -                   | (96,222)      |
| Pursuant to finder's fee for private placement, cash     | -                   | (30,214)      |
| Pursuant to exercise of options at \$1.50                | 10,000              | 15,000        |
| Pursuant to exercise of options at \$1.00                | 60,000              | 60,000        |
| For other consideration:                                 | -                   | -             |
| Pursuant to share issuance for Pine Tree Property        | 80,000              | 35,200        |
| Pursuant to share issuance for loan settlement at \$0.35 | 1,214,285           | 425,000       |
| Re-allocation of Contributed Surplus                     | -                   | 63,683        |
| Balance, June 30, 2009                                   | 58,922,849          | 38,426,438    |
| For cash:  |                     |               |
| Pursuant to private placement at \$0.60                  | 500,000             | 300,000       |
| Pursuant to exercise of options at \$0.35                | 235,000             | 82,250        |
| Pursuant to exercise of warrants at \$0.45               | 502,285             | 226,028       |
| Pursuant to exercise of warrants at \$0.30               | 1,596,000           | 478,800       |
| Re-allocation of Contributed Surplus                     | -                   | 33,816        |
| Balance, December 31, 2009                               | 61,756,134          | \$ 39,547,332 |

- (i) During the year ended June 30, 2008, the Company completed a non-brokered private placement of 5,650,000 units at \$1.50 each for total proceeds of \$8,475,000. Each unit consists of one common share and one share purchase warrant. The Company does not separately disclose a fair value for the warrants. The share purchase warrant entitles the holder thereof the right to purchase one additional common share at \$2.00 for a two year period. In connection with this private placement, the Company paid finders' fees consisting of \$26,250 in cash, 148,750 units and 105,000 shares at a fair value of \$572,407. The Company incurred other fees totaling \$56,432 for the placement.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 10. SHARE CAPITAL (continued)

- (ii) During the year ended June 30, 2009, the Company completed a non-brokered private placement of 2,721,856 units at \$0.35 per unit for total proceeds of \$527,650. Of these units, 1,214,285 were issued for a loan repayment of \$425,000. The fair value of the loan approximates the fair value of shares issued. Therefore, there was no gain or loss recognized in the loan settlement transaction. Each unit consists of one common share and one share purchase warrant. The Company does not separately disclose a fair value for the warrants. The share purchase warrant entitles the holder thereof the right to purchase one additional common share at \$0.45 for a two year period. In connection with this private placement, the Company paid cash finders' fees of \$14,280.
- (iii) During the year ended June 30, 2009, the Company completed a non-brokered private placement of 11,500,000 units at \$0.24 each for total proceeds of \$2,760,000. Each unit consists of one common share and one share purchase warrant. The Company does not separately disclose a fair value for the warrants. The share purchase warrant entitles the holder thereof the right to purchase one additional common share at \$0.30 for a two year period. In connection with this private placement, the Company paid finders' fees consisting of \$15,934 in cash, and 134,365 units at a fair value of \$60,464.
- (vi) During the year ended June 30, 2009, the Company completed a non-brokered private placement of 9,090,000 common shares at \$0.35 per unit for total proceeds of \$3,181,500.
- (vii) During six months ended December 31, 2009, the Company completed a non-brokered private placement of 500,000 common shares at \$0.60 per unit for total proceeds of \$300,000.

#### (c) Stock options

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, and consultants. TSX-V policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to persons in consideration for services.

The exercise price of stock options is determined by the board of directors of the Company at the time of granting and may not be less than the average closing price of the Company's shares on the ten trading days immediately preceding the date on which the options are granted and publicly announced, and may not otherwise be less than \$0.10 per share. Options have a maximum term of five years and terminate after a certain number of days following the termination of the optionee's term / employment, except in the case of death, in which case they terminate one year after the event. Vesting of options is made during periodic intervals approved by the TSX-V. Once approved, all options are considered vested and are exercisable at any time, except for options granted to employees or consultants conducting investor relation activities. Options granted to employees or consultants conducting investor relations activities must vest in stages over 12 months with no more than one quarter of the options vesting in any 3 month period.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 10. SHARE CAPITAL (continued)

#### (c) Stock options (continued)

The following incentive stock options were outstanding as at December 31, 2009:

| Expiry Date      | Price (\$) | Average Remaining Life (years) | Outstanding July 1, 2009 | Granted   | Cancelled, Expired, Exercised | Outstanding December 31, 2009 | Exercisable December 31, 2009 |
|------------------|------------|--------------------------------|--------------------------|-----------|-------------------------------|-------------------------------|-------------------------------|
| April 18, 2011   | 0.35       | 1.8                            | 29,000                   |           |                               | 29,000                        | 29,000                        |
| December 3, 2009 | 0.35       | 1.4                            | 135,000                  |           | (135,000)                     | -                             | -                             |
| June 2, 2013     | 0.35       | 4.0                            | 720,000                  |           | (75,000)                      | 645,000                       | 645,000                       |
| October 30, 2013 | 0.35       | 4.5                            | 2,290,000                |           | (25,000)                      | 2,265,000                     | 2,265,000                     |
| July 17, 2014    | 0.36       | 4.5                            | -                        | 2,725,000 |                               | 2,725,000                     | 2,725,000                     |
| December 9, 2014 | 0.70       | 5.0                            | -                        | 480,000   |                               | 480,000                       | 480,000                       |
|                  |            |                                | 3,174,000                | 3,205,000 | (235,000)                     | 6,144,000                     | 6,144,000                     |

The following incentive stock options were outstanding as at June 30, 2009:

| Expiry Date            | Price (\$) | Average Remaining Life (years) | Outstanding July 1, 2008 | Granted   | Cancelled, Expired, Exercised | Outstanding June 30, 2009 | Exercisable June 30, 2009 |
|------------------------|------------|--------------------------------|--------------------------|-----------|-------------------------------|---------------------------|---------------------------|
| April 18, 2011         | 0.35       | 1.8                            | 179,000                  |           | (150,000)                     | 29,000                    | 29,000                    |
| October 27, 2008       | 1.00       | -                              | 1,955,000                |           | (1,955,000)                   | -                         | -                         |
| December 3, 2009       | 1.50       | 1.4                            | 310,000                  |           | (310,000)                     | -                         | -                         |
| December 3, 2009       | 0.35       | 1.4                            | 235,000                  |           | (100,000)                     | 135,000                   | 135,000                   |
| June 2, 2013           | 0.35       | 4.0                            | 1,155,000                |           | (435,000)                     | 720,000                   | 720,000                   |
| October 30, 2013       | 0.35       | 4.5                            | -                        | 2,305,000 | (15,000)                      | 2,290,000                 | 2,290,000                 |
|                        |            |                                | 3,834,000                | 2,305,000 | (2,965,000)                   | 3,174,000                 | 3,174,000                 |
| Average price and life | 0.99       | 4.05                           |                          |           |                               |                           |                           |

#### (d) Share purchase warrants outstanding

The following share purchase warrants were outstanding as at December 31, 2009:

| Expiry Date       | Price (\$) | Outstanding July 1, 2009 | Granted | Exercised   | Expired     | Outstanding December 31, 2009 |
|-------------------|------------|--------------------------|---------|-------------|-------------|-------------------------------|
| August 16, 2009   | 2.00       | 5,650,000                | -       | -           | (5,650,000) | -                             |
| August 16, 2009   | 2.00       | 148,750                  | -       | -           | (148,750)   | -                             |
| November 21, 2010 | 0.45       | 2,721,856                | -       | (502,285)   | -           | 2,219,571                     |
| December 19, 2010 | 0.30       | 11,634,365               | -       | (1,596,000) | -           | 10,038,365                    |
|                   |            | 20,154,971               | -       | (2,098,285) | (5,798,750) | 12,257,936                    |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 10. SHARE CAPITAL (continued)

#### (d) Share purchase warrants outstanding (continued)

The following share purchase warrants were outstanding as at June 30, 2009::

| Expiry Date       | Price (\$) | Outstanding  |            |           | Expired   | Outstanding June 30,2009 |
|-------------------|------------|--------------|------------|-----------|-----------|--------------------------|
|                   |            | July 1, 2008 | Granted    | Exercised |           |                          |
| March 28,2009     | 1.50       | 430,000      | -          | -         | (430,000) | -                        |
| August 16,2009    | 2.00       | 5,650,000    | -          | -         | -         | 5,650,000                |
| August 16,2009    | 2.00       | 148,750      | -          | -         | -         | 148,750                  |
| November 21, 2010 | 0.45       | -            | 2,721,856  | -         | -         | 2,721,856                |
| December 19, 2010 | 0.30       | -            | 11,634,365 | -         | -         | 11,634,365               |
|                   |            | 6,228,750    | 14,356,221 | -         | (430,000) | 20,154,971               |

#### (e) Stock-based compensation

The fair value of stock-based compensation is measured at the date of grant and recognized over the vesting period. The fair value of stock options granted to directors, employees, and consultants during the year ended June 30, 2009 was \$591,159 (2008 – \$1,757,684). The weighted average fair value of the stock options was \$0.26 (2008: \$1.02). During the year ended June 30, 2009, 400,000 options with fair value of \$639,612 vested. The 400,000 options were granted to employees and consultants for investor relation on June 2, 2008 and vested over a 12 month period. During the year ended June 30, 2009, the Company reduced the exercise price of 1,234,000 options to \$0.35 per share. The fair value of stock based compensation in relation to this re-pricing was \$72,383 (2008 - \$Nil).

The Company estimated the fair value of stock options granted using the Black-Scholes option pricing model with the following weighted average assumptions:

|                                    | 2009 | 2008 |
|------------------------------------|------|------|
| Risk-free interest rate            | 2.9% | 3.0% |
| Expected annual volatility         | 90%  | 150% |
| Expected dividend yield            | 0.0% | 0.0% |
| Expected life of options, in years | 5    | 3.5  |

#### (f) Contributed Surplus

|  | December 31,<br>2009 | June 30,<br>2009 |
|--|----------------------|------------------|
| Balance - Beginning                                | \$ 6,081,185         | \$ 4,777,739     |
| Fair value of stock options granted/vested         | 1,322,227            | 1,230,771        |
| Fair value adjustment for option repricing         | -                    | 72,383           |
| Fair value of finders fees share purchase warrants | -                    | 35,758           |
| Fair value of shares issued for finders fees       | -                    | 28,217           |
| Value assigned to options exercised                | (33,815)             | (63,683)         |
| Balance , Ending                                   | \$ 7,369,597         | \$ 6,081,185     |

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 11. CAPITAL MANAGEMENT

The Company manages its capital structure, which is substantially represented by its cash resources and share capital, and makes adjustments to it depending on the funds available to the Company for 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 have 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 its planned exploration and pay for on-going general and administrative expenses, the Company will use existing working capital and expects to raise additional amounts through related party loans or private placements of its common shares as needed. The Company will focus its drilling activities on the Cumo property as the drilling result for this property has been encouraging.

Management reviews its capital management approach on an on-going basis. The Company is not subject to externally imposed capital requirements and there were no significant changes in its approach to capital management during the year ended June 30, 2009.

### 12. COMMITMENTS

The Company's payment commitments for are as follows:

|           | Office lease | Auto lease |
|-----------|--------------|------------|
| Year 2010 | \$ 25,860    | \$ 15,084  |
| Year 2011 | 27,300       | -          |
| Year 2012 | 29,012       | -          |

### 13. RISK MANAGEMENT

The Company is engaged primarily in the mineral exploration business and manages related industry risk directly. The Company is potentially at risk for environmental reclamation and fluctuations in commodity-based market prices associated with mineral property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements. There is no certainty that all environmental risks and contingencies have been addressed.

The Company is exposed in varying degrees to a variety of financial instrument related risks as follows:

#### *Interest Risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The fair value of the Company's cash account affected by changes in short term interest rates will be minimal.

The capital lease on equipment bears a fixed interest rate. Therefore, interest rate risk is nominal.

# MOSQUITO CONSOLIDATED GOLD MINES LIMITED

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### 13. RISK MANAGEMENT (continued)

#### *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. The Company's primary exposure to credit risk is in its cash accounts and accounts receivable. This risk in cash accounts is managed through the use of a major financial institution which has high credit quality as determined by the rating agencies. The Company's receivables are mainly due from the Government of Canada and therefore, the credit risk exposure is low.

#### *Foreign exchange risk*

Foreign exchange risk is the risk that the Company will be subject to foreign currency fluctuations in satisfying obligations related to its foreign activities. The Company operates primarily in Canada and the United States.

The following table summarizes the geographical distribution of the Company's financial instruments at December 31, 2009:

|  | CDN | US | Total |
|--|-----|----|-------|
|  | %   | %  | %     |
| Accounts receivable and other current assets | 77  | 23 | 100   |
| Short term obligations and accounts payable  | 56  | 44 | 100   |

#### *Foreign exchange risk (continued)*

The Company's financial results are reported in Canadian dollars while it conducts its business in both Canadian and United States dollars. The Company's drilling activities were carried out by its wholly owned subsidiary located in the United States. The assets, liabilities, revenue and expenses that are denominated in foreign currencies will be affected by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company does not currently use derivative financial instruments to mitigate this risk.

For six months ended December 31, 2009, a foreign exchange loss of \$233,936 was recognized.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company requires funds to finance its business development activities. In addition, the Company, from time to time, needs to raise equity financing to carry out its exploration programs. There is no assurance that financing will be available or, if available, that such financings will be on reasonable terms.

# **MOSQUITO CONSOLIDATED GOLD MINES LIMITED**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **14. SUBSEQUENT EVENTS**

- a) Subsequent to six months ended December 31, 2009, 100,000 options were exercised for total proceeds of \$35,250.
- b) Subsequent to six months ended December 31, 2009, 980,197 warrants were exercised for total proceeds of \$342,172.
- c) On January 18, 2010, the Company has entered into stock option agreements granting the right and option to purchase 75,000 shares of the Company at \$1.18 per share exercisable in whole or in part on or before 5 years from January 18, 2010.