

MOSQUITO CONSOLIDATED GOLD MINES LIMITED

Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

Three months ended September 30, 2011 and 2010

(Unaudited – Prepared by Management)

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NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited interim consolidated financial statements of the Corporation have been prepared by the Audit Committee and Board of Directors of the Corporation.

The Corporation's independent auditors have not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants of interim financial statements by an entity's auditors.

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
Consolidated Statements of Financial Position
(Unaudited – Prepared by Management)

	September 30, 2011	June 30, 2011	July 1, 2010
ASSETS		(Note 17)	(Note 17)
Current			
Cash	\$ 695,361	\$ 458,766	\$ 3,668,753
Marketable securities (Note 4)	844,807	830,179	371,616
Accounts receivable and other receivables (Notes 5 & 10(a))	1,127,324	1,163,461	34,864
HST / GST recoverable	100,221	314,838	180,864
Due from related parties (Note 10 (b))	19,207	246,627	153,891
Prepaid expenses	108,659	155,556	125,829
Total current assets	2,895,579	3,169,427	4,535,817
Non-current assets			
Investments (Note 6)	1	1	1
Reclamation bonds (Note 9)	355,659	60,189	65,689
Property, plant and equipment (Note 7)	3,155,596	3,320,469	3,542,743
Exploration and evaluation assets (Note 8)	22,425,220	21,063,635	17,715,570
Contractor bonds	20,910	20,022	-
Total non-current assets	25,957,386	24,464,316	21,324,003
Total assets	\$ 28,852,965	\$ 27,633,743	\$ 25,859,820
LIABILITIES			
Current			
Accounts payable and accrued liabilities (Note 10(c))	\$ 1,077,105	\$ 1,318,404	\$ 824,900
Due to related parties (Notes 10(a)&(c))	117,227	370,433	285,690
Unearned revenue	147,052	146,472	-
Total current liabilities	1,341,384	1,833,309	1,110,590
Non-current liabilities			
Reclamation provision (Note 9)	355,659	60,189	65,869
Total liabilities	1,697,043	1,893,498	1,176,459
SHAREHOLDERS' EQUITY			
Share capital (Note 11)	50,525,299	48,719,365	45,396,576
Reserves (Note 11)	7,763,305	7,765,598	7,170,995
Accumulated other comprehensive income (loss)	(610,654)	(559,032)	27,405
Cumulative translation adjustment	(98,397)	(126,376)	-
Deficit	(30,423,631)	(30,061,310)	(27,911,615)
Total shareholders' equity	27,155,922	25,738,245	24,683,361
Total shareholders' equity and liabilities	\$ 28,852,965	\$ 27,633,743	\$ 25,859,820

Nature and continuance of operations (Note 1)

Commitments (Note 13)

Events after the reporting period (Note 18)

Approved on behalf of the Board:

Director – Brian McClay

Director – William Jefferies

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

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
Consolidated Statements of Loss and Comprehensive Loss
(Unaudited – Prepared by Management)

	Three Months Ended	
	September 30, 2011	September 30, 2010
		(Note 17)
Revenue		
Drilling	\$ 1,012,541	\$ -
Other	6,826	-
Drilling costs (Note 10 (a))	(1,044,897)	-
	<u>(25,530)</u>	-
Expenses		
Bank charges and interest	6,302	2,886
Consulting fees	16,500	45,923
Depreciation	239,605	161,255
Foreign exchange gain	-	(528,102)
General support and business development (Note 10(a))	9,296	-
Investor relations and website	33,686	29,702
Management fees (Notes 10(a) and (d))	52,500	39,000
Office and miscellaneous	22,594	50,984
Professional fees	77,476	168,094
Rent	18,787	18,466
Repairs and maintenance	75,427	33,614
Share-based compensation (Note 10(d))	-	606,430
Shareholder information, transfer agent and filing fees	13,933	3,697
Telephone and communications	7,088	5,289
Travel and promotion	76,656	143,033
	<u>649,850</u>	<u>780,271</u>
Loss before other items	(675,380)	(780,271)
Other items		
Gain on sale of property, plant and equipment	-	1,405
Gain on sale of exploration and evaluation assets (Note 8(g))	313,059	-
Other income	-	707
	<u>313,059</u>	<u>2,112</u>
Loss for the period	(362,321)	(778,159)
Other comprehensive income (loss)		
Unrealized loss on marketable securities (Note 4)	(51,622)	-
Exchange difference on translating foreign operations	27,979	(564,315)
	<u>27,979</u>	<u>(564,315)</u>
Comprehensive loss for the year	\$ (385,964)	\$ (1,342,474)
Earnings per share		
Basic and diluted	<u>\$ (0.00)</u>	<u>\$ (0.02)</u>
Weighted average number of common shares outstanding – basic and diluted	80,459,282	69,202,832

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

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited – Prepared by Management)

	Common Shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Cumulative Translation Adjustment	Deficit	Total
Balances, June 30, 2011 (Note 17)	79,300,956	\$ 48,719,365	\$ 7,765,598	\$ (559,032)	\$ (126,376)	\$ (30,061,310)	\$ 25,738,245
Stock options exercised	6,250	2,250	-	-	-	-	2,250
Options exercised	-	2,293	(2,293)	-	-	-	-
Shares issued for cash	2,490,649	1,867,987	-	-	-	-	1,867,987
Finder's fees -shares	14,592	10,944	-	-	-	-	10,944
Reclassification of finders' fees	-	(10,944)	-	-	-	-	(10,944)
Finder's fees – cash	-	(66,296)	-	-	-	-	(66,296)
Subscription receivable	-	(300)	-	-	-	-	(300)
Unrealized loss on marketable securities (Note 4)	-	-	-	(51,622)	-	-	(51,622)
Comprehensive loss	-	-	-	-	27,979	(362,321)	(334,342)
Balances, September 30, 2011	81,812,477	\$ 50,525,299	\$ 7,763,305	\$ (610,654)	\$ (98,397)	\$ (30,423,631)	\$ 27,155,922

	Common Shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Cumulative Translation Adjustment	Deficit	Total
Balances, July 1, 2010 (Note 17)	69,171,008	\$ 45,396,576	\$ 7,170,995	\$ 27,405	\$ -	\$ (27,911,615)	\$ 24,683,361
Stock options exercised	25,000	8,750	-	-	-	-	8,750
Share-based compensation	-	-	606,430	-	-	-	606,430
Warrants exercised	42,000	12,900	-	-	-	-	12,900
Comprehensive loss	-	-	-	-	(564,315)	(778,159)	(1,342,474)
Balances, September 30, 2010 (Note 17)	69,238,008	\$ 45,418,226	\$ 7,777,425	\$ 27,405	\$ (564,315)	\$ (28,689,774)	\$ 23,968,967

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

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
Consolidated Statements of Cash Flows
(Unaudited – Prepared by Management)

	Three Months Ended	
	September 30, 2011	September 30, 2010
		(Note 17)
OPERATING ACTIVITIES		
Loss for the period	\$ (362,321)	\$ (778,159)
Adjustments for non-cash items:		
Depreciation	239,605	161,255
Foreign exchange gain	-	(528,102)
Share-based compensation	-	606,431
Gain on disposition of property, plant and equipment	-	(1,405)
Gain on disposition of exploration and evaluation assets	(313,059)	-
	(435,775)	(539,980)
Net changes in non-cash working capital items:		
(Increase) decrease in accounts receivable	36,137	(16,068)
Decrease in HST / GST recoverable	214,617	-
Decrease in prepaid expenses	46,897	20,475
Increase in reclamation bonds	(295,470)	-
Increase (decrease) in accounts payable and accrued liabilities	(241,299)	53,025
	(674,893)	(482,548)
Investing Activities		
Exploration and evaluation assets	(977,339)	(1,595,572)
Acquisition of property, plant and equipment	97,023	(216,401)
Proceeds on sale of property, plant and equipment	-	14,040
	(880,316)	(1,797,933)
Financing Activities		
Advances to related parties	(25,786)	(52,157)
Shares issued for cash	1,817,590	21,650
	1,791,804	(30,507)
Increase (decrease) in cash during the period	236,595	(2,310,988)
Cash, beginning of the period	458,766	3,668,753
Cash, end of the period	\$ 695,361	\$ 1,357,765

Supplementary cash flow information (Note 16)

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

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)
September 30, 2011 and 2010

1. NATURE OF AND CONTINUANCE OF OPERATIONS

Mosquito Consolidated Gold Mines Limited (the “Company”) was incorporated under the laws of British Columbia in 1979. It is listed on the TSX Venture Exchange (“TSX-V”) under the symbol “MSQ”. On April 7, 2011, the Company’s shares were listed and commenced trading on the “OTCQX” under the symbol “MQCMF”.

The Company’s principal business activities include acquiring and developing mineral properties and operating drilling rigs. At September 30, 2011, 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.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at September 30, 2011, the Company had working capital of \$1,554,195 and has incurred losses since inception of \$30,423,631. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations, and to raise the necessary capital to fund ongoing exploration expenditures, support its operations, and discharge its liabilities as they come due. 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 raise additional funding with equity financing and/or advances from related parties to meet its exploration programs.

The interim 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.

The head office and principal address of the Company is Suite 100, 1616 West 3rd Avenue, Vancouver, BC, V6J 1K2.

2. BASIS OF PRESENTATION

a) Statement of compliance

These unaudited interim consolidated financial statements for the Company have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting. These are the Company’s first interim consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), for which IFRS 1, First Time Adoption of International Reporting (“IFRS 1”) has been applied. Previously, the Company prepared its consolidated annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The Company adopted IFRS on July 1, 2010 (the “Transition Date”).

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. BASIS OF PRESENTATION (continued)

a) Statement of compliance (continued)

An explanation of the impact of the transition from Canadian GAAP to IFRS on the consolidated financial statements is provided in Note 17.

These interim consolidated financial statements were approved for issue by the Board of Directors on December 29, 2011.

b) Basis of measurement

The interim consolidated interim financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets. The interim financial statements are presented in Canadian dollars, which is also the Company's functional currency for the consolidated financial statements.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These interim consolidated financial statements have been prepared by the management in accordance with IFRS. They include the accounts of the Company and its wholly-owned subsidiaries, Kirkness Diamond Drilling Co., Inc. ("Kirkness"), 1156207 Ontario Ltd., Mosquito Mining Corp., and Mosquito Operation Inc. All significant inter-company transactions and balances have been eliminated upon consolidation.

Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates, assumptions and judgments that affect the application of policies and reported amounts of assets and liabilities and disclosures of assets and liabilities at the date of the financial statements, along with reported amounts of expenses and net losses during the period. Significant areas requiring the use of management estimates and assumptions relate to the valuation of marketable securities, the recoverability of accounts receivable and other receivables, the recoverability GST/HST receivable, the recoverability of exploration and evaluation assets, deferred income assets and liabilities, the amount of the reclamation provision and the assumptions used in valuing options in share-based compensation calculations. Actual results could differ from those estimates.

MOSQUITO CONSOLIDATED GOLD MINES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

The Canadian dollar is considered to be the functional currency and the presentation currency of the Company and all of its subsidiaries, with the exception of Kirkness Diamond Drilling Co., Inc. (“Kirkness”).

For Mosquito and its subsidiaries (with the exception of Kirkness) transactions denominated in currencies other than the Canadian Dollar are translated using the exchange rate in effect on the transaction date or at an average rate. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at historical rates. Exchange gains or losses on translation are recorded in the consolidated statements of operations and comprehensive loss.

The United States (“US”) dollar is considered to be the functional currency of Kirkness. Its presentation currency, upon consolidation with the Company, is the Canadian dollar. Kirkness translates all of its assets and liabilities from its functional currency to the presentation currency using the closing rate in effect at the date of that statement of financial position. Income and expenses are translated at the rate in effect at the date of transactions (in practice, an average for the period is acceptable if exchange rate fluctuations are minimal). All resulting exchange differences are recorded as other comprehensive income or loss, and accumulated as a separate item in the statement of financial position.

Marketable securities

Marketable securities are classified as available-for-sale and recorded at fair value based on quoted market prices with the unrealized gain (loss) recorded in other 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. Plant and equipment are amortized at the following annual rates:

Aircraft	30%	declining balance method
Building	39 years	straight line
Drill rigs, mining, field and shop equipment and related vehicles	5 to 7 years	straight line or declining balance method
Office equipment and furniture	5 to 7 years	straight line or declining balance method
Vehicles	30%	declining balance method
	20%	declining balance method

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

Exploration and evaluation assets

Costs related to mineral activities are capitalized as tangible or intangible assets on a property-by-property basis. Examples of such costs include acquisition of rights to explore, gathering exploration data through geological, geochemical and geophysical studies, drilling, trenching, sampling, activities in relation to evaluating technical feasibility and commercial viability of extraction, and administration costs directly attributable to the mining properties. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in the statement of loss and comprehensive loss. Once the technical feasibility and commercial viability of a mineral project is demonstrable, exploration and evaluation assets are reclassified to intangible assets, mining property, plant and equipment and other tangible assets.

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.

Although the Company has taken steps to verify titles to mineral properties in which it has an interest, this procedure does not guarantee the Company's titles. 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.

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 other income.

Impairment of long-lived assets

The Company's long-lived assets are reviewed for an indication of impairment at each financial reporting date or at any time if an indicator of impairment is considered to exist. If any such indication exists, an estimate of the recoverable amount is undertaken, being the higher of an asset's fair value less costs to sell and value in use. If the asset's carrying amount exceeds its recoverable amount, then an impairment loss is recognized in the profit or loss.

If there is a future change in the estimate of the recoverable amount, partial or full amount of the impairment is reversed. An impairment loss with respect to goodwill is never reversed.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclamation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or straight line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

Provisions

Provisions are recognized when present legal or constructive obligations exist as a result of a past event where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation.

Warrants

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

Revenue recognition

Revenue from drilling contracts is recognized on the basis of the number of feet cored, chargeable drill and equipment rental hours as well as 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 semi-monthly basis. Contract prepayments (customer deposits) are recorded as deferred revenue and applied towards the contracts.

Share-based payments

The share option plan allows employees and consultants to acquire shares of the Company. The fair value of the options is measured at grant date and each tranche is recognized on a straight line basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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

Income tax

The income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity. In this case the tax is also recognized directly in equity.

Current income tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred income tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted on the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or tax expense in the statement of equity in which case the related deferred tax is also recognized in equity in which case the related deferred tax is also recognized in equity, respectively.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related party transactions

All monetary transactions in the normal course of operations are measured at the exchange value which is determined by management to approximate fair value. Non-monetary related party transactions in the normal course of operations that have commercial substance and do not involve the exchange of property or product held for sale are also measured at the exchange value. The commercial substance requirement is met when the future cash flows associated with the transfer of property are expected to change significantly as a result of the transaction. All other related party transactions are recorded at the carrying value.

Financial instruments

Financial instruments are defined as any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following categories at their initial recognition:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in the active market. Financial assets in this category includes taxes receivable and are initially measured at fair value and subsequently at amortised cost less any impairment. Taxes receivable is assessed for evidence of impairment at each reporting date, with any impairment recognized in earnings for that period.

Financial assets at fair value through profit or loss

An instrument is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. They are initially recorded at their fair market value. They are subsequently measured at their fair market value, with gains or losses recognized in the income statement.

Held-to-maturity investments

An instrument is classified as held-to-maturity if it is a non-derivative financial asset with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. They are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at amortised cost using the effective interest method. A gain or loss is recognised in profit or loss when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Available-for-sale

An instrument classified as available-for-sale is a non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. They are initially recorded at their fair market value. They are subsequently measured at their fair market value, with gains or losses recognized in the statement of other comprehensive income.

Financial liabilities are classified into the following categories at their initial recognition:

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities at fair value through profit or loss

Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Financial liabilities are designated at fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. They are initially recorded at their fair market value. They are subsequently measured at their fair market value, with gains or losses recognized in the income statement.

Financial liabilities measured at amortized cost

Financial liabilities are measured at amortized cost and are initially recognized at fair value. Subsequent to initial measurement, financial liabilities measured at amortized cost are carried at amortized cost using the effective interest method.

The Company accounts for its financial instruments as follows:

Cash	Fair value through profit or loss
Amounts receivable and other receivables	Loans and receivables
GST/HST receivable	Loans and receivables
Marketable securities	Available-for-sale
Investments	Available-for-sale
Reclamation bonds	Available-for-sale
Contractor bonds	Available-for-sale
Accounts payable and accrued liabilities	Financial liabilities measured at amortized cost
Due to related parties and due from related parties	Financial liabilities measured at amortized cost

For all of the above financial instruments (with the exception of Marketable securities – see note 4), the carrying value approximates the fair value.

Fair Value Disclosures

Fair value measurement disclosures require classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

The adoption of this standard is consistent with the financial instrument disclosure standards in IFRS. These disclosures are included in Note 15.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future Changes in Accounting Policies, not yet adopted

The International Accounting Standards Board (IASB) issued the following standards which are relevant but have not yet been adopted by the Company: IFRS 9, Financial Instruments, IFRS 10, Consolidated Financial Statement, IFRS 11 – Joint Arrangements, IFRS 12 – Disclosure of Interest in Other Entities, IFRS 13 – Fair Value Measurement.

The following is a brief summary of the new standards:

- (i) IFRS 9 – Financial instruments (“IFRS 9”) was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.
- (ii) IFRS 10 – Consolidated financial statements (“IFRS 10”) was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity’s returns. IFRS 10 is effective for annual period beginning on or after January 1, 2013. Earlier adoption is permitted.
- (iii) IFRS 11 – Joint arrangements (“IFRS 11”) was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the later case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (iv) IFRS 12 – Disclosure of interests in other entities (“IFRS 12”) was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interest in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.
- (v) IFRS 13 – Fair value measurement (“IFRS 13”) was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

- fair value is measured using the price in a principal market for the asset or liability, in the absence of a principal market, the most advantageous market;
- financial assets and liabilities with offsetting positions in market risks or counterparty credit risks can be measured on the basis of an entity's net risk exposure;
- disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
- a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
- a narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs;
- and information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

IAS 1 – Presentation of financial statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012.

4. MARKETABLE SECURITIES

The Company has the following marketable securities:

	September 30, 2011		June 30, 2011		July 1, 2010	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
Golden Cariboo Resources Inc.	4,300	\$ 774	4,300	\$ 946	4,300	\$ 602
IEMR Resources Inc.	1,000,000	110,000	1,000,000	130,000	1,000,000	300,000
Bakerville Gold Mines Ltd.	18	33	18	33	18	14
Mega Precious Metals Inc.	300,000	123,000	300,000	133,500	250,000	55,000
Running Fox Resource Corp.	3,000,000	510,000	3,000,000	525,000	-	-
Salmon River Resources Ltd.	100,000	36,000	100,000	36,000	100,000	13,000
Trade Winds Ventures Inc.	20,000	7,500	20,000	4,700	20,000	3,000
Urastar Gold Corp.	250,000	57,500	-	-	-	-
		\$ 844,807		\$ 830,179		\$ 371,616

The Company has classified these investments as "available for sale". As at September 30, 2011 these marketable securities were recorded at a fair value of \$844,807 (June 30, 2011: \$830,179). and an unrealized loss of \$51,622 resulting from revaluation was included in other comprehensive income (loss) (three months ended September 30, 2010: \$nil).

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5. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable and other receivables are comprised of the following:

	September 30, 2011	June 30, 2011	July 1, 2010
Trade receivable (Note 10(a))	\$ 1,098,108	\$ 1,131,140	\$ -
Employee advance receivable	23,716	26,821	32,505
Reclamation bond receivable	5,500	5,500	-
Other receivables	-	-	2,359
	\$ 1,127,324	\$ 1,163,461	\$ 34,864

6. INVESTMENT

The investment consists of the following items:

	September 30, 2011	June 30, 2011	July 1, 2010
Vicore Mining Developments Ltd.			
Investment at cost	\$ 150,000	\$ 150,000	\$ 150,000
Share of equity accounted losses	(69,306)	(69,306)	(69,306)
	80,694	80,694	80,694
Impairment loss	(80,693)	(80,693)	(80,693)
	\$ 1	\$ 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.

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7. PROPERTY, PLANT AND EQUIPMENT

	Aircraft	Land and Building	Office Equipment and Furniture	Rigs, Mine, Field and Shop Equipment and Related Vehicles	Total
Cost					
July 1, 2010	\$ 214,970	\$ 679,108	\$ 203,740	\$ 7,009,339	\$ 8,107,157
Additions	-	293,581	2,620	811,548	1,107,749
Disposals	-	-	-	(63,991)	(63,991)
Written-down	-	-	-	(373,339)	(373,339)
Foreign exchange movement	-	(24,294)	(636)	(281,271)	(306,201)
June 30, 2011	214,970	948,395	205,724	7,102,286	8,471,375
Additions	-	18,943	-	78,080	97,023
Foreign exchange movement	-	29,633	593	231,813	262,039
September 30, 2011	214,970	996,971	206,317	7,412,179	8,830,437
Accumulated depreciation					
July 1, 2010	116,036	59,482	189,429	4,199,467	4,564,414
Depreciation expense	29,680	9,555	4,765	757,514	801,514
Disposals	-	-	-	(29,174)	(29,174)
Written-down	-	-	-	(180,954)	(180,954)
Foreign exchange movement	-	(3,447)	(503)	(944)	(4,894)
June 30, 2011	145,716	65,590	193,691	4,745,909	5,150,906
Depreciation expense	5,194	3,494	923	229,994	239,605
Foreign exchange movement	-	3,043	439	280,848	284,330
September 30, 2011	150,910	72,127	195,053	5,256,751	5,674,841
Net book value					
July 1, 2010	98,934	619,626	14,311	2,809,872	3,542,743
June 30, 2011	69,254	882,805	12,033	2,356,377	3,320,469
September 30, 2011	\$ 64,060	\$ 924,844	\$ 11,264	\$ 2,155,428	\$ 3,155,596

8. EXPLORATION AND EVALUATION ASSETS

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 is in good standing. The Company holds interest in the following mineral properties:

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8. EXPLORATION AND EVALUATION ASSETS (continued)

September 30, 2011	Note 8	June 30, 2011	Additions	Disposals/ Write-downs	September 30, 2011
Cariboo Property, BC, Canada					
Exploration costs	Note 8(a)	\$ 1	\$ -	\$ -	\$ 1
Reclamation costs	Note 17 (b)(ii)	3,500	-	-	3,500
		3,501	-	-	3,501
Laverty & Cummins Properties, Ontario, Canada					
Exploration costs	Note 8(b)	1	-	-	1
Brett Property, BC, Canada					
Exploration costs	Note 8(c)	-	-	-	-
Boise County, Idaho, USA					
Acquisition costs	Note 8(d)	415,160	393,290	-	808,450
Cumo Molybdenum Property, Idaho, USA					
Acquisition costs	Note 8(e)	142,855	-	-	142,855
Drilling costs	Note 8(e)	8,374,995	172,930	-	8,547,925
Geologists costs	Note 8(e)	1,683,755	358,712	-	2,042,467
Environmental study	Note 8(e)	1,282,870	-	-	1,282,870
Assays	Note 8(e)	243,569	10,887	-	254,456
Other exploration costs	Note 8(e)	1,264,185	130,297	-	1,394,482
Reclamation costs	Note 17(b)(ii)	3,785	295,470	-	299,255
		12,996,014	968,296	-	13,964,310
Pine Tree Property, Nevada, USA					
Acquisition costs	Note 8(f)	570,570	-	-	570,570
Drilling costs	Note 8(f)	5,630,162	-	-	5,360,162
Geologists costs	Note 8(f)	897,305	-	-	897,305
Assays	Note 8(f)	291,359	-	-	291,359
Other exploration costs	Note 8(f)	706,654	-	-	706,654
Sale option payments	Note 8(f)	(500,000)	-	-	(500,000)
Reclamation costs	Note 17(b)(ii)	42,155	-	-	42,155
	Note 8(f)	7,638,205	-	-	7,638,205
Blackpoint Property, Nevada, USA					
Exploration costs	Note 8(g)	1	-	(1)	-
Motley Property, Idaho, USA					
Exploration costs	Note 8(h)	1	-	-	1
Spring Creek Property, Idaho, USA					
Exploration costs	Note 8(i)	1	-	-	1
Spruce Mountain Property, Nevada, USA					
Exploration costs	Note 8(j)	1	-	-	1
Copper Chief Property, Nevada, USA					
Exploration costs	Note 8(k)	1	-	-	1
General reclamation costs		10,749	-	-	10,749
		\$21,063,635	\$ 1,361,586	\$ (1)	\$ 22,425,220

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8. EXPLORATION AND EVALUATION ASSETS (continued)

June 30, 2011		July 1, 2010	Additions	Disposals / Write-downs	June 30, 2011
Cariboo Property, BC, Canada					
Exploration costs	Note 8(a)	\$ 1	\$ -	\$ -	\$ 1
Reclamation costs	Note 17(b)(ii)	3,500	-	-	3,500
		3,501	-	-	3,501
Lavery & Cummins Properties, Ontario, Canada					
Exploration costs	Note 8(b)	1	929	(929)	1
Brett Property, BC, Canada					
Exploration costs	Note 8(c)	1	-	(1)	\$ -
Reclamation costs	Note 17(b)(ii)	5,680	-	(5,680)	-
		5,681	-	(5,681)	-
Boise County, Idaho, USA					
Acquisition costs	Note 8(d)	-	415,160	-	415,160
Cumo Molybdenum Property, Idaho, USA					
Acquisition costs	Note 8(e)	113,330	29,525	-	142,855
Drilling costs	Note 8(e)	7,609,472	765,523	-	8,374,995
Geologists costs	Note 8(e)	1,166,727	517,028	-	1,683,755
Environmental study	Note 8(e)	449,841	833,029	-	1,282,870
Assays	Note 8(e)	234,190	9,379	-	243,569
Other exploration costs	Note 8(e)	737,728	526,457	-	1,264,185
Reclamation costs	Note 17(b)(ii)	3,785	-	-	3,785
		10,315,073	2,680,941	-	12,996,014
Pine Tree Property, Nevada, USA					
Acquisition costs	Note 8(f)	546,845	23,725	-	570,570
Drilling costs	Note 8(f)	5,499,644	130,518	-	5,630,162
Geologists costs	Note 8(f)	866,365	30,940	-	897,305
Assays	Note 8(f)	241,363	49,996	-	291,359
Other exploration costs	Note 8(f)	684,188	22,466	-	706,654
Sale option payments	Note 8(f)	(500,000)	-	-	(500,000)
Reclamation costs	Note 17(b)(ii)	42,155	-	-	42,155
	Note 8(f)	7,380,560	257,645	-	7,638,205
Blackpoint Property, Nevada, USA					
Exploration costs	Note 8(g)	1	6,746	(6,746)	1
Motley Property, Idaho, USA					
Exploration costs	Note 8(h)	1	4,936	(4,936)	1
Spring Creek Property, Idaho, USA					
Exploration costs	Note 8(i)	1	39,777	(39,777)	1
Spruce Mountain Property, Nevada, USA					
Exploration costs	Note 8(j)	1	678	(678)	1
Copper Chief Property, Nevada, USA					
Exploration costs	Note 8(k)	1	5,979	(5,979)	1
General reclamation costs					
		10,749			10,749
		\$ 17,715,570	\$ 3,118,434	\$ (64,726)	\$ 21,063,635

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8. EXPLORATION AND EVALUATION ASSETS (continued)

a. Cariboo Gold Quartz Property, British Columbia, Canada

The Company presently has two separate option agreements with Bakerville Gold Mines Limited (“Bakerville”) (formally International Wayside Gold Mines Limited) with respect to the Mosquito Creek Property and the Cariboo Gold Quartz Property. These properties are located in the Cariboo Mining District of British Columbia, Canada.

Under the option agreement dated October 1994, the Company has granted Bakerville the right to earn a 50% interest in the Cariboo Gold Quartz Property in consideration of 600,000 common shares and commitment of exploration and development work. In order to maintain this agreement in good standing, Bakerville is required to incur \$500,000 exploration expenditures each year until a bankable feasibility study is presented. This agreement is still in effect.

Under the second agreement dated August 22, 2003, Bakerville has earned another 50% in the Cariboo Gold Quartz Property and a 100% in the Mosquito Creek Property excluding the placer mining rights in consideration of:

- \$5,500,000 cash payments as follows:
 - \$50,000 on the signing of the agreement (completed);
 - \$450,000 on or before September 15, 2003 (completed);
 - \$500,000 on or before August 31, 2004 (completed);
 - \$500,000 on or before August 31, 2005 (completed);
 - \$500,000 on or before August 31, 2006 (completed); and,
 - \$3,500,000 on or before December 31, 2006 (completed).
- Prior to the exercise of the option, the Company has received a 5% net smelter return (“NSR”) in the amount of \$241,342 derived from bulk samples extracted from the properties in two stages.
- Upon exercise of the option by Bakerville during the year ended June 30, 2007, the Company’s NSR reverts to 3% and Bakerville becomes responsible to satisfy the 10% net profits interest in relation to the properties.

b. Lavery and Cummins Properties, 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 “Cummins 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.

By way of an option agreement dated January 26, 2009, subsequently amended on March 11, 2009, the Company optioned the Lavery Property to Mega Precious Metals Inc. (“Mega”) (formerly Skybridge Development Corp. (“Skybridge”)) in consideration of:

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8. EXPLORATION AND EVALUATION ASSETS (continued)

b. Lavery and Cummins Properties, Red Lake, Ontario, Canada (continued)

- \$500,000 cash payments as follows:
 - \$100,000 on the signing of the agreement (completed);
 - \$100,000 12 month anniversary date (completed);
 - \$100,000 24 month anniversary date (completed);
 - \$100,000 36 month anniversary date;
 - \$100,000 48 month anniversary date.
- 250,000 shares of Skybridge and 500,000 shares of Mega as follows:
 - 250,000 shares on the signing of the agreement (completed);
 - 100,000 shares 12 month anniversary date (completed);
 - 100,000 shares 24 month anniversary date (completed);
 - 100,000 shares 36 month anniversary date;
 - 200,000 shares 48 month anniversary date.
- 1,500,000 exploration expenditures as follows:
 - \$250,000 prior to the 12 month anniversary date (completed);
 - \$250,000 prior to the 24 month anniversary date (completed);
 - \$250,000 prior to the 36 month anniversary date;
 - \$250,000 prior to the 48 month anniversary date;
 - \$500,000 prior to the 60 month anniversary date.

The Company retains a 2% NSR from the product extracted from ore mined from the property.

During the year ended June 30, 2011, \$100,000 payment and 200,000 shares valued at \$145,000, totaled \$245,000 (2010: \$100,000) was recorded as a gain as the property had been written to \$1.

The Cummins Property consists of 5 patented mineral claims located in McElroy Township, approximately 10 kilometers southwest of Larder Lake, Ontario. Mosquito has a 100% interest in the project and has not performed any work to date.

c. Brett 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 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 earned its 50% interest.

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

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8. EXPLORATION AND EVALUATION ASSETS (continued)

c. Brett Property, British Columbia, Canada (continued)

On January 25, 2011, the Company entered into an agreement with Running Fox whereby Running Fox earned the remaining 50% interest of the property in consideration of \$1,000,000 cash and 3,000,000 shares at fair value of \$900,000, totaling \$1,900,000. During the year ended June 30, 2011, \$1,899,999 was recorded as a gain on disposition of mineral property.

Running Fox agreed to be responsible for a 2% NSR over certain claims retained by Vicore pursuant to an agreement dated January 29, 2003.

The Company retains a NSR on the following scale tied to the price per ounce of gold:

- US\$500 – 2% NSR;
- US\$501 to \$1,000 – 3% NSR;
- US\$1,001 to US\$1,500 – 5% NSR;
- US\$1,501 to US\$2,000 – 6% NSR;
- US\$2,001 or more – 8% NSR.

d. Boise Property, Idaho USA

On July 8, 2010, the Company entered into an option agreement, subsequently amended on July 5, 2011, to purchase certain mineral claims located in Boise County, Idaho, USA in consideration of US\$1200,000 cash payment as follows:

- US\$400,000 on the closing date (completed);
- US\$100,000 on or before July 8, 2011 (paid subsequent to year-end);
- US\$300,000 on or before August 8, 2011 (paid subsequent to year-end);
- US\$400,000 on or before the 24 month anniversary of the closing date.

Boise Property is considered as part of the Cumo Project (Note 8(e)) by the management.

e. Cumo Molybdenum Property, Idaho, USA

On October 13, 2004, the Company completed an option 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:

- Advance royalty payments as follows:
 - US\$10,000 upon signing (completed);
 - US\$10,000 after 60 days (completed);
 - US\$5,000 after 6 months (completed);
 - US\$20,000 1st year anniversary (completed);
 - US\$20,000 2nd year anniversary (completed);
 - US\$15,000 3rd year anniversary (completed);
 - US\$15,000 every 6 months thereafter (up-to-date).

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8. EXPLORATION AND EVALUATION ASSETS (continued)

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

These payments are to be credited against a 1.5% NSR which reduces to 0.5% NSR after payments of US \$3,000,000.

- 300,000 shares as follows:
 - 90,000 shares after 60 days (completed);
 - 90,000 shares after 9 months (completed);
 - 120,000 shares after 18 months (completed).
- Work requirement as follows:
 - US\$25,000 during the first year (completed);
 - at least US\$50,000 each year thereafter (up-to-date).

On January 21, 2005, the Company entered into an option agreement with Kobex Resources Ltd. ("Kobex"), whereby Kobex could acquire a 100% interest in the Cumo Molybdenum Property and another property in Australia. 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 shares and \$10,000,000 of work expenditure commitment. On October 6, 2006, Kobex surrendered all rights and interests in the Cumo Molybdenum Property to the Company.

f. Pine Tree Copper-Molybdenum Property, Nevada, USA

On May 10, 2005, the Company entered into an option agreement to purchase certain unpatented mineral claims located in Mineral County, Nevada, USA known as the "Pine Tree Property". Under the terms of the Agreement, the Company would earn a 100% undivided interest (subject to a 2% NSR) in the Pine Tree Property in consideration of:

- Advance royalty payments as follows:
 - US\$10,000 within 7 days after signing (completed);
 - US\$10,000 upon the approval by the TSX-V (completed);
 - US\$25,000 on or before 1st anniversary (completed);
 - US\$35,000 on or before 2nd anniversary (completed);
 - US\$50,000 on or before 3rd anniversary (completed);
 - US\$125,000 on or before 4th anniversary (completed);
 - US\$25,000 on or before 5th anniversary (completed);
 - US\$25,000 each year thereafter until a total of US\$2,000,000 has been paid after which the 2% NSR shall be reduced to a 0.5% NSR. On June 25, 2010, the Company entered into an option agreement with IEMR Resources Inc. who agreed to be responsible for these obligations (up-to-date).
- 300,000 shares as follows:
 - 50,000 shares upon approval by the TSX-V (completed);
 - 50,000 shares on or before 1st anniversary (completed);
 - 60,000 shares on or before 2nd anniversary (completed);
 - 60,000 shares on or before 3rd anniversary (completed);
 - 80,000 shares on or before 4th anniversary (completed).

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8. EXPLORATION AND EVALUATION ASSETS (continued)

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

- US\$450,000 exploration expenditures as follows:
 - \$50,000 on or before 1st anniversary (completed);
 - \$100,000 on or before 2nd anniversary (completed);
 - \$100,000 on or before 3rd anniversary (completed);
 - \$100,000 on or before 4th anniversary (completed);
 - \$100,000 on or before 5th anniversary (completed).

On June 25, 2010, the Company entered an option agreement with IEMR Resources Inc. (formerly, Trans National Minerals Inc.) ("IEMR"). Pursuant to the agreement, IEMR was granted an option to purchase a 100% interest in Pine Tree Property in consideration of:

- \$1,000,000 cash payments as follows:
 - \$200,000 on closing, June 25, 2010 (completed);
 - \$200,000 on or before 1st anniversary (completed);
 - \$200,000 on or before 2nd anniversary;
 - \$200,000 on or before 3rd anniversary;
 - \$200,000 on or before 4th anniversary.
- 5,000,000 common shares as follows:
 - 1,000,000 on closing, June 25, 2010 (completed);
 - 1,000,000 on or before 1st anniversary (completed);
 - 1,000,000 on or before 2nd anniversary;
 - 1,000,000 on or before 3rd anniversary;
 - 1,000,000 on or before 4th anniversary.
- IEMR must incur aggregate \$3,000,000 exploration expenditures on the property on or before the 4th anniversary, subject to minimum expenditures of \$500,000 being incurred each year (up-to-date)

During the option period, IEMR will also be responsible for making advance royalty payments of \$25,000 per year to the holders of the NSR.

g. Blackpoint Property, Nevada USA

The Company staked 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.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

g. Blackpoint Property, Nevada, USA (continued)

On August 24, 2011, the Company has finalized a mineral property purchase agreement with Urastar Gold Corp. ("Urastar"). Pursuant to the agreement, Urastar agreed to purchase a 100% interest in the Blackpoint gold-silver property located in the major Battle Mountain-Eureka Gold Trend of Nevada. The definitive agreement allows Urastar to earn a 100% interest in Blackpoint by making the following payments consisting of cash and shares over a 5 year period:

	<u>Cash Payments</u>	<u>Common Shares</u>
On Signing LOI	\$ 25,000	Nil
At closing	225,000	250,000
Year 1 from Closing	350,000	250,000
Year 2 from Closing	1,000,000	250,000
Year 3 from Closing	1,500,000	250,000
Year 4 from Closing	2,500,000	250,000
Year 5 from Closing	4,400,000	250,000
	<u>\$ 10,000,000</u>	<u>1,500,000</u>

Upon the commencement of the commercial production, Urastar shall pay the Company the royalty, being equal to 2.5% of net smelter returns.

During the three months ended September 30, 2011, \$250,000 was paid and 250,000 shares were issued by Urastar.

h. Motley Property, Idaho, USA

On March 9, 2007, the Company entered into an agreement to purchase four 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.

Motley Property is considered as part of the Spring Creek Project (Note 8(i)) by the management

i. Spring Creek Property, Idaho, USA

The Company staked claims in Montana and Idaho, USA.

During the year ended June 30, 2010, the Company wrote down the property to a nominal value of \$1 as it had no current exploration costs.

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8. EXPLORATION AND EVALUATION ASSETS (continued)

j. 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 earned a 100% undivided interest in the Property in consideration of cash payment of US\$550,000.

During the year ended June 30, 2010, the Company wrote down the property to a nominal value of \$1 as it had no current exploration plans.

k. Copper Chief Property, Nevada, USA

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

During the year ended June 30, 2010, the Company wrote down the property to a nominal value of \$1 as it has no current exploration plans.

9. RECLAMATION PROVISION

The Company’s reclamation provision (“the provision”) relates to the following properties held in Mosquito as follows as at September 30, 2011:

- The Cumo Molybdenum property - \$299,255 (June 30, 2011: \$3,785).
- The Pine Tree property - \$42,155 (June 30, 2011: \$42,155).
- The Cariboo property – \$3,500 (June 30, 2011: \$3,500).
- General reclamation costs - \$10,749 (June 30, 2011: \$10,749).

The Company has provided a deposit of \$355,659 (June 30, 2011: \$60,189) to the Bureaus of Land Management (“the BLMs”) in Nevada and Idaho, USA for the above properties.

Although the Company does not anticipate being required to perform significant reclamation activities, it has recorded a provision for estimated reclamation costs based on the amount of the reclamation bonds. This bond represents the fair value of the maximum reclamation costs associated with the Company’s property. Due to the uncertainty around the timing and amount of the cash flows, the amount of the provision is not discounted. The reclamation deposit will be refunded once the BLMs are satisfied that the Company has performed all necessary decommissioning activities.

Reclamation provision continuity schedule	
July 1, 2010	\$ 65,869
Reclamation work performed – Brett property	<u>(5,680)</u>
June 30, 2011	\$60,189
Increase in estimate – Cumo property	<u>295,470</u>
September 30, 2011	<u>\$ 355,659</u>

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10. RELATED PARTY TRANSACTIONS

The financial statements include the financial statements of the Company and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	September 30, 2011	June 30, 2011	July 1, 2010
Kirkness Diamond Drilling Co.	United States	100%	100%	100%
1156207 Ontario Ltd.	Canada	100%	100%	100%
Mosquito Mining Corp.	United States	100%	100%	100%
Mosquito Operations Inc.	Canada	100%	100%	100%

(a) Related party transactions

The Company entered into the following related party transactions for the three months ended September 30, 2011 and 2010:

September 30, 2011	Management Fees & Salaries	Exploration and Evaluation Expenditures	General Support & Administration	Drilling Costs	Total
133025 Ontario Inc. (2)	\$ 37,500	\$ -	\$ -	\$ -	\$ 37,500
Brian McClay (1)	5,175	-	-	-	5,175
Geologic Systems Inc. (3)	-	23,542	9,296	-	32,838
Kyle McClay (4)	-	-	-	30,000	30,000
Vicore Mining Developments Ltd. (5)	-	-	-	-	-
William Jefferies (6)	15,000	-	-	-	15,000
	\$ 57,675	\$ 23,54	\$ 9,296	\$ 30,000	\$ 120,513

September 30, 2010	Management Fees & Salaries	Exploration and Evaluation Expenditures	General Support & Administration	Equipment Rental, Utilities and Telephone	Total
133025 Ontario Inc. (2)	\$ 24,000	\$ -	\$ -	\$ -	\$ 24,000
Brian McClay (1)	3,450	-	-	-	3,450
Geologic Systems Inc. (3)	-	41,199	-	-	41,199
Kyle McClay (4)	-	-	-	-	-
Vicore Mining Developments Ltd. (5)	-	-	-	-	-
William Jefferies (6)	15,000	-	-	-	15,000
	\$ 42,450	\$ 41,199	\$ -	\$ -	\$ 83,649

The Company entered into a management service agreement with IEMR, a shareholder and a company with a common director. Under the agreement, the Company agreed to manage, direct, supervise and implement exploration programs on the Pine Tree Property for a fee based on 10% of all exploration costs including any overruns up to but not exceeding 15%. Kirkness also entered into a contract to provide drilling services to IEMR. Billings by Kirkness also would qualify as the exploration costs under the agreement.

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10. RELATED PARTY TRANSACTIONS (continued)

(a) Related party transactions (continued)

During the three months ended September 30, 2011, the Company and Kirkness received \$98,430 in expense reimbursement from IEMR (three months ended September 30, 2010: \$nil). As of September 30, 2011, accounts receivable and other receivables included \$893,654 owing from IEMR. As of June 30, 2011, accounts receivables and other receivables included \$924,080 owing from IEMR (Note 5).

(b) Related party receivables

Amounts receivable from related parties is comprised of the following:

	September 30, 2011	June 30, 2011	July 1, 2010
Brian McClay (1)	\$ 3,718	\$ 11,369	\$ -
Kirkness Mexico (7)	15,489	14,647	-
Kyle McClay (4)	-	220,611	153,891
Due from related parties	\$ 19,207	\$ 246,627	\$ 153,891

(c) Related party liabilities

Amounts owing to related parties are comprised of the following:

	September 30, 2011	June 30, 2011	July 1, 2010
133025 Ontario Inc. (2)	\$ 7,719	\$ 192,100	\$ -
Brian McClay	-	-	132,057
William Jefferies (6)	109,508	178,333	153,633
Due to related parties	\$ 117,227	\$ 370,433	\$ 285,690
Geologic Systems Inc. (5)	\$ -	\$ 17,248	\$ -
Accounts payable and accrued liabilities	\$ -	\$ 17,248	\$ -

(d) Key management personnel compensation

September 30, 2011	Short-Term Benefits	Management Fees	Share-Based Payments	Total
Brian McClay	\$ 5,175	\$ 37,500	\$ -	\$ 42,675
Kyle McClay	-	30,000	-	30,000
William Jefferies	-	15,000	-	15,000
Due to related parties	\$ 5,175	\$ 82,500	\$ -	\$ 87,675

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10. RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel compensation (continued)

September 30, 2010	Short-Term Benefits	Management Fees	Share-Based Payments	Total
Brian McClay	\$ 3,450	\$ 24,000	\$ 364,488	\$ 391,938
Kyle McClay	-	30,000	65,006	30,000
William Jefferies	-	15,000	-	80,006
Due to related parties	\$ 3,450	\$ 69,000	\$ 429,494	\$ 501,944

- (1) Mr. Brian McClay is a director, CEO and the President of the Company.
- (2) 133025 Ontario Inc. is a company owned by Mr. Brian McClay.
- (3) Geologic System Inc. is a company owned by Mr. Shaun Dykes, a former director of the Company.
- (4) Kyle McClay is the President of Kirkness Diamond Drilling Co., Inc. He is also the son of Mr. Brian McClay.
- (5) The Company has 30% interest in Vicore Mining Developments Ltd. (Note 6).
- (6) William Jefferies is a director and acting CFO of the Company.
- (7) Kirkness Mexico is a subsidiary of Kirkness Diamond Drilling Co.

11. SHARE CAPITAL

(a) Authorized – unlimited common shares without par value

(b) Issued and outstanding:

	Number of Shares	Amount
Balance, July 1, 2010	69,171,008	\$ 45,396,576
For cash:		
Pursuant to exercise of options at \$0.35	54,000	18,900
Pursuant to exercise of warrants at \$0.45	1,251,857	563,336
Pursuant to exercise of warrants at \$0.30	8,824,091	2,647,227
Reclassification from reserve on exercise of options	-	93,326
Balance, June 30, 2011	79,300,956	48,719,365
For cash:		
Pursuant to exercise of option at \$0.36	6,250	2,250
Pursuant to private placement at \$0.75	2,490,649	1,867,987
Pursuant to finder's fee for private placement, shares	14,592	10,944
Pursuant to issuance costs of finder's fee shares and warrants	-	(10,944)
Pursuant to share issuance costs and finder's fee for private placement, cash	-	(66,296)
Pursuant to share subscription receivable for private placement	-	(300)
Reclassification from reserve on exercise of options	-	2,293
Balance, September 30, 2011	81,812,447	\$ 50,525,299

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11. SHARE CAPITAL (continued)

(b) Issued and outstanding:

During three months ended September 30, 2011, the Company announced that its offering of up to 4,000,000 units at \$0.75 per unit for a total of up to \$3,000,000, where each unit consists of one common share of the Company and one non-transferable share purchase warrant having a three year term for the purchase of one further common share of the Company at the exercise price of \$0.85 per share.

On August 25, 2011, the Company has closed the 1st tranche of the above private placement of 2,490,649 units for gross proceeds of \$1,867,987. The agents were paid an aggregate fee of \$66,296, 102,986 share purchase warrants exercisable at \$0.85 for three years and 14,592 units, comprised of one share and one share purchase warrant exercisable at \$0.85 for three years.

(c) Stock options

The Company may grant incentive stock options to its officers, directors, and consultants. The maximum number of common shares reserved for issuance shall be 10% of the issued and outstanding common shares. No more than 5% of the issued shares may be issued to any eligible person other than a consultant in any 12 month period unless disinterested shareholder approval has been obtained. No more than 2% of the issued shares may be issued to any one consultant in any 12 month period. No more than 2% of the issued shares may be issued to all employees in the aggregate conducting investor relations activities in any 12 month period.

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 discounted market price as calculated and defined in accordance with the policies of the TSX Venture Exchange (the "Exchange"). Options granted must be exercised no later than 10 years commencing from the later of the date of grant or such lesser period as determined by the Board. Options shall terminate automatically or 90 days after the optionees no longer act as officers, directors or consultants of the Company. In the case of death, options shall terminate within one year from the event.

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.

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11. SHARE CAPITAL (continued)

(c) Stock options (continued)

A summary of the status of the Company's outstanding and exercisable stock options as at September 30, 2011, June 30, 2011 and July 1, 2010 and changes during the years then ended are as follows:

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Life
Balance, July 1, 2010	6,112,750	\$0.39	3.70 years
Granted	1,056,850	\$0.77	
Exercised	(54,000)	\$0.35	
Expired / cancelled	(340,000)	\$0.59	
Balance, June 30, 2011	6,775,600	\$0.44	3.90 years
Granted	-	\$ -	
Exercised	(6,250)	\$0.36	
Expired / cancelled	-	\$ -	
Balance, September 30, 2011	6,769,350	\$0.36	3.65 years

The following table provides detailed information about stock options outstanding at September 30, 2011:

Options Outstanding	Exercise Price	Expiry Date
495,000	\$0.35	June 2, 2013
2,225,000	\$0.35	October 30, 2013
2,662,500	\$0.36	July 17, 2014
480,000	\$0.70	December 9, 2014
50,000	\$1.18	January 18, 2015
856,850	\$0.80	August 4, 2015
6,769,350		

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11. SHARE CAPITAL (continued)

(d) Share purchase warrants outstanding

A summary of the status of the Company's outstanding warrants as at September 30, 2011, June 30, 2011 and July 1, 2010 and changes during the years then ended are as follows:

	Warrants Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life
Balance, July 1, 2010	15,353,064	\$0.64	0.56 years
Granted	-	\$ -	
Exercised	(10,075,948)	\$0.32	
Expired / cancelled	(15,000)	\$0.45	
Balance, June 30, 2011	5,262,116	\$1.25	0.24 years
Granted	2,608,227	\$0.85	
Exercised	-	\$ -	
Expired / cancelled	(5,262,116)	\$1.25	
Balance, September 30, 2011	2,608,227	\$0.85	2.90 years

The following share purchase warrants were outstanding as at September 30, 2011:

Warrants Outstanding	Exercise Price	Expiry Date
2,608,227	\$0.85	August 25, 2014

(e) Stock-based compensation

During the three months ended September 30, 2011, the fair value of stock options granted to directors, employees and consultants was \$nil (2010: \$606,430). The amount is management's estimate of the fair value of the stock options vested in the year. The following assumptions were used for the Black-Scholes valuation of stock options granted:

	2011	2010
Risk free interest rate	-	2.13% - 2.73%
Expected life	-	5 years
Expected volatility	-	73% - 82%
Dividend yield	-	0%

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11. SHARE CAPITAL (continued)

(f) Reserves

The following table reconciles the Company's reserves:

Balance, July 1, 2010	\$ 7,170,995
Add: Stock options granted	665,127
Add: Adjustment for cancellation of options	22,802
Less: Reclassification to share capital on exercise of options	<u>(93,326)</u>
Balance, June 30, 2011	7,765,598
Less: Reclassification to share capital on exercise of options	<u>(2,293)</u>
Balance, September 30, 2011	<u>\$ 7,763,305</u>

12. 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 has an interest are in the exploration stage. As such, the Company is dependent on external financing to fund its activities. In order to carry out 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 three months ended September 30, 2011.

13. COMMITMENTS

- (i) The Company has leased its office space for two years and seven months from September 2009 to March 31, 2012. The lease provides for payment of maintenance, insurance, utilities and tax costs in addition to base rent. Future aggregate payments as at September 30, 2011 totaled \$14,654.
- (ii) In addition, the Company is committed to agreements with related parties outlined in Note 10.

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14. CONTINGENT LIABILITIES

- a) Essex Insurance Company asserted a claim for unpaid premiums of US\$66,475 against the Company. The case was dismissed on December 28, 2010 and a settlement was entered pursuant to which Essex Insurance Company paid the Company C\$15,030 / US\$15,000.
- b) Liberty Mutual Insurance Company asserted a claim against the Company for unpaid premium of US\$142,374 plus interest, costs of suit and attorney's fees. The amount in dispute was included in accounts payable and accrued liabilities. Management is in the process of settling the matter without further litigation.
- c) The lawsuit against the party from whom the Company was purchased is ongoing at this time. The Company asserts a claim of US\$100,000 against the party for money claimed to have been wrongfully diverted from the Company shortly before the closing of the sale.
- d) The Idaho Conservation League, Idaho Rivers United and the Golden Eagle Audubon Society are challenging the United States Forest Services' ("USFS") approval of the exploration program on the Company's Cumo Molybdenum Property. No claims are against the Company. However, if the claims against the USFS are successful, the exploration program could be interrupted or limited in scope. The case is in its early stages and the unfavorable outcome is neither probable nor remote.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts receivable, other receivables, HST / GST recoverable, accounts payable, accrued liabilities, and amounts due to / from related parties. Cash and marketable securities are carried at fair value using a level 1 fair value measurement. All other items are carried at a level 3 fair value measurement. The fair values of accounts receivable, other receivables, HST / GST recoverable, accounts payable, accrued liabilities and amounts due from and due to related parties approximated their carrying values due to the short-term nature of these instruments.

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

The amounts due to related parties are non interest bearing. The Company does not have other financial liabilities. Therefore interest rate risk is minimal.

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15. FINANCIAL INSTRUMENTS AND 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 includes cash, accounts receivable, other receivables and HST / GST recoverable. The credit risk with respect to its cash is minimized as cash placed with major financial institutions. To reduce credit risk of accounts receivable and other receivables, the Company regularly reviews their collectability and establishes an allowance based on its best estimate of potentially uncollectible amounts. HST / GST recoverable is 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 Company did not management currency risks through hedging or other currency management tools. Management believes that the Company's future exposure to currency risk is not significant.

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

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The following significant non-cash transactions have been excluded from the statements of cash flows:

No cash was paid for either interest or taxes for the three months ended September 30, 2011 and 2010.

The Company received \$21 in interest income for the three months ended September 30, 2011 (\$6 for the three months ended September 30, 2010).

For the three months ended September 30, 2011:

The Company received 250,000 shares valued at \$66,250 in connection with the sale of Blackpoint Property to Urastar (Note 4 & 8(g)).

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Overview

These are the Company’s first unaudited interim financial statements prepared in accordance with IAS 34, using accounting policies consistent with IFRS. The accounting policies described in Note 3 have been selected to be consistent with IFRS as it is expected to be effective or available on June 30, 2012, the Company’s first annual IFRS reporting date.

(a) First-time adoption of IFRS – exemptions applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening statement of financial position on the company’s transition date. However, IFRS 1 also dictates certain mandatory exemptions and allows certain optional exemptions from full retrospective application on the transition to IFRS. In preparing its transition date financial statements the Company has applied the following mandatory exemptions:

The estimates established by the Company in accordance with IFRS at the date of transition are consistent with the estimates made for the same date in accordance with Canadian GAAP, after adjustments made to reflect any difference in accounting principles, if applicable.

Financial assets and liabilities that have been de-recognized under previous GAAP have not been recognized under IFRS.

The Company also chosen to apply the following optional exemptions under IFRS:

Financial instruments

The Company has elected to apply an exemption under IFRS 1 to designate its investments classified as held-for-trading under the previous GAAP to fair value through profit or loss under IFRS.

Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 Share- based Payment to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 1, 2010.

Business combinations

IFRS 1 encourages, but does not require, a first-time adopter to apply IFRS 3 retrospectively to business combinations that occurred before the Company’s IFRS transition date, and to restate all business combinations in accordance with IFRS. The Company has elected not to apply IFRS 3 to its acquisition of Kirkness Diamond Drilling Co. Inc., which occurred before July 1, 2010, the IFRS transition date.

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

Functional Currency

As a result of the Canadian GAAP to IFRS adjustment discussed later in this note, the functional currency for Kirkness is US dollar. The presentation currency of Kirkness upon consolidation will be the Canadian dollar. IAS 21 requires, when a subsidiary has a functional currency that is different from the presentation currency, to have all foreign exchange amounts arising on the translation of that subsidiary to be recorded as other comprehensive income or loss, and accumulated in a separate component of equity. However, a first-time adopter need not comply with these requirements for cumulative translation differences that existed at the date of transition to IFRS.

Under this exemption, the cumulative translation differences for Kirkness is deemed to be \$nil at July 1, 2010.

(b) Reconciliation from Canadian GAAP to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, few differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive profit, statement of financial position and statement of cash flows for the quarter ended September 30, 2010 and the year ended June 30, 2011 have been reconciled to IFRS, with the resulting differences explained.

(i) Functional Currency

IFRS: A company's functional currency is determined primarily based on the currency in which the company generates and expends its cash, via revenues, costs of sales, and expenses. Additional secondary considerations of the functional currency are the source of the company's equity financing, the currency in which receipts from operations are retained, the amount of control a parent exercises over its subsidiary, and the amount and nature of a subsidiary's transactions with its parent.

Based on these indicators, a subsidiary can be considered to have a functional currency that is different than the currency in which the financial statements are presented in upon consolidation (“the Presentation Currency”). The subsidiary translates all assets and liabilities from its functional currency to the presentation currency using the foreign exchange rate in effect at the date of that statement of financial position. Income and expenses are translated at the rate in effect at the date of transactions (in practice, an average for the period is acceptable if exchange rate fluctuations are minimal). All resulting exchange differences are recorded as other comprehensive income or loss, and accumulated as a separate item in the statement of financial position.

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

(b) Reconciliation from Canadian GAAP to IFRS (continued)

(i) Functional Currency (continued)

Canadian GAAP: A Company with a subsidiary who reports in a separate currency has to first determine if the subsidiary is integrated or self-sustaining. An integrated subsidiary is translated using the temporal method, with all monetary balance sheet items translated at the exchange rate in effect at the balance sheet date. Non-monetary balance sheet items are translated using historical rates. Revenue and expense items should be translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Depreciation or amortization of assets translated at historical exchange rates should be translated at the same exchange rates as the assets to which they relate. All foreign exchange amounts are recorded as an item in the statement of operations.

Adjustment impact

As a result of the above adjustment, the Company has recognized differences in the following balance sheet items as a result of their translation using historical rates under Canadian GAAP versus the closing rates in effect at the statement of financial position dates: prepaid expenses, property, plant and equipment, contractors’ bonds and mineral properties. The Company has also recognized adjustments to amortization in its statement of operations

As a result of the above adjustment, the foreign exchange arising on the translation of Kirkness is now recorded as a component of other comprehensive income or loss, with the balance accumulated as “cumulative translation”, a component of equity. This changes the foreign exchange amount on the statement of operations, the translation adjustment on the statement of comprehensive income or loss, and the amount of deficit and accumulated translation amounts on the statement of financial position.

The impact of the adjustment from CGAAP to IFRS had an extremely immaterial impact on the statement of financial position as at July 1, 2010, as a result, no reconciling adjustments are required.

(ii) Mineral properties

Due to the adjustments to reclamation provision discussed below, the cost of property plant and equipment is different in accordance with IFRS than in accordance with Canadian GAAP. Please refer to the schedule in Note 8 for the breakdown of capitalized reclamation costs on a property-by-property basis.

(iii) Provision for environmental rehabilitation

IFRS: A provision for environmental rehabilitation is recognized when a reliable estimate can be made of the amount of the obligation. Under IFRS, except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reasonable to use in recognizing a provision.

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

(b) Reconciliation from Canadian GAAP to IFRS (continued)

(iii) Provision for environmental rehabilitation (continued)

Canadian GAAP: A provision for environmental rehabilitation is recognized in the period in which it is incurred when a reasonable estimate of the amount can be made. If a reasonable estimate cannot be made in the period the provision for environmental rehabilitation is incurred, the liability shall be recognized when a reasonable amount of the estimation can be made. Under Canadian GAAP, when there is significant uncertainty about the timing of any rehabilitation amounts due to the unknown timeline of exploration work on mineral properties and reasonable estimates of rehabilitation amounts cannot be made. Consequently, provisions for environmental rehabilitation cannot be recognized.

As a result of this difference, the Company recognized a reclamation provision equal to the fair value of the maximum estimated reclamation costs at the end of each of its reporting periods. The Company recognized a provision for environmental rehabilitation of \$65,896 as at July 1, 2010 and September 1, 2010, and an amount of \$60,189 as at June 30, 2011 upon transition to IFRS. A detail of the reclamation provision on a property-by-property basis is provided in Note 9.

(iv) Cancellation of options

CGAAP: The total amount of compensation cost recognized for an award of stock-based employee compensation should be based on the number of instruments that eventually vest.

IFRS: If a grant of equity instruments is cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied) the entity shall account for the cancellation or settlement as an acceleration of vesting, and shall therefore recognize immediately the amount that otherwise would have been recognized for services received over the remainder of the vesting period.

The Company granted options to a consultant who was performing investor relations services during the year ended June 30, 2011. These options vested over a nine-month period. During that same period, the options were cancelled. At the cancellation date, there remained options that had not yet vested. Under GAAP, stock-based compensation is recorded based only on the options that are vested at the cancellation date. Under IFRS, stock-based compensation is recognized for the entire number of options, as their vesting is accelerated upon cancellation.

This has resulted in increased stock-based compensation expense under IFRS of \$22,802 for the year ended June 30, 2011, and a corresponding increase in contributed surplus as at June 30, 2011.

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

(b) Reconciliation from Canadian GAAP to IFRS (continued)

(v) Reclassification of amounts due from related parties

IFRS: An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS. IAS 24 does not permit the offsetting of amounts due to and owing from related parties.

This has resulted in an increase to amounts owing from related parties and amounts due to related parties of \$153,891 as at July 1, 2010, an increase of \$240,766 as at September 30, 2010 and an increase of \$246,627 as at June 30, 2011.

(vi) Impairment

IFRS: If indication of impairment is identified, the asset's carrying value is compared to the asset's discounted cash flows. If the discounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

Canadian GAAP: If indication of impairment is identified, the asset's carrying value is compared to the asset's undiscounted cash flows. If the undiscounted cash flows are less than the carrying value, the asset is impaired by an amount equal to the difference between the discounted cash flows and the carrying value.

The Company completed an impairment review of its assets at July 1, 2010, September 30, 2010 and June 30, 2011 and concluded that the assets were not impaired in accordance with IFRS.

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

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

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current assets				
Cash		\$ 3,668,753	\$ -	\$ 3,668,753
Marketable securities		371,616	-	371,616
Accounts receivable and other receivables		34,864	-	34,864
HST / GST recoverable		180,864	-	180,864
Due from related parties	17 (b) (v)	-	153,891	153,891
Prepaid expenses		125,829	-	125,829
Total current assets		4,381,926	153,891	4,535,817
Non-current assets				
Investments		1	-	1
Reclamation bonds		65,689	-	65,689
Property, plant and equipment		3,542,743	-	3,542,743
Exploration and evaluation assets	17 (b) (ii)	17,649,701	65,869	17,715,570
Total non-current assets		21,258,134	65,869	21,324,003
Total assets		\$ 25,640,060	\$ 219,760	\$ 25,859,820
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		\$ 824,900	\$ -	\$ 824,900
Due to related parties	17 (b) (v)	131,799	153,891	285,690
Total current liabilities		956,699	153,891	1,110,590
Non-current liabilities				
Reclamation provision	17 (b) (iii)	-	65,869	65,869
Total liabilities		956,699	219,760	1,176,459
SHAREHOLDERS’ EQUITY				
Share capital		45,396,576	-	45,396,576
Reserves		7,170,995	-	7,170,995
Accumulated other comprehensive income		27,405	-	27,405
Deficit		(27,911,615)	-	(27,911,615)
Total shareholders’ equity		24,683,361	-	24,683,361
Total shareholders’ equity and liabilities		\$ 25,640,060	\$ 219,760	\$ 25,859,820

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

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

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$ 1,357,765	\$ -	\$ 1,357,765
Accounts receivable and other receivables		371,616	-	371,616
Share subscription receivable		231,796	-	231,796
Due from related parties	17 (b) (v)	-	240,766	240,766
Prepaid expenses		105,354	-	105,354
Total current assets		<u>2,066,531</u>	<u>240,766</u>	<u>2,307,297</u>
Non-current assets				
Investments		1	-	1
Reclamation bonds		65,689	-	65,689
Property, plant and equipment		3,479,210	-	3,479,210
Exploration and evaluation assets	17 (b) (ii)	19,315,103	65,689	19,380,792
Total non-current assets		<u>22,860,003</u>	<u>65,689</u>	<u>22,925,692</u>
Total assets		<u>\$ 24,926,534</u>	<u>\$ 306,455</u>	<u>\$ 25,232,989</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 877,925	\$ -	\$ 877,925
Due to related parties	17 (b) (v)	79,642	240,766	320,408
Total current liabilities		<u>957,567</u>	<u>240,766</u>	<u>1,198,333</u>
Non-current liabilities				
Reclamation provision	17 (b) (iii)	-	65,689	65,689
Total liabilities		<u>957,567</u>	<u>306,455</u>	<u>1,264,022</u>
SHAREHOLDERS' EQUITY				
Share capital		45,418,226	-	45,418,226
Reserves		7,777,425	-	7,777,425
Accumulated other comprehensive income		27,405	-	27,405
Cumulative translation adjustments	17 (b) (i)	-	(564,315)	(564,315)
Deficit	17 (b) (i)	(29,254,089)	564,315	(28,689,774)
Total shareholders' equity		<u>23,968,967</u>	<u>-</u>	<u>23,968,967</u>
Total shareholders' equity and liabilities		<u>\$ 24,926,534</u>	<u>\$ 306,455</u>	<u>\$ 25,232,989</u>

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

The Canadian GAAP statement of financial position at June 30, 2011 has been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
ASSETS				
Current				
Cash		\$ 458,766	\$ -	\$ 458,766
Marketable securities		830,179	-	830,179
Accounts receivable and other receivables		1,163,461	-	1,163,461
GST/HST recoverable		314,838	-	314,838
Due from related parties	17 (b) (v)	-	246,627	246,627
Prepaid expenses	17 (b) (i)	159,350	(3,794)	155,556
Total current assets		<u>2,926,594</u>	<u>242,833</u>	<u>3,169,427</u>
Non-current assets				
Investments		1	-	1
Reclamation bonds		60,189	-	60,189
Property, plant and equipment	17 (b) (i)	3,444,508	(124,039)	3,320,469
Exploration and evaluation assets	17 (b) (ii)	21,003,446	60,189	21,063,635
Contractor bonds	17 (b) (i)	20,284	(262)	20,022
Total non-current assets		<u>24,528,428</u>	<u>(64,112)</u>	<u>24,464,316</u>
Total assets		<u>\$ 27,455,022</u>	<u>\$ 178,721</u>	<u>\$ 27,633,743</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities		\$ 1,318,404	\$ -	\$ 1,318,404
Due to related parties		123,806	246,627	370,433
Unearned revenue		154,310	(7,838)	146,472
Total current liabilities		<u>1,596,520</u>	<u>238,789</u>	<u>1,835,309</u>
Non-current liabilities				
Reclamation provision	17 (b) (iii)	-	60,189	60,189
Total liabilities		<u>1,596,520</u>	<u>298,978</u>	<u>1,895,498</u>
SHAREHOLDERS' EQUITY				
Share capital		48,719,365	-	48,719,365
Reserves	17 (b) (iv)	7,742,796	22,802	7,765,598
Accumulated other comprehensive income		(559,032)	-	(559,032)
Cumulative translation adjustments	17 (b) (i)	-	(126,376)	(126,376)
Deficit	17(b)(i) & (iv)	(30,044,627)	(16,683)	(30,061,310)
Total shareholders' equity		<u>25,858,502</u>	<u>(120,257)</u>	<u>25,738,245</u>
Total shareholders' equity and liabilities		<u>\$ 27,455,022</u>	<u>\$ 178,721</u>	<u>\$ 27,633,743</u>

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

The Canadian GAAP income statement and statement of loss and comprehensive loss for the three months ended September 30, 2010 have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Expenses				
Bank charges and interest		\$ 2,886	\$ -	\$ 2,886
Consulting fees		45,923	-	45,923
Depreciation		161,255	-	161,255
Foreign exchange (gain) loss	17 (b) (i)	36,213	(564,315)	(528,102)
Investor relations and website		29,702	-	29,702
Management fees		39,000	-	39,000
Office and miscellaneous		50,984	-	50,984
Professional fees		168,094	-	168,094
Rent		18,466	-	18,466
Repairs and maintenance		33,614	-	33,614
Share-based compensation		606,430	-	606,430
Shareholder information, transfer agent and filing fees		3,697	-	3,697
Telephone and communications		5,289	-	5,289
Travel and promotion		143,033	-	143,033
		<u>1,344,586</u>	<u>(564,315)</u>	<u>780,271</u>
Loss before other items		<u>(1,344,586)</u>	<u>564,315</u>	<u>(780,271)</u>
Other items				
Gain on sale of property, plant and equipment		1,405	-	1,405
Other income		707	-	707
		<u>2,112</u>	<u>-</u>	<u>2,112</u>
Loss for the period		<u>(1,342,474)</u>	<u>564,315</u>	<u>(778,159)</u>
Other comprehensive loss				
Exchange difference on translating foreign operations	17 (b) (i)	-	(564,315)	(564,315)
Comprehensive loss for the period		<u>\$ (1,342,474)</u>	<u>\$ -</u>	<u>\$ (1,342,474)</u>

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

The Canadian GAAP income statement and statement of loss and comprehensive loss for the twelve months ended June 30, 2011 have been reconciled to IFRS as follows:

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
Revenue				
		\$ 2,436,555	\$ -	\$
Drilling				2,436,556
Management fees		225,906	-	225,906
Other		38,142	-	38,142
Drilling costs		(2,919,199)	-	(2,919,199)
		(218,596)	-	(218,596)
Expenses				
Bad debt expense		6,792	-	6,792
Bank charges and interest		17,961	-	17,961
Consulting fees		119,581	-	119,581
Depreciation	17 (b) (i)	823,556	(22,041)	801,515
Foreign exchange loss	17 (b) (i)	1,090	16,763	17,853
Investor relations and website		155,124	-	155,124
Management fees		246,000	-	246,000
Office and miscellaneous		165,730	-	165,730
Professional fees		762,399	-	762,399
Rent		102,294	-	102,294
Repairs and maintenance		74,669	-	74,669
Share-based compensation	17 (b) (iv)	665,127	22,802	687,929
Shareholder information, transfer agent and filing fees		75,610	-	75,610
Telephone and communications		34,331	-	34,331
Travel and promotion		487,799	-	487,799
		3,738,063	17,524	3,755,587
Loss before other items		(3,956,659)	(17,524)	(3,974,183)
Other items				
Gain on sale of property, plant and equipment	17 (b) (i)	4,066	599	4,665
Gain on sale of exploration and evaluation costs		2,144,999	-	2,144,999
Write-off of property, plant and equipment	17 (b) (i)	(181,506)	242	(181,264)
Write-down of exploration and evaluation assets		(59,046)	-	(59,046)
Write-off of related party loan		(100,516)	-	(100,516)
Litigation settlement proceeds		15,030	-	15,030
Interest income		620	-	620
		1,823,647	841	1,824,488
Loss for the year		(2,133,012)	(16,683)	(2,149,695)
Other comprehensive loss				
Unrealized loss on marketable securities		(586,437)	-	(586,437)
Exchange difference on translating foreign operations	17 (b) (i)	-	460,061	460,061
		(586,437)	460,061	(126,376)
Comprehensive loss for the year		\$ (2,719,449)	\$ 443,378	\$ (2,276,071)

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

The reconciliation of the statement of cash flows for the three months ended September 30, 2010 as follows:

	Canadian GAAP	Effect of Transition to IFRS	IFRS
Operating Activities			
Loss for the period	\$ (1,342,474)	\$ 564,315	\$ (778,159)
Adjustments for non-cash items:			
Depreciation	161,255	-	161,255
Foreign exchange (gain) loss	36,213	(564,315)	(528,102)
Share-based compensation	606,431	-	606,431
Gain on disposition of property, plant and equipment	(1,405)	-	(1,405)
	<u>(539,980)</u>	-	<u>(539,980)</u>
Changes in non-cash working capital items:			
Increase in accounts receivable	(16,068)	-	(16,068)
Decrease in prepaid expenses	20,475	-	20,475
Increase in accounts payable and accrued liabilities	53,025	-	53,025
	<u>(482,548)</u>	-	<u>(482,548)</u>
Investing Activities			
Exploration and evaluation assets	(1,595,572)	-	(1,595,572)
Acquisition of property, plant and equipment	(216,401)	-	(216,401)
Proceeds on sale of property, plant and equipment	14,040	-	14,040
	<u>(1,797,933)</u>	-	<u>(1,797,933)</u>
Financing Activities			
Advances to related parties	(52,157)	-	(52,157)
Shares issued for cash	21,650	-	21,650
	<u>(30,507)</u>	-	<u>(30,507)</u>
Decrease in cash during the period	(2,310,988)	-	(2,310,988)
Cash, beginning of the period	3,668,753	-	3,668,753
Cash, end of the period	\$ 1,357,765	\$ -	\$ 1,357,765

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17. INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)

The reconciliation of the statement of cash flows for the twelve months ended June 30, 2011 as follows:

	Canadian GAAP	Effect of Transition to IFRS	IFRS
Operating Activities			
Loss for the period	\$ (2,133,012)	\$ (16,683)	\$ (2,149,695)
Adjustments for non-cash items:			
Depreciation	823,556	(22,041)	801,515
Drilling costs	(20,284)	-	(20,284)
Foreign exchange loss	-	23,203	22,303
Share-based compensation	665,127	22,802	687,929
Gain on sale of property, plant and equipment	(4,066)	(599)	(4,665)
Gain on sale of exploration and evaluation assets	(2,144,999)	-	(2,144,999)
Write-off of property, plant and equipment	181,506	(242)	181,264
Write-down of exploration and evaluation assets	59,046	-	59,046
Write-off of related party loan	100,516	-	100,516
	(2,472,610)	6,440	(2,466,170)
Changes in non-cash working capital items:			
Increase in accounts receivable	(1,123,097)	-	(1,123,097)
Increase in HST / GST recoverable	(133,974)	-	(133,974)
Increase in prepaid expenses	(33,521)	3,794	(29,727)
Increase in accounts payable and accrued liabilities	493,504	-	493,504
Increase in unearned revenue	154,310	(7,838)	146,472
	(3,115,388)	2,396	(3,112,992)
Investing Activities			
Acquisition of property, plant and equipment	(1,105,353)	(2,396)	(1,107,749)
Proceeds on sale of property, plant and equipment	48,206	-	48,206
Exploration and evaluation assets	(3,258,404)	-	(3,258,404)
Proceeds from sale of exploration and evaluation assets	1,099,999	-	1,099,999
	(3,215,552)	(2,396)	(3,217,948)
Financing Activities			
Advances to related parties	(108,510)	-	(108,510)
Shares issued for cash	3,229,463	-	3,229,463
	3,120,953	-	3,120,953
Decrease in cash during the year	(3,209,987)	-	(3,209,987)
Cash, beginning of the year	3,668,753	-	3,668,753
Cash, end of the year	\$ 458,766	\$ -	\$ 458,766

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18. EVENTS AFTER THE REPORTING PERIOD

On October 26, the Company has entered into stock option agreements granting the right and option to its two directors to purchase 1.4 million common shares of the Company at \$0.60 per share exercisable in whole or in part on or before October, 2021.

On December 5, 2011, the Company entered an agreement with Barkerville Gold Mines Ltd. ("Barkerville"). Pursuant to the agreement, the Company agrees to sell all residual property interest in the Cariboo District near Wells B.C. for \$5,000,000. These interests include a 50% Interest in Cariboo Gold Quartz Property, placer mining rights on Mosquito Creek and a 3% Net Smelter Return royalty on Cariboo Gold Quartz Mine Property, Island Mountain Mine Property and Mosquito Creek Mine Property. Barkerville has entered into a financing of greater than \$10,000,000 which is scheduled to close on or before January 31, 2012. This financing has designated that \$5,000,000 of this financing shall be used to pay for the Purchase Price.