

# Northern Superior Resources Inc.

## Financial Statements

(Expressed in Canadian dollars)

For the six months ended June 30, 2012 and 2011

## Northern Superior Resources Inc.

### **Notice to Reader:**

These condensed interim financial statements of Northern Superior Resources Inc. have been prepared by management and reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors of the Company. In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed these condensed interim financial statements, notes to financial statements and the related quarterly Management Discussion and Analysis.

**Northern Superior Resources Inc.**  
 (Expressed in Canadian dollars)

**Statements of Financial Position**

As at	June 30 2012	December 31 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 12,224,295	\$ 17,094,074
Prepays and receivables <i>note 4</i>	<u>311,684</u>	<u>776,393</u>
	<u>12,535,979</u>	<u>17,870,467</u>
Non-current assets		
Equipment	2,984	5,968
Exploration and evaluation properties <i>note 5</i>	<u>26,571,203</u>	<u>22,415,623</u>
	<u>26,574,187</u>	<u>22,421,591</u>
	<u>\$ 39,110,166</u>	<u>\$ 40,292,058</u>
<b>Liabilities</b>		
Current		
Trade payables and accrued liabilities <i>note 6</i>	\$ 623,061	\$ 793,602
Flow-through share liability <i>note 6</i>	<u>574,408</u>	<u>1,300,161</u>
	<u>1,197,469</u>	<u>2,093,763</u>
<b>Equity</b>		
Share capital <i>note 7</i>	62,126,407	62,099,111
Stock options reserve	3,931,443	3,545,518
Warrants reserve <i>note 7(e)</i>	-	1,608,678
Deficit	<u>(28,145,153)</u>	<u>(29,055,012)</u>
	<u>37,912,697</u>	<u>38,198,295</u>
	<u>\$ 39,110,166</u>	<u>\$ 40,292,058</u>

Nature of operations *note 1*

Commitments *note 12*

Subsequent events *note 14*

APPROVED AND AUTHORIZED FOR ISSUE BY THE BOARD ON AUGUST 15, 2012

"Alan C. Moon"

"Arnold Klassen"

Director

Director

See accompanying notes to financial statements

**Northern Superior Resources Inc.**  
(Expressed in Canadian dollars)

**Statements of Income (Loss) and Comprehensive Income (Loss)**

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
<b>Expenses</b>				
Consulting fees <i>note 7(d)</i>	62,779	103,153	\$ 127,747	\$ 194,487
Depreciation	1,492	2,124	2,984	4,247
Legal and accounting	71,343	11,527	83,554	25,628
Office expense <i>note 7(d)</i>	301,319	314,119	628,461	593,115
Shareholder information	116,368	129,878	272,064	350,229
Travel	17,830	18,630	39,710	33,911
Loss before the undernoted	(571,131)	(579,431)	(1,154,520)	(1,201,617)
Interest income	37,901	68,829	83,700	125,752
Gain on sale of available-for-sale investments	-	-	-	37,500
Capital taxes	-	(7,281)	-	(7,281)
Flow-through share income <i>note 6</i>	337,386	582,470	725,753	582,470
Flow-through share interest expense	(5,069)	-	(7,129)	-
Writedown of exploration properties	(346,623)	-	(346,623)	-
Net income (loss) for the period	\$ (547,536)	\$ 64,587	\$ (698,819)	\$ (463,176)
<b>Other comprehensive income (loss)</b>				
Reclassification of gains on available-for-sale investments	-	-	-	(37,500)
Comprehensive income (loss) for the period	\$ (547,536)	\$ 64,587	\$ (698,819)	\$ (500,676)
<b>Net income (loss) per share - basic and diluted</b>				
Basic	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.00)
Diluted	\$ 0.00	\$ 0.00	\$ (0.01)	\$ (0.00)
<b>Weighted-average number of shares outstanding</b>				
Basic	185,660,211	176,951,312	185,660,211	174,954,966
Diluted	185,660,211	176,951,312	185,660,211	174,954,966

See accompanying notes to financial statements

**Northern Superior Resources Inc.**  
(Expressed in Canadian dollars)

**Statements of Equity**

	Share Capital		Reserves			Deficit	Total Equity
	Number of Shares	Amount	Stock options	Warrants	Available-for-sale investments		
<b>Balance, December 31, 2010</b>	<b>156,611,458</b>	<b>\$ 46,183,099</b>	<b>\$ 2,844,369</b>	<b>\$ 1,242,686</b>	<b>\$ 37,500</b>	<b>\$ (25,342,823)</b>	<b>\$ 24,964,831</b>
Common shares issued for cash <i>note 7(b)</i>	19,230,769	18,637,820	-	-	-	-	18,637,820
Common shares issued on exercise of stock options <i>note 7(b)</i>	920,998	311,991	(129,736)	-	-	-	182,255
Common shares issued on exercise of warrants <i>note 7(b)</i>	100,000	13,766	-	(4,566)	-	-	9,200
Common shares issued on exercise of compensation options <i>note 7(b)</i>	131,000	19,394	-	(3,674)	-	-	15,720
Flow-through share liability <i>notes 6 and 7(b)</i>	-	(3,185,897)	-	-	-	-	(3,185,897)
Share-based payments <i>note 7(d)</i>	-	-	417,049	-	-	-	417,049
Share issue costs	-	(1,853,897)	-	461,664	-	-	(1,392,233)
Reclassification of gain on available-for-sale investments	-	-	-	-	(37,500)	-	(37,500)
Net loss for the period	-	-	-	-	-	(626,743)	(626,743)
<b>Balance, June 30, 2011</b>	<b>176,994,225</b>	<b>\$ 60,126,276</b>	<b>\$ 3,131,682</b>	<b>\$ 1,696,110</b>	<b>\$ -</b>	<b>\$ (25,969,566)</b>	<b>\$ 38,984,502</b>
Common shares issued for exploration and evaluation property <i>note 7(b)</i>	750,000	172,500	-	-	-	-	172,500
Common shares issued for cash <i>note 7(b)</i>	1,388,889	500,000	-	-	-	-	500,000
Common shares issued on exercise of stock options <i>note 7(b)</i>	213,334	31,741	(8,891)	-	-	-	22,850
Common shares issued on exercise of warrants <i>note 7(b)</i>	5,500,000	1,165,539	-	(65,539)	-	-	1,100,000
Common shares issued on exercise of compensation options <i>note 7(b)</i>	676,350	103,055	-	(21,893)	-	-	81,162
Share-based payments	-	-	422,727	-	-	-	422,727
Net loss for the period	-	-	-	-	-	(3,085,446)	(3,085,446)
<b>Balance, December 31, 2011</b>	<b>185,522,798</b>	<b>\$ 62,099,111</b>	<b>\$ 3,545,518</b>	<b>\$ 1,608,678</b>	<b>\$ -</b>	<b>\$ (29,055,012)</b>	<b>\$ 38,198,295</b>
Common shares issued on exercise of stock options <i>note 7(b)</i>	146,666	27,296	(10,896)	-	-	-	16,400
Share-based payments <i>note 7(d)</i>	-	-	396,821	-	-	-	396,821
Reclassification of fair value of expired warrants <i>note 7(f)</i>	-	-	-	(1,608,678)	-	1,608,678	-
Net loss for the period	-	-	-	-	-	(698,819)	(698,819)
<b>Balance, June 30, 2012</b>	<b>185,669,464</b>	<b>\$ 62,126,407</b>	<b>\$ 3,931,443</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (28,145,153)</b>	<b>\$ 37,912,697</b>

See accompanying notes to financial statements

**Northern Superior Resources Inc.**  
(Expressed in Canadian dollars)

**Statements of Cash Flows**

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
<b>Operating Activities</b>				
Net income (loss) for the period	\$ (547,536)	\$ 64,587	\$ (698,819)	\$ (463,176)
Items not involving cash				
Flow-through share income <i>note 6</i>	(337,386)	(582,470)	(725,753)	(582,470)
Depreciation	1,492	2,124	2,984	4,247
Gain on sale of available-for-sale investments	-	-	-	(37,500)
Share-based payments <i>note 7(d)</i>	106,453	130,481	216,165	253,482
Write-off of exploration properties	346,623	-	346,623	-
Change in non-cash operating working capital items:				
Decrease in prepaids and receivables	143,031	(171,244)	265,236	(153,059)
Increase in trade payables and accrued liabilities	(133,158)	(9,927)	(86,396)	61,276
Cash used in operating activities	<b>(420,481)</b>	<b>(566,449)</b>	<b>(679,960)</b>	<b>(917,200)</b>
<b>Investing Activities</b>				
Exploration and evaluation expenditures	(1,881,813)	(1,729,330)	(4,462,313)	(2,159,387)
Recovery of exploration and evaluation expenditures	48,456	-	256,094	1,300,000
Proceeds from sale of investment	-	-	-	45,000
Cash provided used in investing activities	<b>(1,833,357)</b>	<b>(1,729,330)</b>	<b>(4,206,219)</b>	<b>(814,387)</b>
<b>Financing Activities</b>				
Proceeds from exercise of stock options	-	9,124	16,400	182,255
Proceeds from exercise of compensation options	-	-	-	15,720
Proceeds from exercise of warrants	-	-	-	9,200
Proceeds from private placements, net of share issue costs	-	-	-	17,245,587
Cash provided by financing activities	-	9,124	16,400	17,452,762
(Decrease) increase in cash during the period	<b>(2,253,838)</b>	<b>(2,286,655)</b>	<b>(4,869,779)</b>	<b>15,721,175</b>
Cash, beginning of period	<b>14,478,133</b>	<b>24,716,359</b>	<b>17,094,074</b>	<b>6,708,529</b>
Cash, end of period	<b>\$ 12,224,295</b>	<b>\$ 22,429,704</b>	<b>\$ 12,224,295</b>	<b>\$ 22,429,704</b>

See accompanying notes to financial statements

**Northern Superior Resources Inc.**  
**Notes to Condensed Interim Financial Statements**  
**For the six months ended June 30, 2012 and 2011**  
(Expressed in Canadian dollars)

## **1. NATURE OF OPERATIONS**

Northern Superior Resources Inc. (“Northern Superior” or the “Company”) is an exploration stage junior mining company engaged in the identification, acquisition, evaluation and exploration of gold properties in Ontario and Quebec. The Company has not determined whether its properties contain mineral reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and attaining future profitable production from the properties or proceeds from disposition.

The Company is dependent on raising funds through the issuance of shares and/or attracting joint venture partners in order to undertake further exploration and development of its mineral properties. Management believes that financing is available and may be sourced in time to allow the Company to continue its current planned activities in the normal course.

The head office, principal address and registered and records office of the Company is 1988 Kingsway, Unit G, Sudbury, Ontario, Canada, P3B 4J8.

## **2. BASIS OF PREPARATION**

### **a) Statement of Compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

### **b) Approval of Financial Statements**

The financial statements of Northern Superior Resources Inc. for the six months ended June 30, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on August 15, 2012.

### **c) Adoption of New and Revised Standards and Interpretations**

The IASB issued a number of new and revised IAS, IFRS, amendments and related interpretations which are effective for the Company’s financial years beginning on or after January 1, 2012. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all of these new standards for the relevant reporting periods.

At the date of authorization of these financial statements, the IASB and IFRS Interpretations Committee (“IFRIC”) have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

- IFRS 9, *Financial Instruments: Classification and Measurement* – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10, *Consolidated Financial Statements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

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- IFRS 11, *Joint Arrangements* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12, *Disclosure of Interests in Other Entities* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.
- IFRS 13, *Fair Value Measurement* – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides guidance on the measurement of fair value and related disclosures through a fair value hierarchy.
- IAS 1, (Amendment) *Presentation of Financial Statements* – effective for annual periods beginning on or after July 1, 2012, includes amendments regarding presentation of items of other comprehensive income.
- IAS 19, (Amendment) *Employee Benefits* – effective for annual periods beginning on or after January 1, 2013, revises recognition and measurement of post-employment benefits.
- IAS 27, (Amendment) *Separate Financial Statements*– effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28, (Amendment) *Investments in Associates and Joint Ventures* – effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for investments in associates and sets out the requirements for investments in associates and joint ventures.
- IFRIC 20, *Stripping Costs in the Production Phase of a Producing Mine* – effective for annual periods beginning on or after January 1, 2013, prescribes the accounting for stripping costs in the production of a surface mine.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing the impact of these standards or amendments on the financial statements of the Company.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's annual financial statements for the year ended December 31, 2011.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates where management's judgment is applied include asset valuation, asset retirement obligations, income taxes, contingent liabilities, share-based payments and ability to continue as a going concern. Actual results may differ from those estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and further periods if the review affects both current and future periods.



**Northern Superior Resources Inc.**  
**Notes to Condensed Interim Financial Statements**  
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**4. PREPAIDS AND RECEIVABLES**

Prepays and receivables consist of the following:

<i>As at</i>	<b>June 30, 2012</b>	December 31, 2011
Government refundable tax credits	\$ -	\$ 48,456
Due from joint venture partners	<b>33,289</b>	184,306
Sales tax receivable - net	<b>188,928</b>	348,936
Prepaid expenses	<b>4,038</b>	22,722
Interest receivable	<b>52,429</b>	171,973
Other receivables	<b>33,000</b>	-
<b>Total</b>	<b>\$ 311,684</b>	<b>\$ 776,393</b>

**Northern Superior Resources Inc.**  
**Notes to Condensed Interim Financial Statements**  
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**5. EXPLORATION AND EVALUATION PROPERTIES**

*For six months ended June 30, 2012*

	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	Waconichi	Wachigabau	Other <sup>(1)</sup>	Total
Balance, beginning of year	\$ 11,500,660	\$ 1,058,270	\$ 1,623,338	\$ 3,190,097	\$ 977,188	\$ -	\$ 998,389	\$ 3,067,681	\$ 22,415,623
Acquisition, assessment and maintenance	824	1,097	212	50	1,150	30,000	9,799	38,815	81,947
Analytical	-	93,591	522	11,549	263,106	-	108	12,254	381,130
Geophysics	-	565,734	24	-	175,320	-	-	(4,330)	736,748
Geology	6,134	46,343	9,676	28,777	434,055	15,521	2,025	31,599	574,130
Drilling	-	1,464,619	-	20,400	1,042,954	-	10,556	25,160	2,563,689
Research	-	19,003	198	20,753	3,591	-	-	1,748	45,293
Project administration	14,447	36,011	8,357	14,377	69,276	613	9,924	22,429	175,434
Cost recoveries <sup>(2)</sup>	-	-	-	-	-	-	(6,635)	(49,533)	(56,168)
Write-off of exploration and evaluation properties	-	-	-	-	-	-	-	(346,623)	(346,623)
Balance, end of period	\$ 11,522,065	\$ 3,284,668	\$ 1,642,327	\$ 3,286,003	\$ 2,966,640	\$ 46,134	\$ 1,024,166	\$ 2,799,200	\$ 26,571,203

(1) Includes Lac Surprise (\$1,113,882), Thorne Lake (\$1,043,696) and Other (\$641,622) as at June 30, 2012.

(2) The Company recorded cost recoveries of \$6,635 and \$49,533 from Matamec Explorations Inc. and Paget Minerals Corp., respectively.

**Northern Superior Resources Inc.**  
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**For the six months ended June 30, 2012 and 2011**  
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For year ended December 31, 2011

	Ti-pa-haa-kaa-ning	New Growth	Meston Lake	Rapson Bay	Croteau Est	Waconichi	Wachigabau	Other <sup>(1)</sup>	Total
Balance, beginning of year	\$ 12,719,498	\$ -	\$ 52,151	\$ 140,539	\$ -	\$ -	\$ 1,740,511	\$ 3,387,729	\$ 18,040,428
Acquisition, assessment and maintenance <sup>(2)</sup>	4,993	21,212	230,146	257,245	46,984	-	14,699	731,628	1,306,907
Analytical	-	35,110	58,089	42,346	55,028	-	11,323	97,029	298,925
Geophysics	-	174,577	355,454	404,512	184,236	-	31,095	277,618	1,427,492
Geology	3,435	607,747	862,682	681,780	336,008	-	97,318	330,939	2,919,909
Drilling	1,083	2,568	5,198	1,585,696	308,658	-	247,373	554,187	2,704,763
Research	13,184	139,642	20,909	25,335	-	-	10,278	2,800	212,148
Project administration	58,467	77,414	38,709	52,644	46,274	-	40,452	91,981	405,941
Sale of exploration and evaluation property interests <sup>(3)</sup>	(1,300,000)	-	-	-	-	-	-	-	(1,300,000)
Cost recoveries <sup>(4)</sup>	-	-	-	-	-	-	(247,222)	(142,180)	(389,402)
Write-off of exploration and evaluation properties	-	-	-	-	-	-	(956,958)	(2,261,686)	(3,218,644)
Tax credit adjustments	-	-	-	-	-	-	9,520	(2,364)	7,156
Balance, end of year	\$ 11,500,660	\$ 1,058,270	\$ 1,623,338	\$ 3,190,097	\$ 977,188	\$ -	\$ 998,389	\$ 3,067,681	\$ 22,415,623

(1) Includes Lac Surprise (\$1,150,134), Thorne Lake (\$1,041,718) and Other (\$875,829) as at December 31, 2011.

(2) Includes Thorne Lake non-cash acquisition costs of \$172,500 (deemed value of shares issued).

(3) The Company received \$1,300,000 cash for the sale of exploration and evaluation property interests to Rainy River Resources Ltd.

(4) The Company recorded cost recoveries of \$247,222, \$12,999 and \$129,181 from Matamec Explorations Inc., INV Metals Inc. and Paget Minerals Corp., respectively.

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*Ti-pa-haa-kaa-ning (“TPK”) property*

TPK Option / Joint Venture Agreement with Rainy River Resources Ltd. (“Rainy River”)

On June 18, 2010, the Company entered into an agreement whereby Rainy River was granted an option to earn a 51% joint venture interest in the eastern half of the TPK project. Rainy River can earn its 51% interest in the eastern half of the TPK Property by (a) funding \$9,400,000 in exploration expenses over a 3 year period, with \$1,400,000 in Year 1 ending April 30, 2011, \$4,000,000 in Year 2 ending April 30, 2012 (incurred), and \$4,000,000 in Year 3 ending April 30, 2013; (b) making cash payments of \$300,000 upon receipt of regulatory acceptance (paid) and a further \$1,300,000 in January 2011 (paid) and (c) completing three equal annual private placements of common shares of the Company of \$500,000 each for a total equity investment of \$1,500,000. The first placement of \$500,000, at \$0.20 per share, was completed on September 9, 2010; the second placement of \$500,000, at \$0.36 per share, was completed on July 8, 2011 (note 7(b)) and the third placement was completed on July 10, 2012 at a price of \$0.19 per share (note 14).

Under the terms of the agreement, Rainy River has the right to accelerate expenditures to exercise its option early. Rainy River has the right to terminate the option at any time after completing its Year 1 obligations. If Rainy River exercises its option, the parties have agreed to form a joint venture, with Rainy River holding a 51% interest and the Company 49%. Rainy River is the manager of the exploration program for the term of the agreement.

The Company also granted to Rainy River rights of first refusal with respect to both the Company's interest in the eastern half of the TPK property and its 100% interest in the western half of the TPK Property (known as the “New Growth” area) should the Company receive acceptable bona fide arms' length third party offers.

*New Growth property*

The New Growth property is 100% owned by the Company. The New Growth property area originally represented the western half of the TPK property, however this area was excluded from the agreement with Rainy River and is now being explored and accounted for separately by the Company.

The Company incurred expenditures of \$2,226,398 on the property during the six months ended June 30, 2012 (2011 - \$118,493).

*Meston Lake property*

The Meston Lake property is 100% owned by the Company, and consists of 84 claims covering 19,688 hectares in northwestern Ontario. The Company incurred expenditures of \$18,989 on the property during the six months ended June 30, 2012 (2011 - \$669,290).

*Rapson Bay property*

The Rapson Bay property is 100% owned by the Company, and consists of 111 claims covering 26,135 hectares in northwestern Ontario. The Company incurred expenditures of \$95,906 on the property during the six months ended June 30, 2012 (2011 - \$727,697).

*Croteau Est property*

On August 24, 2011, the Company entered into an option agreement with the owners (the “Optionors”) of the Croteau Est gold property in Quebec who granted the Company an option to acquire 100% of the property. To exercise the option the Company is required to spend \$1.7 million on exploration on the property over four years: \$200,000 in year 1, \$300,000 in year 2, \$400,000 in year 3 and \$800,000 in year 4, all of which has already been incurred. The Company must also make cash payments to the Optionors totaling \$350,000: \$35,000 upon signing the letter of intent (paid), \$35,000 by the end of year

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1, \$40,000 by the end of year 2, \$80,000 by the end of year 3 and \$160,000 by the end of year 4. In addition, the Company must issue to the Optionors, \$280,000 worth of common shares of the Company: \$40,000 at the end of year 2, \$80,000 by the end of year 3 and \$160,000 by the end of year 4. The number of common shares issuable shall be based on the market price of the Company's shares at the time of issuance. Upon exercise of the option, the Optionors shall retain a 1.0% NSR on any commercial production with the Company having the right to buyback 0.5% of the NSR for \$1.5 million, at any time.

*Waconichi property*

On June 5, 2012, the Company entered into an option agreement with Murgor Resources Inc. to acquire 316 claims comprising the 17,226 Ha. Waconichi property in the Province of Quebec. The agreement was completed on July 10, 2012 (note 14). Under the terms of the agreement, the Company must make cash payments totaling \$140,000 over three years (\$30,000 paid at closing), and issue 1,000,000 shares of the Company over three years (200,000 shares issued at closing). The Company must also spend a total of \$1,250,000 of exploration expenditures over three years (Year One: \$300,000; Year Two: \$350,000; Year Three: \$600,000) to keep the agreement in good standing. The Company will be deemed to have earned a 70% undivided interest in the Waconichi property, upon payment of the above funds and shares.

The Waconichi property is contiguous to the northern boundary of the Company's Croteau Est property.

*Wachigabau property*

In 2009, the Company and Matamec Explorations Inc. ("Matamec") signed an option and joint venture agreement (the "Option Agreement"), whereby the Company could earn 50% of all metals and minerals rights (other than diamond rights which the Company earned in before the signing of the Option Agreement) by paying \$25,000 (paid), issuing 100,000 shares of the Company (issued) and 100,000 purchase warrants (issued and exercised) and spending \$500,000 over a period of three years for exploration of all metals and minerals (except for diamonds). In 2010 the Company fulfilled all earn-in requirements and a 50/50 joint venture was formed between Matamec and the Company. As per the terms of the Options Agreement, the Company and Matamec have a 50/50 interest on all metal and mineral rights, including diamonds on the Wachigabau property.

The Company incurred expenditures of \$32,412 on the property during the six months ended June 30, 2012 (2011 - \$41,126).

*Other property write-offs*

During the six months ended June 30, 2012 the Company reviewed the carrying balances of all of its exploration properties for impairment purposes and wrote-off eleven exploration properties which are no longer being actively pursued by the Company, for an aggregate write-off of \$346,623 at June 30, 2012.

**6. TRADE PAYABLES, ACCRUED LIABILITIES AND FLOW-THROUGH SHARE LIABILITY**

<i>As at</i>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Trade payables	\$ 471,671	\$ 621,860
Amounts due to related parties	53,201	4,807
Accrued liabilities	98,189	166,935
	<b>\$ 623,061</b>	<b>\$ 793,602</b>

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*Flow-Through Share Liability*

On January 27, 2011, the Company completed a \$8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of \$1.10 per share and 4,113,248 common shares at a price of \$1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of \$3,185,897 at the date of issue with \$237,022 remaining as at June 30, 2012 (Dec. 31, 2011-\$1,300,161) (note 7b).

During the six months ended June 30, 2012, the Company incurred approximately \$1,967,497 in qualifying Canadian exploration expenditures in the province of Quebec, resulting in a flow-through share income and a corresponding decrease in flow-through share liability of \$1,063,139 on the basis that the Company has the intention of renouncing these qualifying Canadian exploration expenditures to the respective investors.

## **7. SHARE CAPITAL**

**a) Authorized:** Unlimited common shares without par value.

**b) Issued Capital**

During the six months ended June 30, 2012 and the year ended December 31, 2011, changes in issued share capital were as follows:

In January 2012, the Company issued 146,666 shares in connection with the exercise of 146,666 stock options, for proceeds of \$16,400.

In 2011 the Company issued 5,600,000 shares in connection with the exercise of 5,600,000 warrants, for proceeds of \$1,109,200.

In 2011 the Company issued 1,134,332 shares in connection with the exercise of 1,134,332 stock options, for proceeds of \$205,105.

In 2011 the Company issued 807,350 shares in connection with the exercise of 807,350 compensation options, for proceeds of \$96,882.

On November 16, 2011, the Company completed an agreement to acquire INV's 50% interest in the Thorne Lake property, which included the issuance of 750,000 shares of the Company to INV at a deemed price of \$0.23 per share for a total value of \$172,500.

On July 8, 2011, the Company closed a private placement with Rainy River for 1,388,889 shares of the Company at a price of \$0.36 per share for proceeds of \$500,000 as part of the TPK option agreement with Rainy River (note 5).

On January 27, 2011, the Company completed a \$8,637,820 brokered flow-through private placement consisting of 2,617,521 common shares at a price of \$1.10 per share and 4,113,248 common shares at a price of \$1.40 per share. This issuance of flow-through shares resulted in a flow-through share liability of \$3,185,897 at the date of issue (note 6).

On January 12, 2011, the Company completed a \$10,000,000 brokered private placement consisting of 12,500,000 common shares at a price of \$0.80 per share.

The Company recorded share issue costs of \$1,853,897 in connection with the above two private placements, of which \$1,392,233 was paid in cash and \$461,664 was the fair value of brokers' compensation options. A total of 1,153,847 compensation options were issued, each compensation

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option is exercisable into one common share for a period of one year at an exercise price of \$0.80 from the date of closing (note 7(e)).

**c) Stock Options**

As at June 30, 2012, the Company had 9,166,234 stock options outstanding of which 3,377,893 were exercisable under the Company's stock option plan. The terms of all options cannot exceed ten years and the minimum exercise price cannot be less than the closing price of the Company's common shares on the TSX Venture Exchange on the last trading day preceding the grant of the option. The Board of Directors determines the vesting terms of the options, with a typical vesting schedule of 1/3 of the options under the grant vesting on each anniversary over a three year period after the date of grant.

A summary of the changes in the Company's stock option plan for the six months ended June 30, 2012 and the year ended December 31, 2011 is as follows:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of year	9,824,568	\$0.33	7,753,900	\$0.33
Granted	150,000	\$0.27	3,595,000	\$0.26
Expired	(335,000)	\$0.63	(50,000)	\$0.50
Exercised	(146,666)	\$0.11	(1,134,332)	\$0.18
Forfeited	(326,668)	\$0.43	(340,000)	\$0.43
Outstanding, end of period	9,166,234	\$0.31	9,824,568	\$0.33
Exercisable, end of period	3,377,893	\$0.29	3,986,228	\$0.32

A weighted average grant-date fair value of \$0.27 (2011-\$0.52) for options granted during the six months ended June 30, 2012 was determined using the Black-Scholes Option Pricing Model using the following assumptions: no dividends are to be paid; volatility of 153.5% (2011 - 150.5%); risk-free interest rate of 1.3% (2011 - 2.3%); and expected life of 5 years.

The following table summarizes information regarding stock options outstanding and exercisable at June 30, 2012:

Exercise Price Range	Number of Options Outstanding	Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number of Options Exercisable	Remaining Vested	Weighted Average Vested
					Contractual Life (in years)	Exercise Price
\$0.01 - \$0.19	2,241,234	2.24	\$0.12	1,631,232	2.16	\$0.12
\$0.20 - \$0.39	4,175,000	3.83	\$0.27	530,000	0.35	\$0.36
\$0.40 - \$0.59	2,650,000	2.80	\$0.53	1,183,329	2.11	\$0.50
\$0.60 - \$0.79	100,000	3.84	\$0.65	33,332	3.84	\$0.70
	9,166,234	3.15	\$0.31	3,377,893	2.15	\$0.29

**d) Share-Based Payments**

Share-based payments recognized in the year are allocated to exploration and evaluation properties, consulting fees and office expense.

The following table summarizes the stock-based compensation expense for stock option grants that the Company recorded for the three and six months ended June 30, 2012 and 2011:

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	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Exploration and evaluation properties	\$ 105,238	\$ 86,737	\$ 180,656	\$ 163,567
Consulting fees	42,878	70,655	89,847	135,992
Office expense	63,574	59,826	126,318	117,490
<b>Total share-based payments</b>	<b>\$ 213,702</b>	<b>\$ 217,218</b>	<b>\$ 396,821</b>	<b>\$ 417,049</b>

Share-based payments of \$180,656 (2011 - \$163,567) related to exploration and evaluation properties are capitalized to exploration and evaluation properties and share-based payments of \$216,165 (2011 - \$253,482) related to consulting fees and office expense were expensed for six months ended June 30, 2012.

**e) Warrants and Compensation Options**

A summary of the changes in the Company's compensation options for the six months ended June 30, 2012 and the year ended December 31, 2011 is as follows:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of options	Weighted-average exercise price	Number of options	Weighted-average exercise price
Outstanding, beginning of year	1,153,847	\$0.80	807,350	\$0.12
Granted	-	-	1,153,847	\$0.80
Expired	(1,153,847)	\$0.80	-	-
Exercised	-	-	(807,350)	\$0.12
<b>Outstanding, end of period</b>	<b>-</b>	<b>-</b>	<b>1,153,847</b>	<b>\$0.80</b>

During the six months ended June 30, 2012, the Company reclassified the fair value of expired warrants and compensation options in the amount of \$1,608,678 from warrants reserve to deficit.

As at June 30, 2012, the Company had no warrants or compensation options outstanding.

**8. RELATED PARTY TRANSACTIONS**

	Three months ended June 30		Six months ended June 30	
	2012	2011	2012	2011
Management and other fees	\$ 86,000	\$ 61,665	\$ 108,000	\$ 125,000
Salaries and wages	252,173	105,786	445,000	217,900
Share-based payments	120,763	147,758	241,732	277,697
	<b>\$ 458,936</b>	<b>\$ 315,209</b>	<b>\$ 794,732</b>	<b>\$ 620,597</b>

All related party transactions are in the normal course of operations and measured at the exchange amount agreed to between the related parties. For the purposes of disclosure, related parties are defined as the officers and directors of the Company.



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**9. SUPPLEMENTAL CASH FLOW INFORMATION**

	For six months ended June 30	
	2012	2011
<i>Non-cash investing and financing activities</i>		
Transfer of amounts from reserves	\$ 10,896	\$ 137,976
Warrants and compensation options issued pursuant to private placements	-	461,664
Changes in working capital related to exploration properties	115,328	153,737
Tax liability related to premium received on flow-through shares	-	3,185,897
Interest received	45,759	34,808
Interest paid	-	-
Taxes paid	-	7,281

**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**a) Financial Instruments**

The carrying value of financial assets and liabilities at June 30, 2012 and December 31, 2011 are as follows:

As at	June 30, 2012	December 31, 2011
<b>Financial Assets</b>		
<i>Fair value through profit or loss, measured at fair value</i>		
Cash and cash equivalents	\$ 12,224,295	\$ 17,094,074
<i>Loans and receivables, measured at amortized cost</i>		
Receivables	118,718	356,279
<b>Financial Liabilities</b>		
<i>Other liabilities, measured at amortized cost</i>		
Trade payables and due to related parties	\$ 524,872	\$ 626,667

The fair value hierarchy of financial instruments measured at fair value on the statement of financial position is as follows:

As at	June 30, 2012	December 31, 2011
	Level 1	Level 1
Cash and cash equivalents	\$ 12,224,295	\$ 17,094,074

**b) Management of Financial Risks**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, market risk and other price risks. Where material, these risks are reviewed and monitored by the Board of Directors.

**i. Credit Risk**

The Company's credit risk is primarily attributable to cash and receivables. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote. The

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Company is not exposed to significant credit risk and overall the Company's credit risk has not changed significantly from the prior year.

**ii. Liquidity Risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2012, the Company had cash and cash equivalents of \$12,224,295 (December 31, 2011 - \$17,094,074) to settle trade payables and accrued liabilities totaling \$623,061 (December 31, 2011 - \$793,602). All of the Company's financial liabilities have contractual maturities of 30 days and are subject to normal trade terms.

**iii. Interest Rate Risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash balances. A 1% change in short term rates would change the interest income and net loss of the Company, assuming that all other variables remained constant, by approximately \$144,781 for the six months ended June 30, 2012.

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant currency or commodity risk arising from financial instruments.

**11. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it to effectively support the acquisition, exploration and development of mineral properties. In the definition of capital, the Company includes, as disclosed on its statement of financial position: share capital, deficit, equity reserves and cash and cash equivalents.

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

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended June 30, 2012. The Company is not subject to externally imposed capital requirements and does not have exposure to asset-backed commercial paper or similar products.

**12. COMMITMENTS**

	Less than 1 year	1 - 5 years	5 or more years	Total
Operating lease - office lease	\$ 28,331	\$ 211,338	\$ -	\$ 239,669

As at June 30, 2012, the Company is committed to incur, on a best efforts basis, approximately \$1,557,138 in qualifying Canadian exploration expenditures in the province of Quebec by December 31, 2012 pursuant to a 2011 flow-through private placement. The original 2011 commitment was \$5,758,547, of which approximately \$4,201,409 has been incurred at June 30, 2012.

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**13. SEGMENTED INFORMATION**

The Company conducts its business as a single operating segment being the mining business in Canada. All resource properties and equipment are situated in Canada.

**14. SUBSEQUENT EVENTS**

On July 10, 2012, the Company issued 200,000 shares of the Company at a deemed aggregate share cost of \$38,000 in connection with an option agreement to acquire a 70% interest in the Waconichi property in Quebec (note 5).

On July 10, 2012, Rainy River completed its third and final private placement of \$500,000 with the Company which is required for Rainy River to maintain its option to earn a 51% interest in the Company's Ti-paa-haa-kaa-ning gold project, north-western, Ontario. The private placement consisted of 2,631,579 shares of the Company issued at a price of \$0.19 per share (note 5).