

**TERRA NOVA MINERALS INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2010 AND 2009**



## AUDITORS' REPORT

To the Shareholders of  
Terra Nova Minerals Inc.

We have audited the balance sheets of Terra Nova Minerals Inc. as at July 31, 2010 and 2009 and the statements of operations, comprehensive loss and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

November 25, 2010

*"Morgan & Company"*

Chartered Accountants

**TERRA NOVA MINERALS INC.**  
**BALANCE SHEETS**  
**AS AT JULY 31**

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 3,377	\$ 142,691
GST/HST recoverable	23,988	4,272
	<u>27,365</u>	<u>146,963</u>
<b>Deferred transaction costs</b> (Note 12)	-	137,792
	<u>\$ 27,365</u>	<u>\$ 284,755</u>

**LIABILITIES AND SHAREHOLDERS' (DEFICIENCY) EQUITY**

<b>Current</b>		
Accounts payable and accrued liabilities (Note 4)	\$ 949,002	\$ 67,745
<b>Shareholders' (deficiency) equity</b>		
Share capital (Note 5)	16,211,526	16,211,526
Contributed surplus (Notes 5 and 6)	890,446	890,446
Deficit	<u>(18,023,609)</u>	<u>(16,884,962)</u>
	<u>(921,637)</u>	<u>217,010</u>
	<u>\$ 27,365</u>	<u>\$ 284,755</u>

**Nature of operations and going concern** (Note 1)

**Subsequent events** (Note 13)

**Approved on behalf of the Board of Directors:**

\_\_\_\_\_  
 "Gunther Roehlig"

Director

\_\_\_\_\_  
 "Willie McLucas"

Director

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

**TERRA NOVA MINERALS INC.**  
**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
**YEARS ENDED JULY 31**

	2010	2009
<b>EXPENSES</b>		
Administration fees	\$ 46,358	\$ 47,219
Filing and transfer agent fees	12,521	16,632
Management fees (Note 4)	240,000	140,000
Office and miscellaneous	4,698	9,162
Professional fees	19,960	68,110
Shareholder communications	11,910	35,994
Stock-based compensation (Note 6)	-	80,670
Telephone and communication	4,184	6,549
Travel and related costs	<u>13,639</u>	<u>16,007</u>
<b>Loss before other items</b>	<u>(353,270)</u>	<u>(420,343)</u>
<b>OTHER ITEMS</b>		
Interest income	38	5,788
Write-off of mineral property (Note 3)	-	(254,550)
Write-off of deferred transaction costs (Note 12)	<u>(785,415)</u>	<u>-</u>
	<u>(785,377)</u>	<u>(248,762)</u>
<b>Net loss and comprehensive loss for the year</b>	(1,138,647)	(669,105)
<b>Deficit, beginning of the year</b>	<u>(16,884,962)</u>	<u>(16,215,857)</u>
<b>Deficit, end of year</b>	<u>\$ (18,023,609)</u>	<u>\$ (16,884,962)</u>
<b>Basic and diluted loss per common share</b>	<u>\$ (0.03)</u>	<u>\$ (0.02)</u>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<u>38,689,868</u>	<u>38,689,868</u>

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

**TERRA NOVA MINERALS INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JULY 31**

	2010	2009
<b>Cash flows provided by (used in):</b>		
<b>Operating activities</b>		
Net loss for the year	\$ (1,138,647)	\$ (669,105)
Items not involving cash:		
Stock-based compensation	-	80,670
Write-off of mineral property	-	254,550
Write-off of deferred transaction costs	785,415	-
Changes in non-cash working capital items:		
(Increase) Decrease in amounts receivable	(19,716)	10,242
Decrease in prepaid expenses	-	9,146
Increase (Decrease) in accounts payable and accrued liabilities	<u>259,676</u>	<u>(3,976)</u>
	<u>(113,272)</u>	<u>(318,473)</u>
<b>Investing activities</b>		
Mineral property costs	-	(56,482)
Deferred transaction costs	<u>(26,042)</u>	<u>(88,327)</u>
	<u>(26,042)</u>	<u>(144,809)</u>
<b>Decrease in cash</b>	(139,314)	(463,282)
<b>Cash, beginning of year</b>	<u>142,691</u>	<u>605,973</u>
<b>Cash, end of year</b>	<u>\$ 3,377</u>	<u>\$ 142,691</u>

**Supplemental disclosures with respect to cash flows (Note 8)**

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

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Terra Nova Minerals Inc. (the “Company”) is a public company incorporated under the British Columbia Business Corporations Act. The Company’s shares are listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company’s principal business is the acquisition and exploration of mineral properties.

These 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 at least twelve months from the balance sheet date. The continuing operations of the Company are dependent upon its ability to raise adequate financing to acquire and explore mineral properties, and to commence profitable operations in the future. To date, the Company has not generated any significant revenues.

During fiscal 2010, the Company elected not to proceed with a proposed business acquisition (Note 12) resulting in a write-off of related costs totalling \$785,415. The Company incurred losses of \$1,138,647 and \$669,105 in 2010 and 2009, respectively and expects to incur losses for the foreseeable future. As of July 31, 2010 the Company had no mineral properties under contract and its working capital and shareholders’ deficiency had each decreased to a deficiency of \$921,637. The operations of the Company have primarily been funded by the issuance of common shares. Management’s plan is to secure additional funds through future equity financings, which may be unavailable or unavailable on reasonable terms. Refer to Note 13 (c).

These factors raise substantial doubt as to the Company’s ability to continue as a going concern without a new business plan and additional financing. These financial statements do not reflect adjustments to the remaining assets and liabilities should the Company cease to be a going concern. Such adjustments would likely be material.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

**Use of estimates and assumptions**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates and assumptions relate to the determination of accrued liabilities and future income taxes and assumptions for determining the fair value of stock-based payments. Where estimates have been used, financial results, as determined by actual events, could differ from those estimates.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Mineral properties and deferred exploration costs**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the units of production method. When a property is abandoned, all related costs are written off to operations. When a property is placed into commercial production, deferred costs will be depleted using the units of production method.

The Company reviews the carrying value of mineral properties and deferred exploration costs when there are events or changes in circumstances that may indicate impairment. Where estimates of future cash flows are available, an impairment charge is recorded if the undiscounted future net cash flows are less than the carrying amount. Reductions in the carrying value of properties are recorded to the extent the net book value of the property exceeds the discounted value of future cash flows (fair value). Where estimates of future cash flows are not available and where other conditions suggest impairment, management assesses if carrying value can be recovered and provides for impairment if so indicated.

The amounts shown for mineral properties are based on cash paid and the value of share considerations and do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, or title may be affected by undetected defects.

**Asset retirement obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

As at July 31, 2010, the Company does not have any asset retirement obligations.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment of long-lived assets**

The Company follows the recommendations of the CICA Handbook section 3063, "Impairment of Long Lived Assets". Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is an impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

**Foreign currency translation**

The Company's measurement and reporting currency is the Canadian Dollar. The monetary assets and liabilities of the Company that are denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the balance sheet date and non-monetary items are translated at historical rates. Revenues and expenses are translated at rates in effect at the transaction date. Exchange gains and losses arising on translation are included in the statement of operations.

**Future income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

**Stock-based compensation**

All stock-based awards made to employees and non-employees are measured and recognized using the Black-Scholes option pricing model based on fair value at the date of grant. For employees, the fair value of the options is charged over the vesting period to operations or capitalized to a resource property, with the offsetting credit to contributed surplus. When the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete, the date the performance commitment is reached or the date which the equity instruments are granted if they are fully vested and non-forfeitable. Upon exercise these amounts are transferred to share capital.

**Financial instruments**

The Company designated cash as held for trading assets, measured at fair value. Accounts payable and accrued liabilities are designated as other financial liabilities and measured at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement. The Company had no available-for-sale, loans and receivables or held-to-maturity instruments during the year ended July 31, 2010.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Comprehensive income**

The Company adopted CICA Handbook Section 1530, "Comprehensive Income". Section 1530 establishes standards for the reporting and presenting of comprehensive income which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss. As at July 31, 2010 and 2009, the Company had no comprehensive income or loss.

**Loss per share**

Basic loss per share is calculated using the net loss for the year and the weighted-average number of common shares outstanding during the year. 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 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. For the years presented, this calculation proved to be anti-dilutive.

**Adoption of new accounting standards**

*Goodwill and Intangible Assets*

This new section replaced Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062.

The Company adopted this standard effective August 1, 2009, on a prospective basis with no restatement of prior period financial statements. Management adopted this new standard with no material impact on the financial statements of the Company or its business.

*Financial instruments – disclosures*

CICA Handbook Section 3862, "Financial instruments – disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See Note 9 for relevant disclosures.

**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Recent accounting pronouncements**

*International Financial Reporting Standards (“IFRS”)*

In February 2008, the Canadian Accounting Standards Board announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of the Company will be August 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

*Business Combinations*

In January 2009, the CICA issued Handbook Sections 1582 “Business Combinations”, 1601 “Consolidated Financial Statements” and 1602 “Non-controlling Interests” which replace CICA Handbook Sections 1581 “Business Combinations” and 1600 “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these Sections is permitted and all these Sections must be adopted concurrently.

**3. MINERAL PROPERTY**

During the year ended July 31, 2008, and as amended during the year ended July 31, 2009, the Company entered into an option agreement to acquire up to a 100% interest in certain claims on the Pegma Lake Project in Quebec, Canada. Pursuant to the terms of the agreement, the Company paid \$75,000 and issued 681,818 common shares valued at \$75,000 and was required to incur exploration costs of \$300,000 on or before June 29, 2009 to acquire a 25% interest in the property.

As at July 31, 2009, the Company had incurred additional acquisition costs totalling \$55,899 and deferred exploration costs of \$46,991 relating to geologist consulting fees. The Company abandoned the property during the 2009 fiscal year and wrote-off accumulated costs totalling \$254,550.

**4. RELATED PARTY TRANSACTIONS**

During the year ended July 31, 2010, the Company entered into the following transactions with related parties:

- a) Paid or accrued management fees of \$240,000 (2009 – \$140,000) to a company with a director in common. Management fees of \$20,000 were accrued to this company in August 2010 and the management contract was subsequently terminated.
- b) Paid or accrued legal fees of \$3,796 (2009 – \$92,354), mineral property costs of \$Nil (2009 - \$3,101) and deferred transaction costs of \$468,949 (2009 - \$Nil) to a law firm of which a former director is a partner.

These transactions were in the normal course of operations and were measured at the exchange amount, which was the amount of consideration established and agreed to by the related parties.

At July 31, 2010, \$696,566 (2009 - \$1,400) was owing to companies with a director in common and to a law firm of which a former director is a partner and is included in accounts payable and accrued liabilities. Amounts due to related parties are non-interest bearing, unsecured and have no fixed terms of repayment.

**TERRA NOVA MINERALS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2010 and 2009**

**5. SHARE CAPITAL**

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at July 31, 2008	38,689,868	\$ 16,211,526	\$ 809,776
Stock-based compensation	-	-	80,670
Balance as at July 31, 2010 and 2009	38,689,868	\$ 16,211,526	\$ 890,446

**6. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan (the "Stock Option Plan"). Under the Stock Option Plan, the Company may grant options to directors, officers, employees, dependent contractors or consultants. The number of options outstanding at any time may not be more than 10% of the issued and outstanding shares of the Company. The exercise price associated with each grant of options is determined by the Company and is subject to the policies of the TSX Venture Exchange. The maximum term of each option's life is 5 years. As long as the Company is not classified as a Tier 1 issuer on the TSX Venture Exchange, the options will vest: one third on the award date, one third 12 months following the award date and one third 24 months following the award date.

During the year ended July 31, 2009, a total of \$80,670 was expensed for previously granted stock options over the period of vesting and recognized as stock-based compensation expense and credited to contributed surplus. There were no stock options granted during the year ended July 31, 2010.

The following stock options were outstanding at July 31, 2010:

Number	Exercise Price	Expiry Date
150,000	\$0.13	June 13, 2012 (subsequently forfeited)
1,500,000	0.14	June 13, 2012
<u>1,650,000</u>		

Stock option transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, July 31, 2008	3,050,000	\$ 0.14
Forfeited	<u>(300,000)</u>	0.13
Balance, July 31, 2009	2,750,000	0.14
Forfeited	<u>(1,100,000)</u>	0.13
Balance, July 31, 2010	<u>1,650,000</u>	0.14
Number of options exercisable at July 31, 2010	1,650,000	\$ 0.14

**TERRA NOVA MINERALS INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEARS ENDED JULY 31, 2010 and 2009**

**6. STOCK OPTIONS AND WARRANTS (Continued)**

**Warrants**

The Company had no warrants outstanding at July 31, 2010.

Warrant transactions and the number of warrants are summarized as follows:

	Number of Warrants		Weighted Average Exercise Price
Balance, July 31, 2008	14,500,000	\$	0.15
Expired	<u>(14,500,000)</u>		0.15
Balance, July 31, 2010 and 2009	-	\$	-

**7. INCOME TAXES**

	2010		2009
Expected income tax recovery at 29% (2009 – 30%)	\$ (330,000)	\$	(202,000)
Non-deductible items	-		24,000
Future income tax expense resulting from change in tax rate	110,000		-
Unrecognized tax benefits	<u>220,000</u>		<u>178,000</u>
	\$ -	\$	-

The significant components of the Company's future income tax assets are as follows:

	2010		2009
Non-capital losses	\$ 778,000	\$	586,000
Mineral properties and deferred exploration costs	2,200,000		2,288,000
Capital assets	13,000		13,000
Share issuance costs	<u>5,000</u>		<u>12,000</u>
	2,996,000		2,899,000
Valuation allowance	<u>(2,996,000)</u>		<u>(2,899,000)</u>
Net future tax assets	\$ -	\$	-

The Company has non-capital losses of approximately \$3.1 million which may be available to offset future income for income tax purposes which commence expiring in 2030. Subject to certain restrictions, the Company also has resource expenditures of approximately \$8.8 available to reduce taxable income in future years. Future tax benefits, which may arise as a result of these losses and resource expenditures have not been recognized in these financial statements and have been offset by a valuation allowance.

**8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	2010	2009
Cash paid during the period for interest	\$ -	\$ -
Cash paid during the period for income taxes	\$ -	\$ -

The significant non-cash transactions during the year ended July 31, 2010 was the accrual of deferred transaction costs of \$621,581 included in accounts payable and accrued liabilities.

The significant non-cash transaction during the year ended July 31, 2009 was the accrual of deferred transaction costs of \$49,465 included in accounts payable and accrued liabilities.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**Fair Values**

The fair values of cash (level 1) and accounts payable and accrued liabilities (level 3) approximate their book values because of the short-term nature of these instruments.

**(a) Financial Risk Management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

**(b) Financial Instrument Risk Exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

*Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions. The Company's receivables consist primarily of tax receivables due from federal government agencies. The maximum exposure to credit risk is equal to the fair value or carrying value of the financial assets.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's approach is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed circumstances. The Company manages liquidity risk through the management of its capital structure as outlined in Note 10 to the audited financial statements. As described in Note 1, the Company has a working capital deficiency of \$921,637 including accounts payable and accrued liabilities in the amount of \$949,002. Subsequent to year end, the Company announced a private placement to raise up to \$2,000,000 (Note 13 (c)).

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)**

**Fair Values (Continued)**

*Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Such fluctuations may be significant.

(a) Interest rate risk

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

(b) Foreign currency risk

The Company is not exposed to foreign currency risk on fluctuations in exchange rates.

(c) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**10. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, contributed surplus. The Company's objectives when managing capital are to: (i) preserve capital, (ii) obtain the best available net return, and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic condition and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. The Company is not subject to externally imposed capital restrictions.

**11. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of mineral properties in Canada.

**12. WRITE-OFF OF DEFERRED TRANSACTION COSTS**

During the year ended July 31, 2009, the Company had entered into a support agreement (the "Support Agreement"), with Australian Energy Company Limited ("AEC"), an unlisted Australian public company, pursuant to which the Company had agreed to acquire (the "Bid Acquisition") all of the issued and outstanding ordinary shares of AEC through a takeover conducted under Australian law.

**12. WRITE-OFF OF DEFERRED TRANSACTIONS COSTS (Continued)**

On termination of the proposed transaction, the Company had incurred \$785,415 (July 31, 2009 - \$137,792) in deferred transaction costs towards the completion of the acquisition. As at July 31, 2010, the Company wrote off the deferred transaction costs to operations.

**13. SUBSEQUENT EVENTS**

Subsequent to July 31, 2010, the Company entered into the following transactions:

- a. an option agreement dated October 8, 2010 with August Metal Corp. ("August", TSXV - AGP) to acquire a 50% interest in its El Capitan Property located on Vancouver Island, British Columbia. To exercise the option, the Company is required to pay August \$30,000 on regulatory approval, incur at least \$1,500,000 in expenditures on the El Capitan Property over a period of three years, including a minimum of \$250,000 by the end of 2011, and make an additional \$1,000,000 payment to August on or before October 31, 2013. A 1% net smelter returns royalty has been granted by August to the original property vendor, which may be purchased for \$1,500,000;
- b. announced that it intends to seek approval for a consolidation of its common shares on a 1 (new) for 13.5 (old) shares basis and a consequent change of name of the Company. Post-consolidation, the Company will have approximately 2,865,916 shares issued and outstanding. This transaction remains subject to regulatory approval; and
- c. announced a private placement of up to 40,000,000 units at a price of \$0.05 per unit, each unit consisting of one post-consolidation share of the Company and one warrant to buy one additional post-consolidation share of the Company for \$0.10. Proceeds of the private placement will be used to pay for the option payment and a work program in respect of the El Capitan Property, and to provide the Company with working capital. Finder's fees will be paid pursuant to TSX policies and regulations. The private placement is subject to regulatory approval.