

A Development Stage Company

**INTERIM FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 - Unaudited

**BALANCE SHEETS**

As at June 30, 2010 (unaudited) and December 31, 2009 (audited)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	1,934,942	3,965,696
Accounts receivable	207,698	131,823
Prepaid expenses	3,368	8,527
Deposits	<u>100,000</u>	<u>-</u>
	2,246,008	4,106,046
<b>MINERAL PROPERTY (Note 6)</b>	<u>2,070,234</u>	<u>671,340</u>
	<u>\$ 4,316,242</u>	<u>\$ 4,777,386</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities (Note 7)	927,797	1,877,231
<b>SHAREHOLDERS' DEFICIENCY</b>		
CAPITAL STOCK (Note 8 (a))	24,035,255	23,192,738
SHARE PURCHASE WARRANTS (note 8 (b))	1,747,809	1,691,100
CONTRIBUTED SURPLUS (Note 9)	1,082,818	1,157,992
DEFICIT	<u>(23,477,437)</u>	<u>(23,141,675)</u>
	<u>3,388,445</u>	<u>2,900,155</u>
<b>GOING CONCERN BASIS (Note 1)</b>	<u>\$ 4,316,242</u>	<u>\$ 4,777,386</u>

(signed) Stephen Reford, Director  
(signed) Patricia Mannard, Director

See the accompanying notes to the financial statements  
The external auditors have not reviewed these interim statements

**STATEMENTS OF LOSS COMPREHENSIVE LOSS AND DEFICIT**  
For the three and six month periods ended June 30 – Unaudited

	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Three Months ended June 30, 2010	Three Months ended June 30, 2009
<b>EXPENSES</b>				
Office administration services	156,144	135,197	91,300	69,147
Professional fees	67,629	38,083	40,228	24,768
Premises rent	30,196	30,218	15,257	15,477
Shareholder communication	52,847	43,934	39,860	33,303
Insurance	17,820	-	17,820	-
Interest	-	130,644	-	129,132
Other general	<u>11,127</u>	<u>2,821</u>	<u>5,005</u>	<u>1,887</u>
<b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>	(335,763)	(380,897)	(209,470)	(273,714)
Deficit at beginning of the period	<u>(23,141,675)</u>	<u>(22,649,212)</u>	<u>(23,267,967)</u>	<u>(22,756,395)</u>
<b>DEFICIT AT END OF PERIOD</b>	<u>(\$ 23,477,437)</u>	<u>(\$ 23,030,109)</u>	<u>(23,477,437)</u>	<u>(23,030,109)</u>
Loss per share (basic and diluted)	<u>\$ 0.004</u>	<u>\$ 0.007</u>	<u>\$ 0.002</u>	<u>\$ 0.005</u>

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**STATEMENTS OF CASH FLOWS**

For the three and six month periods ended June 30 – Unaudited

	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Three Months ended June 30, 2010	Three Months ended June 30, 2009
<b>CASH USED IN OPERATING ACTIVITIES:</b>				
Net loss for the period	(335,763)	(380,897)	(209,476)	(273,714)
Net changes in working capital balances:				
(Increase) decrease in accounts receivable	(75,874)	3,756	(21,742)	(941)
Decrease in prepaid expenses	5,159	-	-	-
Increase in deposits	(100,000)	-	(100,000)	-
Increase (decrease) in accounts payable and accrued liabilities	<u>(949,434)</u>	<u>260,521</u>	<u>67,885</u>	<u>199,020</u>
Cash used in operations	<u>\$ (1,455,912)</u>	<u>\$ (116,620)</u>	<u>\$ (263,327)</u>	<u>\$ (75,635)</u>
<b>CASH USED IN INVESTING ACTIVITIES:</b>				
Increase in mineral property costs	(1,398,894)	(106,235)	(412,421)	(85,592)
Cash used in investing activities	<u>(1,398,894)</u>	<u>(106,235)</u>	<u>(412,421)</u>	<u>(85,592)</u>
<b>CASH PROVIDED BY FINANCING ACTIVITIES:</b>				
Issue of common shares	824,052	366,996	86,876	366,996
Share issue cost	<u>-</u>	<u>(1,000)</u>	<u>-</u>	<u>(1,000)</u>
Cash provided by financing	<u>824,052</u>	<u>365,996</u>	<u>86,876</u>	<u>365,996</u>
INCREASE (DECREASE) IN CASH	(2,030,754)	143,141	(588,872)	204,769
CASH AT BEGINNING OF PERIOD	<u>3,965,696</u>	<u>64,588</u>	<u>2,523,814</u>	<u>2,960</u>
CASH AT END OF PERIOD	<u>\$ 1,934,942</u>	<u>\$ 207,729</u>	<u>\$ 1,934,942</u>	<u>\$ 207,729</u>

See the accompanying notes to the financial statements  
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**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

1 - NATURE OF OPERATIONS AND GOING CONCERN CONSIDERATIONS:

The Company is in the business of exploring for metals and diamonds in the Northwest Territories, Canada. To date, the Company has not earned significant revenues and still is considered to be in the development stage. The Company's shares are listed on the TSX Venture Exchange.

The recovery of amounts capitalized as Mineral Property and Related Expenditures is dependent upon the discovery of economically recoverable ore reserves, the ability of the Company to obtain necessary financing to explore and develop potential ore reserves, future profitable production, or alternatively, upon the Company's ability to dispose of its interests on an advantageous basis. The carrying value of the mineral exploration property may be considered unrecoverable and written down in the future due to uncertainties in financing. The Company continues to retain interest in its property and looks to future funding opportunities and ongoing exploration for both base metals and diamonds.

As at June 30, 2010, the Company has working capital of \$1.3 million compared to a deficiency of \$1.9 million at June 30, 2009 and an accumulated deficit of \$23.5 million (\$23 million in 2009). Management is currently pursuing several financing alternatives to raise additional capital. It is not possible to determine with any certainty, the success or adequacy of these initiatives.

The financial statements of the Company have been prepared on the basis that the Company will continue as a going concern, which presumes that it will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

2 - BASIS OF PRESENTATION:

The accompanying unaudited financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) for interim financial information. These interim statements follow the same accounting policies and methods of application as the annual statements and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2009.

3 - ADOPTION OF NEW ACCOUNTING STANDARDS:

The Company has adopted new accounting standards related to financial instruments that were issued by the Canadian Institute of Chartered Accountants (CICA). These new standards were adopted on a prospective basis with no restatement of prior period financial statements and are outlined in the annual audited financial statements for the year ended December 31, 2009.

Section 3855 of the CICA handbook defines the measurement of financial assets and liabilities. Upon the adoption of this new standard, the Company has designated its cash as held-for-trading, which is measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost.

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

3 - ADOPTION OF NEW ACCOUNTING STANDARDS (continued):

The Company has adopted the new recommendations of CICA Handbook Section 1530, "Comprehensive Income" and Section 3251, "Equity". These sections establish standards for reporting and presenting certain gains and losses normally not included in net earnings or losses, such as unrealized gains and losses related to available-for-sale investments in a statement of comprehensive income. There was no impact on the financial statements in the current period.

On January 1, 2008, the Company introduced a policy to disclose management of capital as recommended in CICA Handbook section 1535 and the nature and extent of risk arising from financial instruments and management of that risk from Sections 3862 and 3863. Further, the Company adopted the amended section 1400 assessing and disclosing the continuation as a going concern.

4 - CAPITAL MANAGEMENT:

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

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

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

There were no changes in the Company's approach to capital management during the period ended June 30, 2010. The Company is not subject to externally imposed capital requirements.

5 - FINANCIAL RISK FACTORS:

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

Credit risk

The Company's credit risk is primarily attributable to short-term investment and receivables included in other assets. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of bank deposits which have been invested with reputable financial institutions, from

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

5 - FINANCIAL RISK FACTORS (continued):

which management believes the risk of loss to be remote. Management believes that the credit risk concentration with respect to financial instruments included in other assets is remote.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2010, the Company had sufficient cash balance to settle current liabilities. The settlement of the majority of the liabilities in the period was through the conversion of debt to common shares in the Company where allowable. Generally, the Company's financial liabilities would have contractual maturities of less than 30 days and be subject to normal trade terms.

Market risk

a) Interest rate risk

The Company has cash balances and debt bearing interest at a fixed rate and therefore not carrying interest rate risk. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institution, a Schedule A Canadian Chartered Bank. The Company will periodically monitor the investments it makes and is satisfied with the credit ratings of its banks. The Company's exposure to interest rate risk is minimal.

b) Price risk

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

Sensitivity analysis

The Company has designated its cash and cash equivalents and short term investment as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities are classified as other financial liabilities, which are measured at amortized cost.

As at June 30, 2010, the carrying and fair value amounts of the Company's financial instruments are the same.

Price risk is remote since the Company is not a revenue producing entity.

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

6 - MINERAL PROPERTY:

	Six Months ended June 30, 2010	Six Months ended June 30, 2009	Three Months ended June 30, 2010	Three Months ended June 30, 2009
Project management	83,057	28,009	60,660	9,000
Consultants	204,047	2,796	119,450	2,040
Property access	75,207	74,551	51,699	74,551
Geophysical surveys	933,711	-	77,774	-
Drill program	102,788	-	102,788	-
Licenses and permits	<u>84</u>	<u>879</u>	<u>50</u>	<u>-</u>
Total expenditure for the period	\$ 1,398,894	\$ 106,235	\$ 412,421	\$ 85,591
Balance, beginning of period	<u>671,340</u>	<u>439,475</u>	<u>1,657,813</u>	<u>460,119</u>
Balance, end of period	<u>\$ 2,070,234</u>	<u>\$ 545,710</u>	<u>\$ 2,070,234</u>	<u>\$ 545,710</u>

7 - RELATED PARTY TRANSACTIONS:

During the three and six month periods ended June 30, 2010, La Prairie Ltd., a company controlled by a director and officer of the Company, charged the Company \$29,222 and \$57,871 (2009 - \$29,157 and \$57,602) for management services, office administration and premises rent. Executive management fees of \$50,400 and \$83,600 and exploration project management fees of \$41,200 and \$59,650 were charged in the three and six month periods by directors and officers. Reimbursable mineral property expenses totalling \$8,311 and \$31,853 (includes travel to the property) plus office and meeting expenses of \$4,812 for the year were also charged by the related parties for a total of \$104,723 and \$179,915 (2009- \$33,121 and \$84,668). In the six month period, there was \$521,049 in debt converted to shares and issued to officers, directors, and a company controlled by a director of the Company.

As at June 30, 2010, accounts payable include \$145,925 (2009 - \$403,198) due to the related parties mentioned above.

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

8 - CAPITAL STOCK:

- a) The Company's authorized share capital is comprised of an unlimited number of common shares. There were 92,445,920 common shares of the Company issued and outstanding at June 30, 2010 and 88,738,714 at December 31, 2009 and 52,930,380 at June 30, 2009. In the six month period, a consultant to the company exercised options to purchase 100,000 common shares at \$0.10 per share.

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

8 - CAPITAL STOCK (continued):

Further, on March 31, 2010, the TSX Venture exchange approved debt conversion agreements that have been signed and implemented by the Company with some of its creditors. Total amount of debt outstanding of \$727,175 has been converted into 3,041,361 common shares of the Company. In the three month period, there were 20,000 shares issued through the exercise of warrants and 545,845 through the exercise of agents' compensation options resulting in total proceeds of \$86,877.

Common shares issued:

	June 30, 2010		December 31, 2009	
	Shares	Amount	Shares	Amount
Balance, beginning of the year	88,738,714	\$ 23,192,738	48,751,081	\$ 20,624,796
Issued for cash	-	-	39,987,633	5,698,626
Issued for cash /exercise of options	100,000	10,000	-	-
Issued for cash/exercise of compensation options	545,845	81,877	-	-
Issued for cash/exercise of warrants	20,000	5,000	-	-
Issued for debt conversion	3,041,361	727,175	-	-
Fair value of options exercised	-	6,070	-	-
Fair value f warrants exercised	-	2,158	-	-
Fair value of compensation warrants exercised	-	69,104	-	-
Fair value ascribed to warrants issued upon exercise of compensation options	-	(58,867)	-	-
Fair value ascribed to warrants issued in private placements	-	-	-	( 1,691,100)
Tax effect of flow-through shares	-	-	-	( 471,402)
Share issue costs	-	-	-	( 968,182)
Balance, end of the period	<u>92,445,920</u>	<u>\$ 24,035,255</u>	<u>88,738,714</u>	<u>\$ 23,192,738</u>

See note 10 for additional capital stock information.

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

8 - CAPITAL STOCK (continued):

- b) At June 30, 2010, the following warrants entitle the holders to purchase the stated number of common shares at the exercise price on or before the expiry date:

Number of common shares	Exercise price	Expiry date
200,000	\$ 0.40	October 2, 2010
782,500	\$ 0.60	October 14, 2010
534,000	\$ 0.24	December 19, 2010
133,666	\$ 0.30	December 19, 2010
12,474,607	\$ 0.25	December 29, 2012
1,170,000	\$ 0.20	April 19, 2013
208,300	\$ 0.24	April 19, 2013
1,550,000	\$ 0.20	May 20, 2013
583,333	\$ 0.24	May 20, 2013
2,475,000	\$ 0.20	July 23, 2013
<u>20,111,406</u>		
<u>1,393,744</u>	\$ 0.25	(Reserved for issue) December 29, 2012
<u>21,505,150</u>		

On April 8, 2010, the Company has extended the life of the warrants that were to expire on April 14, 2010 for an additional six month term. The new expiry date has been set as October 14, 2010 and the exercise price has been reduced from \$2.00 to \$0.60.

The fair value of warrants issued has been estimated using the Black-Scholes option pricing model and this value has been disclosed as a component of contributed surplus at the year ended December 31, 2009. The assumptions used for the valuation of warrants were consistent with the assumptions used in the valuation of stock options. (See Note 6 c) of the annual audited financial statements.)

- c) At June 30, 2010, there were 2,787,488 (3,333,333 at the year end) agent's options granted. Each option entitles the agent to purchase a unit consisting of one common share and one half of a share purchase warrant for \$0.15 up to December 29, 2012. The underlying warrants are exercisable in the same three year period.

The fair value of the options was estimated under the Black-Scholes method and were valued at \$422,000 in 2009, there were no agent's options in 2008.

- d) Stock Option Plan:

At December 31, 2009, the Company had granted options to purchase a total of 3,600,000 common shares to directors, officers and consultants. There are 3,000,000 at an exercise price of \$0.10 expiring on August 5, 2011 and 300,000 at \$0.15 exercisable up to November 12, 2011 and 300,000 at \$0.32 up to November 27, 2011 under the Company's Incentive Stock Option Plan (the plan). The Company

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

8 - CAPITAL STOCK (continued):

maintains the plan for the benefit of directors, officers, consultants and other services providers in order to assist the Company in attracting, retaining, and motivating such persons by providing them with the opportunity, through stock options, to acquire an increased proprietary interest in the Company. Under the plan, options are non-assignable and may be granted for a term not exceeding five years. The total number of common shares that may be reserved for issuance may not exceed 10% of outstanding common shares and may not exceed 5% for any one person. The exercise price of an option may not be lower than the discounted market price of the common shares on the TSX Venture Exchange. The options are non-transferable. Outstanding options may be adjusted by the Board in certain events, as to exercise price and number of common shares, to prevent dilution or enlargement. The Company has reserved 9,244,592 shares under the plan.

	Options	Weighted average exercise price
Balance, December 31, 2008	3,094,230	\$ 0.28
Granted	3,600,000	0.12
Forfeited	(3,094,230)	0.28
Exercised	-	-
Balance, December 31, 2009	3,600,000	\$ 0.12
Granted	-	-
Forfeited	-	-
Exercised	100,000	0.10
Balance, June 30, 2010	<u>3,500,000</u>	<u>\$ 0.12</u>

During the periods ended March 31, 2010 and 2009, there were no options granted. A stock-based compensation expense is based on a fair value estimate according to the Black Scholes option pricing model assuming a risk free rate, an expected remaining life and an expected volatility rate on the measured date. The fair value of the options is recorded into contributed surplus in the period they are granted.

e) The Company has 41,866 shares held in escrow.

9 - CONTRIBUTED SURPLUS:

Contributed surplus is comprised of the following:

	Jun. 30, 2010	Dec. 31, 2009
Balance, beginning of the period	\$ 1,157,992	\$ 508,052
Stock-based compensation cost	-	227,940
Fair value of Agent's compensation options	-	422,000
Fair value of options exercised	(6,070)	-
Fair value of compensation options exercised	<u>(69,104)</u>	<u>          </u>
Balance, end of the period	<u>\$1,082,818</u>	<u>\$ 1,157,992</u>

**NOTES TO THE FINANCIAL STATEMENTS**

For the three and six month periods ended June 30, 2010 Unaudited

10 - COMMITMENTS AND SUBSEQUENT EVENTS:

- a) On December 22, 2009, the Company signed a combined metals and diamonds concession agreement with the Inuvialuit Land Corporation. Prior to signing of the agreement, as a pre-condition, the Company paid 50% (\$626,268) of its outstanding debt to the Inuvialuit Regional Corporation with the balance subject to repayment on the first and second anniversaries of the initial payment. According to the agreement, all activities and consequently all payments and required work commitments are divided into three stages (see note 4 of the audited year end statements for December 31, 2009).
- b) In conjunction with an agency agreement entered into by the Company on December 29, 2009, the agent has been granted a two year first right of refusal to lead manage future financings. All previously disclosed finder's fee arrangements (dated February 6 and 7, 2009, July 4, 2008, March 10 and August 5, 2009) would be subject to this condition.
- c) On July 7, 2010, the Company and Diadem Resources Ltd. signed a memorandum of understanding for a joint venture. The conditions tied to signing the agreement have been met and the parties will proceed with a 50/50 joint venture arrangement that will see a \$2 million expenditure commitment by June 30, 2011. After December 31, 2011, Diadem's interest in all claims will be reduced to 25% if \$2 million has not been spent or is not in place and under the control of the JV.
- d) On July 13, 2010, there were 291,667 warrants exercised at \$0.24 resulting in the issue of an equal number of common shares and receipt of \$70,000.
- e) On July 27, 2010, there were 300,000 options granted to a director of the company exercisable for two years at \$0.27.
- f) On August 25, 2010, the company concluded a private placement of 10,625,000 units consisting of one flow through share and one half of one share purchase warrant at \$0.40 per unit. The 5,312,500 warrants are exercisable for a two year period at \$0.45. There were 187,500 units purchased by related parties. The agent received an eight percent cash commission and 1,062,500 compensation options to purchase broker units with the same terms as the private placement units.