

**AMERICAN MANGANESE INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JULY 31, 2010**

**and**

**JULY 31, 2009**

## **AUDITORS' REPORT**

To the Shareholders of American Manganese Inc (formerly Rocher Deboule Minerals Corp.)

We have audited the consolidated balance sheets of American Manganese Inc. as at July 31, 2010 and 2009 and the consolidated 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 consolidated 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.

*De Visser Gray LLP*

## **CHARTERED ACCOUNTANTS**

Vancouver, British Columbia  
November 24, 2010

**AMERICAN MANGANESE INC.**  
*(formerly Rocher Deboule Minerals Corp.)*  
 Consolidated Balance Sheets  
 As at July 31,

	<b>2010</b>	<b>2009</b>
<b>A S S E T S</b>		
<b>Current</b>		
Cash	\$ 129,004	\$ 306,891
Amounts receivable	40,614	205,345
Due from related parties (Note 5)	8,717	72,937
Prepaid expenses	45,000	39,584
	223,335	624,757
Equipment (Note 6)	7,957	11,349
Reclamation bonding	14,000	10,500
Mineral property interests (Note 7)	4,396,183	3,098,187
	\$ 4,641,475	\$ 3,744,793
<b>L I A B I L I T I E S</b>		
<b>Current</b>		
Accounts payable and accruals	\$ 87,990	\$ 392,160
Due to related parties (Note 5)	35,962	36,249
	123,952	428,409
Share capital (Note 8)	13,048,514	10,987,075
Value assigned to options and warrants (Note 8)	1,881,936	1,352,282
Deficit	(10,412,927)	(9,022,973)
	4,517,523	3,316,384
	\$ 4,641,475	\$ 3,744,793

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

**Subsequent events** (Note 12)

**Contingencies** (Note 10)

Approved on Behalf of the Board of Directors:

"Larry W. Reaugh"

Director

"Ed Lee"

Director

**AMERICAN MANGANESE INC.**  
*(formerly Rocher Debole Minerals Corp.)*  
Consolidated Statements of Operations, Comprehensive Loss and Deficit  
For the Years Ended July 31,

	<u>2010</u>	<u>2009</u>
<b>Administrative Expenses</b>		
Amortization	\$ 3,392	\$ 4,839
Bank charges and interest	2,850	2,515
Consulting fees	134,563	125,697
Management fees	22,854	28,126
Office rental and services	66,315	43,611
Professional fees	102,050	84,203
Shareholder communications	321,317	302,860
Property taxes	4,397	-
Office rent	11,563	8,729
Repairs and maintenance	1,506	-
Filing and transfer agent fees	62,926	39,692
Telephone	16,938	13,262
Travel	48,298	12,835
Wages and benefits	378,057	306,938
Loss (gain) on foreign exchange	9,070	(22,653)
Stock based compensation expense	439,391	441,431
Metallurgical testing	123,540	23,012
Write off of property costs	-	277,358
	<u>                    </u>	<u>                    </u>
<b>Loss before other income</b>	<u>(1,749,027)</u>	<u>(1,692,455)</u>
<b>Other income:</b>		
Recovery of previously accrued contingency (Note 10)	358,742	-
Interest income	331	2,644
	<u>359,073</u>	<u>2,644</u>
<b>Net Loss and Comprehensive Loss for the Year</b>	<u>(1,389,954)</u>	<u>(1,689,811)</u>
<b>Deficit – Beginning of Year</b>	<u>(9,022,973)</u>	<u>(7,333,162)</u>
<b>Deficit – End of Year</b>	<u>\$ (10,412,927)</u>	<u>\$ (9,022,973)</u>
<b>Basic and Diluted Loss Per Share</b>	<u>\$ (0.03)</u>	<u>\$ (0.04)</u>
<b>Weighted Average Number of Shares Outstanding</b>	<u>54,841,123</u>	<u>40,656,710</u>

See notes to the financial statements

**AMERICAN MANGANESE INC.**  
*(formerly Rocher Debole Minerals Corp.)*  
Consolidated Statements of Cash Flows  
For the Years Ended July 31,

	<b>2010</b>	<b>2009</b>
<b>Cash Provided by (Used for):</b>		
<b>Operating Activities</b>		
Net loss for the year	\$ (1,389,954)	\$ (1,689,811)
Items not requiring cash:		
Amortization	3,392	4,839
Write-off of mineral properties	-	277,358
Shares issued as finder's fees	-	47,580
Recovery of accrued contingency	(358,742)	-
Stock-based compensation	439,391	441,432
	(1,305,913)	(918,602)
Net change in non-cash working capital items:		
Accounts receivable	164,731	6,955
Accounts payable and accruals	27,629	(18,899)
Due to related parties	63,933	(2,361)
Prepaid expenses	(5,416)	(36,984)
	(1,055,036)	(969,891)
<b>Investing Activities</b>		
Reclamation bonding	(3,500)	-
Mineral property expenditures	(1,271,053)	(575,994)
	(1,274,553)	(575,994)
<b>Financing Activities</b>		
Issuance of share capital	2,405,437	1,695,915
Share issue costs	(253,735)	-
	2,151,702	1,695,915
<b>(Decrease) / Increase in Cash</b>	(177,887)	150,030
<b>Cash – Beginning of Year</b>	306,891	156,861
<b>Cash – End of Year</b>	\$ 129,004	\$ 306,891

**\*Supplementary disclosure of non-cash investing and financing activities:**

Shares issued pursuant to mineral property agreements	\$ -	\$ 7,500
Fair value of broker warrants granted	\$ 110,679	\$ -
Accounts payable related to mineral property expenditures	\$ 26,943	\$ -

See notes to the financial statements

**AMERICAN MANGANESE INC.**  
*(formerly Rocher Deboule Minerals Corp.)*  
**Notes to the Consolidated Financial Statements**  
July 31, 2010 and 2009

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is in the exploration stage of developing mineral property interests.

The Company has incurred losses since inception and as at July 31, 2010 has working capital of \$99,383 and an accumulated operating deficit of \$ 10,412,927. The Company does not generate cash flow from operations to fund its exploration activities and has therefore relied principally upon the issuance of equity securities for financing. The Company intends to continue relying upon the issuance of these securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. If future financing is unavailable, the Company may not be able to meet its ongoing obligations, in which case the realizable values of its assets may decline materially from current estimates.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, incorporated in the State of Nevada U.S. All significant intercompany transactions have been eliminated.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses incurred during the periods. Actual results could differ from those estimated.

**Mineral properties and deferred costs**

The cost of mineral properties and their related direct exploration costs are deferred until the properties are placed into production, sold or abandoned. These deferred costs will be amortized on the unit-of-production basis over the estimated useful life of the properties following the commencement of production, or written-off if the properties are sold or abandoned.

Cost includes the cash consideration and the fair market value of shares issued on the acquisition of property interests. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

## 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

The Company reviews capitalized costs on its property interests on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. Management's assessment of the property's estimated current fair market value is also based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Administrative costs are expensed as incurred.

### **Cost of maintaining mineral properties**

The Company does not accrue the estimated future costs of maintaining its mineral properties in good standing.

### **Share capital**

Share capital issued for non-monetary consideration is recorded at the fair market value of the shares based on their trading price on the TSX Venture Exchange on the date the agreement to issue the shares was entered into as determined by the Board of Directors of the Company.

Costs incurred to issue shares are deducted from share capital.

### **Equipment**

Equipment is amortized over its estimated useful economic life using the declining balance method at annual rates ranging from 20% to 100%. In the year of acquisition, one half the rate is applied.

### **Impairment of Long-Lived Assets**

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

### **Stock-Based Compensation**

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus. If and when the stock options are exercised the applicable amounts of contributed surplus are transferred to share capital.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial Instruments**

Under Section 3855, *Financial Instruments - Recognition and Measurement*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred.

### **Comprehensive Income**

Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles.

### **Future income taxes**

The Company accounts 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 tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be settled. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized. Such an allowance has been applied to all potential income tax assets of the Company.

### **Environmental expenditures**

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for site restoration costs. The overall future impact of such regulations is neither determinable nor predictable at the present time.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against operations as incurred or capitalized and amortized depending on their expected future economic benefit. Estimated future removal and site restoration costs will be recognized when the ultimate liability is reasonably determinable, and will be charged against operations over the estimated remaining life of the related business operations, net of expected recoveries.

## 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

### **Foreign currency translation**

The Company translates its foreign operations for monetary assets and liabilities at the rate of exchange in effect as at the balance sheet date and for non-monetary assets and liabilities at their historical exchange rates. Revenues and expenses are translated at the average rates prevailing for the year, except for amortization that is translated at the historical rate of the related assets.

Foreign exchange gains and losses from the translation of foreign operations are recognized in the current period.

### **Loss per share**

Loss per share has been calculated using the weighted-average number of common shares outstanding during each fiscal year. Diluted loss per share has not been calculated as it is anti-dilutive.

### **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 and when a reasonable estimate of the fair value can be made based on expected future cash outflows discounted to present value.

The associated asset retirement costs are capitalized as part of the carrying amount of long lived assets. The liability is accreted over the estimated time period until settlement of the obligation and the asset is depreciated over its estimated remaining useful life. 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 in the carrying amount of the liability and the related capitalized asset retirement cost. The Company has no asset retirement obligations.

### **Reclamation Bonding**

The Company maintains cash deposits, as required by regulatory bodies as assurance for the funding of reclamation costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled. Reclamation deposits are designated as available for sale, are recorded at fair value and are classified as non-current assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Future accounting standards

The CICA has issued new standards which may affect the financial disclosures and results of operations of the Company for future interim and annual periods. The Company will adopt the requirements on the date specified for each respective section the impact of these standards on the consolidated financial statements, as outlined below.

#### (a) Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

## 3. CAPITAL MANAGEMENT

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary 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 appropriate. There were no changes in the Company's approach to capital management during the year ended July 31, 2010.

The Company is not subject to externally imposed capital requirements.

#### 4. FINANCIAL RISK FACTORS

##### a) Fair value of financial instruments

The Company's financial instruments consist of cash, reclamation bonds, amounts receivable, amounts due from/to related parties, accounts payable and accrued liabilities. The Company holds no asset-backed commercial paper. The fair values of the financial instruments approximate their amortized cost value due to their short-term nature.

##### b) Currency risk

A portion of the Company's financial assets and liabilities is denominated in foreign currencies, giving rise to risks from changes in foreign exchange rates. The Company is exposed to currency exchange rate risks to the extent of its activities in the United States. The Company does not use derivative financial instruments to reduce its foreign exchange exposure; however, the Company maintains a portion of its cash and cash equivalents in US Dollars. Future changes in exchange rates could have a material effect on the Company's business, financial condition and results of operations.

##### c) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its commercial obligations. The Company's cash is held primarily through large Canadian and international banks.

##### d) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a loss as a result of a decline in the fair value of the short term investments included in cash and cash equivalents is limited because these instruments, although available for sale, are generally held to maturity. The Company manages its cash according to its operational needs and to optimize revenues from interest.

#### 5. RELATED PARTY TRANSACTIONS

The Company shares its office premises with Goldrea Resources Corp. and Molycor Gold Corp., public companies which share common directors with the Company. In addition, the services of certain personnel are shared between the three companies.

Expenses relating to the common office facilities that are shared among the companies are allocated according to the relative amount of space used by each of the companies. The salary and related costs of common personnel are allocated according to the time expended by the personnel in question.

At the year ended July 31, 2010, a total amount of \$35,962 is owed to these companies (2009 – a net amount of \$30,908 was owing from these companies) for these costs.

At July 31, 2010, the Company had advanced a net amount of \$8,717 (2009 - \$5,780) to the President and CEO for expenses. The amount does not bear interest, is unsecured and has no fixed term of repayment.

#### 6. EQUIPMENT

				July 31, 2010	July 31, 2009
	Amortization Rate	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Office Equipment	20%	\$ 1,426	\$ 1,324	\$ 101	\$ 126
Motor Vehicle	30%	18,828	10,986	7,842	11,204
Computer Equipment	30%	1,851	1,838	13	19
Software	100%	7,444	7,444	-	-
		\$ 29,549	\$ 21,592	\$ 7,957	\$ 11,349

## 7. MINERAL PROPERTY INTERESTS

### **Rocher Deboule Omineca Mining Division, Hazelton, B.C.**

This 8,051 hectare property is located nine kilometers south of New Hazelton, BC, and is comprised of claims acquired by staking in 2001, and certain additional claims acquired in 2007 by the cash payment of \$60,000 and the issuance of 130,000 common shares.

	<b>Balance, July 31, 2008</b>	<b>Expenditures</b>	<b>Balance, July 31, 2009</b>	<b>Expenditures</b>	<b>Balance, July 31, 2010</b>
Acquisition and staking	\$ 128,884	\$ 4,433	\$ 133,317	\$ 10,789	\$ 144,106
Assays and analysis	35,038	(3,575)	31,463	13,848	45,311
Camp and supplies	57,894	1,610	59,504	-	59,504
Drilling	146,826	-	146,826	-	146,826
Geological and geophysical	419,022	7,523	426,545	67,546	494,091
Geologist travel and accommodation	7,931	7,353	15,284	656	15,940
Freight and transport	73,153	3,323	76,476	3,686	80,162
BCMETS recoverable	-	(226,963)	(226,963)	(5,966)	(232,929)
	<u>\$ 868,748</u>	<u>\$ (206,296)</u>	<u>\$ 662,452</u>	<u>\$ 90,559</u>	<u>\$ 753,011</u>

### **Artillery Mountains Mohave County, Arizona, U.S.A.**

During the fiscal year ended July 31, 2008, the Company completed the terms of its option to acquire 236 unpatented lode mining claims located in the southeastern corner of Mohave County, Arizona, USA, by the issuance of 1,000,000 common shares and the payment of US \$96,000. The property is subject to a 2% Net Smelter Returns ('NSR') royalty with the Company retaining an option to purchase 1% of the NSR for US\$ 2,000,000. In August 2008, the Company acquired additional contiguous properties as follows:

**Lake property** – The Company has entered into an agreement to lease the patented mining claims adjoining the Company's Artillery Peak properties. Under the Lease Agreement, as consideration for leasing the claims for a 10-year renewable term, the Company shall pay the lessors the following amounts:

- a. \$60,000 US upon the execution of the Lease Agreement (paid)
- b. \$80,000 US upon the 1st anniversary of the Lease Agreement (paid)
- c. \$100,000 US upon the 2nd anniversary of the Lease Agreement (paid)
- d. \$120,000 US upon the 3rd anniversary of the Lease Agreement
- e. \$140,000 US upon the 4th anniversary of the Lease Agreement
- f. \$160,000 US upon the 5th anniversary of the Lease Agreement
- g. \$180,000 US upon the 6th anniversary of the Lease Agreement
- h. \$200,000 US upon the 7th and each subsequent anniversary of the Lease Agreement

In addition, the Company is to pay aggregate royalties to the lessors of US\$0.05/lb on any manganese, and 1.5% of net returns for all other minerals, recovered from both the lessors' claims and the Company's existing claims. An additional annual advance of \$10,000 is also payable to the lessors pursuant to an agreement dated August 1, 2008. All lease and advance payments described above constitute advances on any royalties due to the lessors.

**Maggie Canyon** – The Company has entered into a mineral lease agreement with an option to purchase to lease 23 patented and unpatented mineral claims for a term of 10 years. Lease payments are \$20,000 (paid) on execution of the lease and \$20,000 yearly for the term of the lease. In addition, the Company has an option to purchase the property, during the term of the lease or up to commencement of commercial production, at a price of \$2,250,000.

7. **MINERAL PROPERTY INTERESTS** (continued)

**Huffman property** – The Company has entered into a mineral lease agreement with an option to purchase to lease 7 patented claims for a term of 10 years. Lease payments are \$10,000 (paid) on execution of the lease and \$10,000 yearly for the term of the lease. In addition, the Company has an option to purchase the property during the term of the lease, or up to the commencement of commercial production, for a price of \$1,000,000.

	<b>Balance, July 31, 2008</b>	<b>Expenditures</b>	<b>Balance, July 31, 2009</b>	<b>Expenditures</b>	<b>Balance, July 31, 2010</b>
Acquisition and staking	\$ 728,434	\$ 353,285	\$ 1,081,719	\$ 219,987	\$ 1,301,706
Assays and analysis	90,817	49,895	140,712	15,668	156,380
Drilling	669,054	-	669,054	526,780	1,195,834
Geological and geophysical	181,021	159,693	340,714	294,652	635,366
Geologist travel and accommodation	26,817	26,451	53,268	44,982	98,250
Property maintenance	30,022	38,876	68,898	4,659	73,557
	<u>\$ 1,726,165</u>	<u>\$ 628,200</u>	<u>\$ 2,354,365</u>	<u>\$ 1,106,728</u>	<u>\$ 3,461,093</u>

**BC Manganese  
Alberni and Clinton Mining Division, B.C.**

The Company acquired by staking the Black Prince, Junction Creek and Olson exploration properties located in the Alberni and Clinton Mining Divisions of British Columbia.

	<b>Balance, July 31, 2008</b>	<b>Expenditures</b>	<b>Balance, July 31, 2009</b>	<b>Expenditures</b>	<b>Balance, July 31, 2010</b>
Acquisition and staking	\$ 1,477	\$ 2,720	\$ 4,197	\$ -	\$ 4,197
Geological and geophysical	946	-	946	-	946
	<u>\$ 2,423</u>	<u>\$ 2,720</u>	<u>\$ 5,143</u>	<u>\$ -</u>	<u>\$ 5,143</u>

**Lonnie Brent  
Omineca Mining, B.C.**

During the fiscal year ended July 31, 2008 the Company acquired the mineral claims comprising this property located in the Omineca Mining Division of British Columbia by staking and also by the issuance of 100,000 common shares and the cash payment of \$10,000.

	<b>Balance, July 31, 2008</b>	<b>Expenditures</b>	<b>Balance, July 31, 2009</b>	<b>Expenditures</b>	<b>Balance, July 31, 2010</b>
Acquisition and staking	\$ 55,000	\$ 3,727	\$ 58,727	\$ -	\$ 58,727
Assays and analysis	-	-	-	20	20
Drilling	-	-	-	60,074	60,074
Geological and geophysical	-	-	-	40,615	\$ 40,615
	<u>\$ 55,000</u>	<u>\$ 3,727</u>	<u>\$ 58,727</u>	<u>\$ 100,709</u>	<u>\$ 159,436</u>

7. **MINERAL PROPERTY INTERESTS** (continued)

**Pond Claims**

**Golden Mining Division, B.C.**

During the fiscal year ended July 31, 2008 the Company obtained an option to acquire a property located in the Golden Mining Division of British Columbia by the payment of \$10,000 and the issuance of 50,000 shares.

	<u>Balance, July 31, 2008</u>	<u>Expenditures</u>	<u>Balance, July 31, 2009</u>	<u>Expenditures</u>	<u>Balance, July 31, 2010</u>
Acquisition and staking	\$ 10,000	\$ 7,500	\$ 17,500	\$ -	\$ 17,500
	<u>\$ 10,000</u>	<u>\$ 7,500</u>	<u>\$ 17,500</u>	<u>\$ -</u>	<u>\$ 17,500</u>

**Boundary Macklin Coal Field**

**Manville Group, Saskatchewan, Canada**

The Company had an option to acquire certain coal permits located in Saskatchewan by the payment of \$170,000 and the requirement to issue 2,500,000 shares prior to December 31, 2008. In August 2008, the government of Saskatchewan cancelled these coal applications and accordingly, during the comparative fiscal year, the Company received a \$98,411 refund of fees paid to the Saskatchewan government and wrote off the residual amount of \$97,039 in related deferred costs.

## 8. SHARE CAPITAL

a) Authorized:

100,000,000 common shares without par value

b) Issued and Outstanding:

	Number of Shares	Amount	Value Assigned to Options and Warrants
Balance, July 31, 2008	35,861,425	\$ 9,236,080	\$ 910,850
Private placement	3,255,000	651,000	-
Private placement	11,970,800	1,197,080	-
Cost of issuance - cash	-	(104,586)	-
Shares for mineral properties	50,000	7,500	-
Stock based compensation	-	-	441,431
	<hr/>	<hr/>	<hr/>
Balance, July 31, 2009	51,137,225	\$ 10,987,074	\$ 1,352,281
Private placement	5,969,595	1,193,919	-
Short form prospectus	4,613,184	1,014,900	-
Cost of share issuance	-	(364,413)	110,678
Exercise of warrants	1,120,000	168,000	-
Exercise of options	238,500	28,620	-
Fair value of options exercised	-	20,414	(20,414)
Stock based compensation	-	-	439,391
	<hr/>	<hr/>	<hr/>
Balance, July 31, 2010	<u>63,078,504</u>	<u>\$ 13,048,514</u>	<u>\$ 1,881,936</u>

- c) In September 2008, the Company closed a non-brokered private placement of 3,255,000 units at a price of \$0.20 per unit for aggregate proceeds of \$651,000. Each unit was comprised of one common share plus a two year share purchase warrant. Each warrant entitled the holder to purchase one common share at a price of \$ 0.30 prior to October 7, 2010.

In June 2009, the Company closed a non-brokered private placement to issue 11,970,800 units for gross proceeds of \$1,197,080. Each unit was comprised of one common share plus a two year share purchase warrant exercisable at \$0.15.

In February 2010, the Company closed a non-brokered private placement to raise gross proceeds of \$1,193,919 by the issuance of 5,969,595 units at a price of \$0.20 per unit. Each unit is comprised of one common share plus one-half of one two year share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 per share until February 16, 2012.

In connection with this financing, the Company also issued 120,000 agent warrants, with each warrant exercisable to acquire one common share at a price of \$0.20 until February 16, 2012. The fair value of \$17,603 was assigned to the agents' warrants based upon the Black-Scholes option pricing model.

## 8. SHARE CAPITAL (continued)

In June 2010, the Company completed a short form prospectus offering of 4,613,184 units at a price of \$0.22 per unit to raise gross proceeds of \$1,014,900. Each unit consisted of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$0.30 for a period of 24 months.

The Company paid \$76,232 cash commission and issued the agent 738,108 warrants that are each exercisable until June 16, 2012 to acquire one common share of the Company. The agent's warrants are exercisable at \$0.22 as to 369,054 warrants and at \$0.30 per share in respect to the remaining 369,054. The fair value of \$93,075 was assigned to the agent's warrants based upon the Black-Scholes option pricing model.

### d) Stock options

	Number of Options	Weighted Average Exercise Price
Balance at July 31, 2009	6,025,000	\$ 0.26
Granted	2,745,000	0.20
Exercised	(238,500)	(0.12)
Cancelled/forfeited	(560,000)	(0.17)
Balance at July 31, 2010	7,971,500	\$ 0.16

At July 31, 2010, the following options were outstanding:

Expiry Date	Number of Options	Exercise Price (CDN\$)	Weighted Average Remaining Contractual Life (Years)
September 4, 2012*	1,415,000	0.20	0.37
October 27, 2013	3,811,500	0.12	1.55
August 19, 2014	1,935,000	0.20	0.98
March 8, 2015	810,000	0.21	0.47
	7,971,500		3.38

\* Subsequent to July 31, 2010, these options were partially exercised (Note 12).

The weighted average grant date fair value of options granted during fiscal 2010 was \$0.22 (2009 - \$0.11)

In August 2009, the Company granted incentive stock options, pursuant to the Company's Stock Option Plan, to purchase an aggregate of 1,935,000 shares in the capital stock of the Company. The options will be granted for a period of five years commencing August 19, 2009 at \$0.20 per share.

In August 2009, the Company amended the exercise price of 1,615,000 options granted on September 4, 2007 from \$0.58 to \$0.20. The expiration dates of the options will remain September 4, 2012.

## 8. SHARE CAPITAL (continued)

During the year ended July 31, 2010 \$439,391 (2009 - \$441,431) in compensation expense was recorded for options vested to directors, officers, employees and consultants utilizing a fair value method. The fair value of the stock options granted was estimated on the date of the grant using Black-Scholes option pricing model using the assumptions shown in the following table.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yield	0%	0%	0%
Expected volatility	147.7-153.8%	162.94%	173.35%
Risk-free interest rate	2.76-2.79%	2.76%	4.08%
Expected live	5 years	5 years	5 years

### e) Warrants

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Expiry Date</u>
Balance at July 31, 2008	4,274,640	\$ 0.90		
Granted – Private Placement	3,255,000	0.30		October 7, 2011
Granted – Private Placement	1,625,000	0.15		April 22, 2011
Granted – Private Placement	<u>10,345,800</u>	<u>0.15</u>		June 12, 2011
Balance at July 31, 2008	19,500,440	\$ 0.35		
Granted – Private Placement	2,984,797	0.30		February 16, 2012
Granted – Private Placement	4,613,184	0.30		June 16, 2012
Expired/Cancelled	(4,274,640)	0.49		
Exercised/Released	<u>(1,120,000)</u>	<u>0.15</u>		
Balance at July 31, 2010	<u><u>21,703,781</u></u>	<u><u>\$ 0.26</u></u>	1.06 years	

### f) Broker Warrants

The fair values of broker warrants granted was estimated on the date of the grant using Black-Scholes option pricing model using the assumptions shown in the following table:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Dividend yield	0%	0%	0%
Expected volatility	147.71 – 194.23%	162.94%	110.78%
Risk-free interest rate	1.39 – 2.79%	2.76%	2.65%
Expected live	2 years	5 years	2 years

The following table summarizes the Company's agents' warrants activity:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>	<u>Expiry Date</u>
Balance at July 31, 2009	-	\$ -		
Granted – Private Placement	120,000	0.30	0.15	February 16, 2012
Granted – Short form prospectus	369,054	0.30	0.81	June 16, 2012
Granted – Short form prospectus	<u>369,054</u>	<u>0.22</u>	<u>0.81</u>	June 16, 2012
Balance at July 31, 2010	<u><u>858,108</u></u>	<u><u>\$ 0.25</u></u>	1.83	

## 9. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	<u>2010</u>	<u>2009</u>
	\$	\$
Loss for the year	(1,389,954)	(1,689,811)
Expected income tax recovery	(397,183)	(506,943)
Net adjustment for deductible and non-deductible amounts	105,984	203,059
Unrecognized benefit of non-capital losses	291,199	303,885
	<u>-</u>	<u>-</u>

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

	<u>2010</u>	<u>2009</u>
	\$	\$
Future income tax assets:		
Mineral properties	(248,087)	30,104
Non-capital loss carry-forwards	1,046,750	843,960
Share issue costs	79,351	42,314
Equipment	8,186	7,632
	<u>886,200</u>	<u>924,010</u>
Valuation allowance	(886,200)	(924,010)
Net future income tax assets	<u>-</u>	<u>-</u>

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in Canada in future years, expiring between 2010 and 2030 as follows:

<u>Year of Expiration</u>	<u>Non-Capital Loss</u>
2010	59,739
2014	76,834
2015	126,496
2026	95,816
2027	266,502
2028	1,194,653
2029	966,189
2030	898,257
	<u>\$ 3,684,486</u>

The Company has non-capital losses of approximately \$3.7 million (2009 - \$2.8 million) in Canada and \$0.5 million in the United States, which are available to reduce future taxable income and which expire between 2010 and 2030. The Company also has mineral property expenditure pools of \$3.4 million (2009 - \$3.2 million) available to reduce taxable income in future years, subject to certain restrictions. The Company has not recognized any future benefit relating to these tax losses and resource deductions as it is not considered likely that they will be utilized.

## 10. CONTINGENCIES

- a) A former lawyer for the Company had claimed for past legal fees, for which the Company had accrued \$358,742 in accounts payable, an amount which the Company disputed. During the current year, with no claim having been made for this amount for many years, it was reversed and the Company recorded a recovery in respect to it.
- b) The Company had a contingent liability for \$271,584 under a guarantee to a creditor from a prior business venture. No claim has ever been made under this guarantee and the Company has not accrued any amount in connection with it. Management believes that this guarantee is not enforceable.

## 11. FINANCIAL INSTRUMENTS

In accordance with Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, loans and receivables, available for sale and other financial liabilities. The Company has designated its cash as held-for-trading, which are measured at fair value and amounts receivable, are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and due to/from related parties are classified as other financial liabilities. Reclamation bonds are classified as available for sale, which are measured at their fair value. The Company does not have held-to-maturity instruments during the year ended July 31, 2010.

Amended CICA section 3862 establishes a fair value hierarchy that reflects the significance of inputs used in making fair value measurements as follows:

Level 1- quoted prices in active markets for identical assets or liabilities;

Level 2- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. from derived prices); and

Level 3- inputs for the asset or liability that are not based upon observable market data.

At July 31, 2010, the following table sets forth the levels in the fair value hierarchy into which the Company's financial assets and liabilities are measured and recognized in the balance sheet. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<u>Level 1</u>
Cash and cash equivalents	\$ 129,004
Reclamation bonding	\$ 14,000

The Company has determined the estimated fair values of its financial instruments based upon appropriate valuation methodologies. At July 31, 2010, there were no financial assets or liabilities measured and recognized in the balance sheet at fair value that would be categorized as Level 2 and 3 in the fair value hierarchy above.

## 12. SUBSEQUENT EVENTS

During the period subsequent to July 31, 2010 222,100 stock options were exercised for total proceeds of \$26,652 and 2,815,000 warrants were exercised for total proceeds of \$799,125.

In August 2010, the Company closed a private placement in the amount of \$412,231, which consisted of 2,290,174 units at a price of \$0.18 per unit. Each unit was comprised of one common share and one common share purchase warrant which can be exercised at \$0.25 for a period of two years.