ERIN VENTURES INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2012 AND 2011

(EXPRESSED IN CANADIAN DOLLARS)

MORGAN & COMPANY
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Erin Ventures Inc.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Erin Ventures Inc., which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010, and the consolidated statements of operations and comprehensive income, statements of changes in shareholders' equity and statements of cash flows for the years ended June 30, 2012 and June 30, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Erin Ventures Inc. as at June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and its cash flows for the years ended June 30, 2012 and June 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada *"Morgan & Company"*

October 29, 2012 Chartered Accountants

Tel: (604) 687 – 5841
Fax: (604) 687 – 0075
www.morgan-cas.com

MEMBER OF jhi

P.O. Box 10007 Pacific Centre
Suite 1488 – 700 West Georgia Street
Vancouver, BC V7Y 1A1

ERIN VENTURES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

ASSETS

	June 30, 2012	June 30, 2011	July 1, 2010
		Note 16	Note 16
Current			
Cash	**$ 227,734**	$ 2,200,911	$ 280,576
HST receivable	**83,978**	44,241	29,463
Prepaids	**14,881**	-	-
Assets held for sale – Note 6	**-**	-	750,715
Total Current Assets	**326,593**	2,245,152	1,060,754
Equipment – Note 4	**15,051**	21,501	2,891
Exploration and evaluation assets– Note 5	**4,882,403**	2,445,875	1,434,372
Total Assets	**$ 5,224,047**	$ 4,712,528	$ 2,498,017

LIABILITIES

	June 30, 2012	June 30, 2011	July 1, 2010
Current			
Accounts payable and accrued liabilities – Note 8	**$ 405,910**	$ 344,276	$ 369,868
Liabilities held for sale – Note 6	**-**	-	158,507
Total Liabilities	**405,910**	344,276	528,375

SHAREHOLDERS' EQUITY

	June 30, 2012	June 30, 2011	July 1, 2010
Share capital – Note 7	**19,145,162**	18,196,214	14,929,524
Share subscriptions receivable – Note 7	**(20,000)**	(149,784)	(126,484)
Share subscriptions received in advance – Note 7	**421,800**	-	-
Share-based payment reserve – Note 7	**1,146,230**	1,060,130	650,330
Deficit	**(15,875,055)**	(14,738,308)	(13,483,728)
Total Equity	**4,818,137**	4,368,252	1,969,642
Total Liabilities and Equity	**$ 5,224,047**	$ 4,712,528	$ 2,498,017

Basis of Presentation – Note 2
Subsequent Events – Note 15

These consolidated financial statements were approved and authorized for issue by the Board of Directors on October 29, 2012. They are signed on the Company's behalf by:

"Tim Daniels"
Director

"Dennis La Point"
Director

See accompanying notes to the consolidated financial statements

ERIN VENTURES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JUNE 30

	2012	2011
		Note 16
Expenses		
Accounting and audit fees	**$ 79,390**	$ 75,471
Consulting fees	**189,762**	31,690
Depreciation	**6,450**	6,685
Filing fees	**12,499**	30,565
Interest and bank charges	**8,339**	8,905
Legal fees	**16,597**	22,049
Management fees	**201,900**	156,000
Office and miscellaneous	**129,085**	127,145
Rent – Note 8	**26,115**	14,300
Share-based payments – Note 7	**27,008**	235,300
Telephone	**9,499**	10,149
Transfer agent fees	**8,009**	23,837
Travel and promotion	**82,923**	90,684
Operating loss	**(797,576)**	(832,780)
Foreign exchange (loss) gain	**(14,824)**	15,573
Write-off of exploration and evaluation assets	**(376,458)**	(349,751)
Recovery of advances (net)	**52,111**	4,500
Net loss from continuing operations	**$ (1,136,747)**	$ (1,162,458)
Net loss from discontinued operations	**-**	(92,122)
Net loss and comprehensive loss for the year	**$ (1,136,747)**	$ (1,254,580)
Basic and diluted loss per share before discontinued operations	**$ (0.01)**	$ (0.01)
Basic and diluted loss per share after discontinued operations	**$ (0.01)**	$ (0.01)
Weighted average number of shares outstanding	**158,483,079**	138,863,404

See accompanying notes to the consolidated financial statements

ERIN VENTURES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars)
FOR THE YEARS ENDED JUNE 30

	2012	2011 Note 16
Cash Provided By (Used For)		
Operating Activities		
Net loss for the year	**$ (1,136,747)**	$ (1,162,458)
Items not affecting cash:		
Depreciation	**6,450**	6,685
Foreign exchange loss	**840**	4,025
Gain on accounts payable write-off	**(52,111)**	-
Share-based payments	**27,008**	235,300
Shares issued for services	**171,762**	45,000
Write-off of exploration and evaluation assets	**376,458**	349,751
	(606,340)	(521,697)
Changes in non-cash working capital items related to operations:		
HST receivable	**(39,737)**	(14,778)
Prepaid expenses	**(14,881)**	-
Accounts payable and accrued liabilities	**61,634**	(134,960)
	(599,324)	(671,435)
Financing Activities		
Share subscriptions received, net	**821,500**	2,962,695
Share subscriptions received in advance of share issuance	**421,800**	-
	1,243,300	2,962,695
Investing Activities		
Exploration and evaluation asset expenditures	**(2,617,153)**	(823,508)
Purchase of equipment	**-**	(25,295)
Cash flows used in discontinued operations	**-**	(92,122)
Proceeds on disposal of assets held for sale, net of liabilities	**-**	570,000
	(2,617,153)	(370,925)
Change in cash during the year	**(1,973,177)**	1,920,335
Cash, beginning of the year	**2,200,911**	280,576
Cash, end of the year	**$ 227,734**	$ 2,200,911
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	**$ -**	$ -
Income taxes	**$ -**	$ -

Non-Cash Investing and Financing Activities – (Note 10)

See accompanying notes to the consolidated financial statements

ERIN VENTURES INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(Expressed in Canadian Dollars)

	Number of shares	Share capital	Share subscriptions receivable	Share subscriptions received in advance	Share-based payment reserve	Deficit	Total equity
July 1, 2010 (Note 16)	120,513,476	$ 14,929,524	$ (126,484)	$ -	$ 650,330	$ (13,483,728)	$ 1,969,642
Share subscriptions received	-	-	9,700	-	-	-	9,700
Share-based payments	-	-	-	-	235,300	-	235,300
Issued for exploration and evaluation assets:							
Options	-	-	-	-	74,175	-	74,175
Units	1,500,000	180,000	-	-	139,100	-	319,100
Options exercised	330,000	71,775	(33,000)	-	(38,775)	-	-
Warrants exercised	9,310,000	914,750	-	-	-	-	914,750
Private placement	22,500,000	2,250,000	-	-	-	-	2,250,000
Shares issued for services	407,834	45,000	-	-	-	-	45,000
Less: Share issuance costs	-	(194,835)	-	-	-	-	(194,835)
Loss for the year	-	-	-	-	-	(1,254,580)	(1,254,580)
June 30, 2011 (Note 16)	154,561,310	$ 18,196,214	$ (149,784)	$ -	$ 1,060,130	$ (14,738,308)	$ 4,368,252
Share-based payments	-	$ -	$ -	$ -	$ 27,008	$ -	$ 27,008
Share-based payments for exploration and evaluation assets	-	-	-	-	59,092	-	59,092
Shares issued for exploration and evaluation assets	193,547	20,226	58,000	-	-	-	78,226
Shares issued for services	-	-	73,034	-	-	-	73,034
Share subscriptions received in advance	-	-	8,750	421,800	-	-	430,550
Warrants exercised	150,000	13,750	-	-	-	-	13,750
Private placement	9,555,000	955,500	(20,000)	-	-	-	935,500
Less: Share issuance costs	-	(40,528)	10,000	-	-	-	(30,528)
Loss for the year	-	-	-	-	-	(1,136,747)	(1,136,747)
June 30, 2012	164,459,857	$ 19,145,162	$ (20,000)	$ 421,800	$ 1,146,230	$ (15,875,055)	$ 4,818,137

See accompanying notes to the consolidated financial statements

Note 1 Nature of Operations and Ability to Continue as a Going Concern

Erin Ventures Inc. ("the Company") was incorporated under the laws of the Province of Alberta on July 19, 1993 and on May 28, 2001 registered in the Province of British Columbia as an extra-provincial company. The Company's common shares are listed for trading on the TSX Venture Exchange ("TSX.V"), under the symbol "EV". The address of the Company's corporate office and principal place of business is suite 203, 645 Fort Street, Victoria, British Columbia, Canada.

The Company is in the development stage and is in the process of exploring and developing its exploration and evaluation assets and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the properties and upon future profitable production or proceeds from the disposition thereof. Managements' plan in this regard is to secure additional funds through future equity financings, which either may not be available or may not be available on reasonable terms.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization value may be substantially different from carrying value as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At June 30, 2012, the Company had not yet achieved profitable operations, has accumulated losses of $15,875,055 and expects to incur further losses in the development of its business, all of which casts substantial doubt on the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they become due. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

Note 2 Basis of Presentation

a) Statement of Compliance

The Canadian Institute of Chartered Accountants Handbook was revised in 2010 to incorporate International Financial Reporting Standards ("IFRS") and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. The Company has commenced reporting on this basis in these consolidated financial statements. These consolidated financial statements are stated in Canadian dollars unless otherwise noted.

Note 2 **Basis of Presentation** (Continued)

a) Statement of Compliance (Continued)

These are the Company's first IFRS annual financial statements which have been prepared in accordance with IFRS. The date of transition to IFRS is July 1, 2010. Prior to adoption on July 1, 2011, the Company prepared its consolidated annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("cGAAP"). Subject to certain transition elections disclosed in Note 16, we have consistently applied the same accounting policies in our opening IFRS balance sheet as at July 1, 2010 and throughout all years presented, as if the policies had always been in effect. Note 16 discloses the impact of the transition from cGAAP to IFRS on our reported financial position, operating earnings and cash flows, including the nature and effect of significant changes in accounting policies from those used in our consolidated financial statements for year ended June 30, 2011. IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of July 1, 2010 and allows certain exemptions on transition to IFRS. The elections adopted by the Company and have been disclosed in Note 16.

The policies applied in these consolidated financial statements are presented in Note 3 and are based on IFRS issued and outstanding as of June 30, 2012.

b) Basis of Measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Subsidiaries and Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: 766072 Alberta Inc., Ceibo Resources Ltd., Balkan Gold Corp., Carolina Gold Corp. and Canamanian Resources Inc. 766072 Alberta Inc. is a holding company. Balkan Gold Corp. was incorporated in Serbia for the purposes of complying with Serbian regulatory requirements related to the Piskanja property.

Note 2 **Basis of Presentation** (Continued)

c) Subsidiaries and Principles of Consolidation (Continued)

Carolina Gold Corp. was incorporated in the State of Delaware, USA, on January 16, 2007, for purposes of developing exploration and evaluation assets in the US. Ceibo Resources Ltd. was incorporated in Belize for the purposes of developing exploration and evaluation assets. Canamanian Resources Inc. was incorporated in Panama on December 18, 2009, for purposes of developing exploration and evaluation assets. All intercompany transactions and balances have been eliminated upon consolidation.

d) Critical Accounting Judgments and Estimates

The preparation of these consolidated financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. The preparation of the consolidated financial statements also requires management to exercise judgment in the process of applying the accounting policies.

On an on-going basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its judgments and estimates. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Critical Accounting Estimates

The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Impairment of Assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the years ended June 30, 2012 and 2011, aside from the mineral property disclosed in note 5.

Note 2 **<u>Basis of Presentation</u>** (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash- generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior reporting periods. A reversal of an impairment loss is recognized immediately in profit or loss.

Management estimates of mineral prices, recoverable reserves, and operating, capital and restoration costs are subject to certain risks and uncertainties that may affect the recoverability of exploration and evaluation assets. Although management has made its best estimate of these factors, it is possible that changes could occur in the near term that could adversely affect management's estimate of the net cash flow to be generated from its projects.

Title to Mineral Property Interests

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 are subject to prior agreements or transfers and title may be affected by undetected defects.

Share-based Compensation

Management is required to make certain estimates when determining the fair value of share-based payments, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's consolidated statement of operations and comprehensive loss.

<u>*Critical Judgments Used in Applying Accounting Policies*</u>
In the preparation of these consolidated financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgements can have an effect on the amounts recognized in the consolidated financial statements.
Exploration and Evaluation Assets

In estimating the recoverability of capitalized exploration and evaluation assets, management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral properties. Once technical feasibility and commercial viability of property can be demonstrated, it is reclassified from exploration and evaluation assets to property and equipment, and subject to different accounting treatment. As at June 30, 2012 and June 30, 2011 management had determined that no reclassification of exploration and evaluation assets was required.

Note 2 **<u>Basis of Presentation</u>** (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

Income Tax

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The Company's deferred tax assets have not been recorded in these consolidated statements of financial position, because it is not probable that the Company will have sufficient profits in the future to utilize the tax assets. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the consolidated financial statements.

Note 3 Significant Accounting Policies

The accounting policies set out below are adopted for the year ending June 30, 2012 and have been applied consistently to all years presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at July 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and cashable highly liquid investments with limited interest and credit risk. The remaining maturities at point of purchase are at 3 months or less, with no penalties on early retirement. The Company places its cash with chartered Canadian banks. As at June 30, 2012 and 2011, the Company had no cash equivalents.

b) Equipment

Equipment is recorded at cost and depreciated over their estimated useful lives. The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Depreciation is recorded when equipment is put in use over the estimated useful life using the following methods and rates:

Office equipment	5 years straight line
Computer equipment	5 years straight line
Vehicle	30% declining balance

Note 3 **Significant Accounting Policies** (Continued)

c) Exploration and Evaluation Assets

Upon acquiring the legal right to explore an exploration and evaluation asset, costs related to the acquisition, exploration and evaluation are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit and loss. If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets 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 exploration and evaluation, and future profitable production or proceeds from the disposition thereof.

d) Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets at each reporting period. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount.

A mining enterprise is required to consider the conditions for impairment write-down. The conditions include significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, the capitalized costs are written down to the estimated recoverable amount.

Note 3 Significant Accounting Policies (Continued)

e) Reclamation and Remediation Provisions for Environmental

The Company recognizes a provision for statutory, contractual, constructive, or legal obligations associated with decommissioning of mining operations and reclamation and rehabilitation costs arising when environmental disturbance caused by the exploration or development of mineral properties, plant, and equipment occurs, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions for site closure and reclamation are recognized in the period in which the obligation is incurred or acquired, and are measured based on expected future cash flows to settle the obligation, discounted to their present value. The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability including risks specific to the countries in which the related operation is located.

When an obligation is initially recognized, the corresponding cost is capitalized to the carrying amount of the related asset in mineral properties, plant, and equipment. These costs are depreciated using either the unit of production or straight line method depending on the asset to which the obligation relates.

The obligation is increased for the accretion and the corresponding amount is recognized as a finance expense. The obligation is also adjusted for changes in the estimated timing, amount of expected future cash flows, and changes in the discount rate. Such changes in estimates are added to or deducted from the related asset except where deductions are greater than the carrying value of the related asset in which case, the amount of the excess is recognized in the statements of comprehensive income/loss.

Due to uncertainties concerning environmental remediation, the ultimate cost to the Company of future site restoration could differ from the amounts provided. The estimates of the total provision for future site closure and reclamation costs is subject to change based on amendments to laws and regulations, changes in technology, price increases, and interest rates, and as new information concerning the Company's closure and reclamation obligations become available.

f) Foreign Currency Translation

The functional currency is the currency of the primary economic environment in which the entity operates and has been determined for each entity within the Company. The presentation currency and functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors indentified in IAS 21, *The Effects of Changes in Foreign Exchange Rates.*

Note 3 **Significant Accounting Policies** (Continued)

f) Foreign Currency Translation (Continued)

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the year.

g) Incidental Revenue

Revenue is recognized from the sale of boron and gold when the price is determinable, the product has been delivered and title has been transferred to the customer and collection of the sales price is reasonably assured. Incidental revenue is set off against related project and exploration expenditures.

h) Assets Held for Sale

Assets classified as held for sale are those that their carrying amount will be recovered through a sale transaction rather than through continuing use, and expected to be sold within a twelve month period and there is no longer intent to hold for future use. Assets held for sale are valued at the lower of cost and fair value less cost of disposal.

i) Basic and Diluted Loss Per Share

Basic loss per share is calculated by dividing the net loss for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented.

j) Share Consideration

Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-cash transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration is based upon the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued according to the residual method.

Note 3 **Significant Accounting Policies** (Continued)

k) Share-based Payments

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

l) Income Taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method. Temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes are recognized as deferred tax assets and liabilities. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Note 3 **Significant Accounting Policies** (Continued)

l) Income Taxes (Continued)

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

m) Financial Instruments

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through other comprehensive income (loss).

Note 3 **Significant Accounting Policies** (Continued)

m) Financial Instruments (Continued)

Financial assets (Continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash at fair value through profit and loss. The Company's receivables are classified as loans and receivables.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Other financial liabilities: This category consists of liabilities carried at amortized cost using the effective interest method.

The Company's accounts payable and accrued liabilities and assets held for sale are classified as other financial liabilities.

The Company designated cash (Level 1) 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 neither available-for-sale, nor held-to-maturity instruments during the year ended June 30, 2012.

The Company is required to disclose the inputs used in fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

Note 3 **Significant Accounting Policies** (Continued)

m) Financial Instruments (Continued)

Financial liabilities (Continued)

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

The Company has determined that no adjustments are currently required for transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading.

n) Adoption of Accounting Policy Effective January 1, 2012

IAS 12 – Income Taxes (Amended) (IAS 12), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended*) require additional disclosures on transferred financial assets.

o) Future Accounting Changes

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Note 3 **<u>Significant Accounting Policies</u>** (Continued)

o) Future Accounting Changes (Continued)

Accounting Standards Issued and Effective January 1, 2013

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements
- defines the principle of control, and establishes control as the basis for consolidation
- sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee
- sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities.

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement* with Other Entities requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realisable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

(Expressed in Canadian Dollars)

Note 3 **Significant Accounting Policies** (Continued)

o) Future Accounting Changes (Continued)

Accounting Standards Issued and Effective January 1, 2013 (Continued)

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, jointly held ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Accounting Standards Issued and Effective January 1, 2015

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 *Financial Instruments: Recognition and Measurement*, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

Note 4 **Equipment**

	OFFICE EQUIPMENT	COMPUTER EQUIPMENT	VEHICLE	TOTAL
COST				
Balance, July 1, 2010	$ 8,390	$ 25,009	$ -	$ 33,399
Additions	-	-	25,295	25,295
Balance, June 30, 2011 and 2012	$ 8,390	$ 25,009	$ 25,295	$ 58,694
ACCUMULATED DEPRECIATION				
Balance, July 1, 2010	$ 7,721	$ 22,787	$ -	$ 30,508
Depreciation for the year	669	2,222	3,794	6,685
Balance, June 30, 2011	8,390	25,009	3,794	37,193
Depreciation for the year	-	-	6,450	6,450
Balance, June 30, 2012	$ 8,390	$ 25,009	$ 10,244	$ 43,643
CARRYING AMOUNTS				
July 1, 2010	$ 669	$ 2,222	$ -	$ 2,891
June 30, 2011	$ -	$ -	$ 21,501	$ 21,501
June 30, 2012	$ -	$ -	$ 15,051	$ 15,051

(Expressed in Canadian Dollars)

Note 5 Exploration and evaluation assets

	USA	Serbia	Canada	Total
Balance, June 30, 2011	$ 1,262,272	$ 816,606	$ 366,997	$ 2,445,875
Acquisition costs				
Cash	13,769	-	-	13,769
Shares and options	82,318	-	25,000	107,318
Deferred exploration costs				
Administration and rent	36,599	-	-	36,599
Advances	-	108,860	-	108,860
Consulting and geological consulting	64,492	454,769	-	519,261
Drilling	7,491	1,363,301	-	1,370,792
Field work and supplies	-	669,249	-	669,249
Travel	8,231	21,978	-	30,209
Incidental Revenue	-	(43,071)	-	(43,071)
	1,475,172	3,391,692	391,997	5,258,861
Less: Written off	-	(376,458)	-	(376,458)
Balance, June 30, 2012	$ 1,475,172	$ 3,015,234	$ 391,997	$ 4,882,403

	USA	Serbia	Panama	Canada	Total
Balance, June 30, 2010	$ 1,070,200	$ 193,048	$ 161,300	$ 9,824	$ 1,434,372
Acquisition costs					
Cash	33,454	-	44,916	9,500	87,870
Shares, options and warrants	74,175	-	-	319,100	393,275
Deferred exploration costs					
Administration and rent	5,630	158,149	-	-	163,779
Advances	-	87,640	-	-	87,640
Consulting and geological consulting	78,813	303,319	143,535	16,970	542,637
Field work and supplies	-	74,450	-	8,617	83,067
Travel	-	-	-	2,986	2,986
	1,262,272	816,606	349,751	366,997	2,795,626
Less: written off	-	-	(349,751)	-	(349,751)
Balance, June 30, 2011	$ 1,262,272	$ 816,606	$ -	$ 366,997	$ 2,445,875

Note 5 **Exploration and evaluation assets** (Continued)

Deep River Gold Project, North Carolina, United States of America ("USA")

By agreement dated June 15, 2006, the Company entered into a strategic alliance with another company to acquire, explore and develop exploration and evaluation assets in the Southeastern United States. The term of the agreement is five years, in which the Company will acquire a 100% interest in the project subject to completion of a work program totaling US$400,000, to be funded during the first year of the agreement. In addition, the Company advanced $55,897 (US$50,000) for land acquisition costs.

The agreement also includes a five-year management contract with the other company, which requires the Company to make annual share-based payments of US$30,000 as compensation for facilities rental; grant 600,000 stock options per year, up to a maximum of 1,800,000 unexercised stock options held at one time by the other company (granted 900,000 during the year ended June 30, 2012 (June 30, 2011 – 330,000; June 30, 2010 – 300,000)); pay annual lease costs to third party owners as required; and pay consulting fees at a rate of US$550 per day for a minimum of 100 days annually.

The other company will retain a 0.80% production royalty on the property. By June 30, 2012 the Company had accrued US$220,000 in consulting fees relating to this management contract.

The Company has the option to purchase the production royalty during the 60 day period following completion of a positive feasibility study for 1% of the value of proven and probable gold plus 1% of the other economically recoverable minerals to a maximum of $4,000,000.

Volujski Kljuc ("VK") Property, Serbia

In the year ended June 30, 2012, the Company's wholly owned subsidiary, Balkan Gold, had received an exploration license for the Volujski Kljuc ("VK") alluvial gold deposit in Serbia, but were unable to gain acceptable usage rights from the private landowners. Accordingly, the Company has abandoned its property and written off the exploration and evaluation assets.

Piskanja Property, Serbia

The Company has entered in to a binding agreement with the Serbian state-owned mining company, JP PEU, for the joint development of the Piskanja boron deposit, located in Serbia as follows:

i) The Company's wholly owned Serbian subsidiary, Balkan Gold doo ("Balkan"), will apply for an exclusive exploration license (obtained) on the Piskanja property and conduct a geological study on the deposit. If results are positive, Balkan will then compose a feasibility study for mine development. Balkan is responsible for 100 % of the costs related to these studies and retains 100% ownership at this stage.

Note 5 Exploration and evaluation assets (Continued)

Piskanja Property, Serbia (Continued)

ii) When the feasibility study is complete, Balkan and JP PEU will form a joint venture company that will apply for an exploration license. However, in the event that JP PEU's corporate structure does not allow for it to enter into this joint venture (as is currently the case), Balkan will retain the right to apply for the exploration license on its own and retain 100% interest in the project.

iii) Ownership in the joint venture company will be directly proportional to the value of the assets contributed by each party. Balkan will be responsible for providing all the financing required to develop the mine and ore-processing facilities. JP PEU will contribute certain existing infrastructure assets in its possession (such as a power substation, access roads, rail spur, office and maintenance buildings in strategic proximity to the property) and historical research data from previous exploration programs at Piskanja. The determination of the assets to be contributed by JP PEU to the joint venture will be at the sole discretion of Balkan. These assets will be contributed at their established fair market value.

iv) An official determination of percentage ownership will occur at the completion of the mine development and be based upon the amount that has been actually spent by Balkan on exploration and mine development and the fair market value of the assets contributed by JP PEU.

v) Each party will have representation on the board of directors of the joint venture company on a basis that reflects its pro rata ownership of the joint venture company.

Santa Rosa Property, Panama

The Company, in conjunction with Pageland Minerals Ltd. a private company with directors in common ("Pageland"), has entered into an agreement to purchase majority control of the assets of the Santa Rosa Gold Mine in Panama in exchange for US $1,550,000 payable as follows:

- A US$75,000 down payment at the time of signing of the agreement (paid);
- A second payment of US$75,000 due upon the completion of transfer of land title;
- US$500,000 due and payable when the mineral rights and mining permits associated with the Santa Rosa Mine have been re-established by the Panamanian government and granted exclusively to the Optionor;
- A second payment of US$500,000 is payable 90 days after the first payment of US$500,000;
- A final payment of US $400,000 is payable 180 days after the first payment of US$500,000.

Note 5 Exploration and evaluation assets (Continued)

Santa Rosa Property, Panama

The Company will retain an undivided 75% interest and Pageland will retain an undividued 25% interest in the Santa Rosa Mine, with each partner responsible for their prorata share of the purchase price and the payments and expenditures. The Company will act as operator of the mine and the Optionor will be entitled to receive 10% of the net profits of the mine operations. Title will revert to the Optionor upon completion of mining.

During the year ended June 30, 2011, the Company decided not to pursue the option agreement and wrote-off the exploration and evaluation assets.

Yukon Property, Canada

During the year ended June 30, 2010 the company entered into an agreement to purchase a 100% interest in a Yukon property, which has 36 Quartz Claims, in exchange for:

- Cash payment of $25,000 (paid);
- 1,500,000 common shares of the Company (issued);
- 1,500,000 warrants, exercisable into one common share of the Company for $0.10 for two years (granted);
- payment of 3% net smelter royalty;
- $20,000 expenditure of exploration on the property by June 1, 2010 (completed); and
- a further $100,000 expenditure of exploration on the property by May 15, 2011 (during the year ended June 30, 2011 the Company was given an extension to July 1, 2012. Subsequent to the year ended June 30, 2012, a further extension was provided to July 15, 2013).

Note 6 Assets Held for Sale

Ceibo Chico Property, Belize

During the year ended June 30, 2011 the Company completed the sale of its undivided right, title and interest together with related assets of the Ceibo Chico property as follows:

i) A $50,000 non-refundable deposit payable to the Company within two weeks of completion of due diligence (received);

ii) An additional $700,000 cash payment is due to the Company upon closing (received $520,000 in cash and had $180,000 in debt forgiven);

(Expressed in Canadian Dollars)

Note 6 **Assets Held for Sale** (Continued)

iii) The Company retains a 90% interest in a 3 per-cent NSR on any hard rock production. During the year ended June 30, 2011, the Company agreed to purchase the remaining 10% interest in the NSR for US$45,000 (paid). The buyer may purchase the NSR from the Company for $1-million per point, or $3-million in total;

iv) Pay a gold royalty of US$30,030 (paid).

v) The buyer agrees to spend $350,000 on exploration by the third anniversary of the agreement or the property reverts back to the Company.

Assets disposed of in the transaction includes the following at June 30, 2010:

	June 30, 2010
Mining equipment	$ 399,429
Vehicle	1,287
Mineral property	350,000
	$ 750,716

The Company settled amounts payable totaling $158,507 consisting of $94,757 payable in relation to the property, and a finder's fee of $63,750.

Note 7 **Share Capital**

a) Authorized:

Unlimited voting common shares without par value
Unlimited preferred shares without par value (none issued)

b) Issued common shares:

During the year ended June 30, 2012, the Company:

i) issued 193,547 common shares pursuant to an exploration and evaluation asset agreement for the Deep River Gold Project, valued at $0.12 per share for total value of $23,226.

ii) issued 150,000 shares for proceeds of $22,500 for warrants exercised.

(Expressed in Canadian Dollars)

Note 7 **Share Capital** (Continued)

b) Issued common shares: (Continued)

iii) issued 9,555,000 units at $0.10 per unit for private placements. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at $0.25 per share until February 10, 2014. All of the proceeds have been allocated to shares issued and none to the warrants. At June 30, 2012, the Company had not collected $20,000 in respect to shares issued. Subsequent to June 30, 2012 these subscriptions were collected.

During the year ended June 30, 2011, the Company:

i) issued 22,500,000 units at $0.10 per unit for private placements. Each unit consisted of one common share and one share purchase warrant. For 16,500,000 warrants, each warrant entitles the holder to purchase one common share at $0.15 per share until December 2, 2011 and at $0.25 per share until December 2, 2012. For 6,000,000 warrants, each warrant entitles the holder to purchase one common share at $0.15 per share until January 7, 2012 and at $0.25 per share until January 7, 2013. All of the proceeds have been allocated to shares issued and none to the warrants.

ii) issued 407,834 shares, valued at $45,000, for services rendered on the Santa Rosa, Panama property.

iii) issued 1,500,000 units for mineral property option payments. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at $0.10 per share until September 21, 2012. The shares were valued at $180,000 based on the market price of the shares on the date issued, and the warrants were valued at $139,100 using the Black-Scholes option pricing model to estimate the fair value of the warrants using the following assumptions:

Dividend yield	Nil
Annualized volatility	136%
Risk-free interest rate	1.40%
Expected life	2 years

(Expressed in Canadian Dollars)

Note 7 **Share Capital** (Continued)

c) Commitments:

Share purchase options

The Company has granted directors and employees common share purchase options. Additional common share purchase options were also granted pursuant to exploration and evaluation assets acquisition agreements. These options are granted with an exercise price equal to the market price of the Company's shares on the date of the grant. The aggregate number of options are restricted to 10% of the total common shares issued and outstanding, and the number of options to any individual is restricted to 5% of the total common shares issued and outstanding, unless that individual is a consultant, in which case the number is restricted to 2%. The options may not be assigned nor transferred, and can have a term of no more than 5 years. The options vest at the discretion of the directors.

A summary of the status of share purchase options outstanding is presented below:

	Year ended June 30, 2012		Year ended June 30, 2011	
	SHARES	**WEIGHTED AVERAGE EXERCISE PRICE**	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	**6,080,000**	**$0.14**	4,150,000	$0.13
Expired	**(2,200,000)**	**$0.13**	(500,000)	$0.10
Granted	**1,275,000**	**$0.16**	2,760,000	$0.15
Exercised	**-**	**-**	(330,000)	$0.10
Outstanding at end of year	**5,155,000**	**$0.15**	6,080,000	$0.14
Exercisable at end of year	**5,155,000**	**$0.15**	6,080,000	$0.14

The weighted average remaining life of options outstanding at June 30, 2012 is 1.51 years (June 30, 2011 – 1.81 years).

At June 30, 2012, the Company has 5,155,000 share purchase options outstanding entitling the holder thereof the right to purchase one common share for each option held as follows:

Number of Options	Exercise Price	Expiry Date
300,000	$0.17	August 24, 2012 (expired subsequently)
1,750,000	$0.15	October 15, 2012 (expired subsequently)
300,000	$0.15	January 1, 2013
330,000	$0.10	September 16, 2013
300,000	$0.16	October 13, 2012
300,000	$0.16	October 13, 2013
300,000	$0.16	October 13, 2014
1,500,000	$0.16	December 7, 2015
75,000	$0.10	January 24, 2017
5,155,000		

(Expressed in Canadian Dollars)

Note 7 Share Capital (Continued)

c) Commitments: (Continued)

Share purchase options (Continued)

The fair value of the share-based payments during the year ended June 30, 2012 was $86,100 (2011 - $270,195) of which $27,008 (2011 - $231,420) is included in share-based payments expense and $59,092 (2011 - $38,775) is included in exploration and evaluation asset acquisition costs. Unless otherwise noted, all share purchase options vest when granted. The Company uses the Black-Scholes option pricing model to estimate the fair value of the options using the following assumptions:

	2012	2011
Dividend yield	**Nil**	Nil
Annualized volatility	**78 - 117%**	125 - 150%
Risk-free interest rate	**1.02 – 1.36%**	1.00%
Expected life	**1 - 5 years**	1 – 5 years

Share Purchase Warrants

A summary of the status of share purchase warrants outstanding is presented below:

	Year ended June 30, 2012		Year ended June 30, 2011	
	SHARES	**WEIGHTED AVERAGE EXERCISE PRICE**	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	**40,950,500**	**$0.13**	37,137,527	$0.12
Issued	**9,555,000**	**$0.25**	24,000,000	$0.15
Exercised	**(150,000)**	**$0.15**	(9,310,000)	$0.10
Expired	**(16,950,500)**	**$0.10**	(10,877,027)	$0.18
Outstanding at end of year	**33,405,000**	**$0.18**	40,950,500	$0.13

At June 30, 2012, the Company has 33,405,000 common share purchase warrants outstanding entitling the holders thereof the right to purchase one common share for each warrant held as follows:

Number of Warrants	Exercise Price	Expiry Date
1,500,000	$0.10	September 15, 2012 (expired subsequently)
16,350,000	$0.25	December 2, 2012
6,000,000	$0.25	January 7, 2013
9,555,000	$0.25	February 10, 2014
33,405,000		

(Expressed in Canadian Dollars)

Note 8 Accounts Payable and Accrued Liabilities

		June 30, 2012		June 30, 2011		July 1, 2010
Trade payable	**$**	**140,752**	$	134,176	$	206,356
Accrued liabilities		**265,158**		210,100		163,512
	$	**405,910**	$	344,276	$	369,868

Note 9 Related Party Transactions

The Company incurred the following costs charged by directors of the Company and companies controlled by Directors of the Company:

		2012		2011
Exploration and evaluation assets costs				
Consulting and geological consulting	**$**	**178,580**	$	-
Administration and rent		**6,599**		5,630
Acquisition costs		**150,063**		74,175
Consulting fees		**38,000**		68,000
Office and miscellaneous		**67,500**		60,000
Management fees		**202,500**		156,000
Rent		**4,800**		9,000
Recovery of advances receivable		**-**		(4,500)
Travel and promotion		**2,400**		3,000
	$	**650,442**	$	371,305

Key Management Compensation

		2012		2011
Management fees – short term benefits	**$**	**236,500**	$	156,000
Management fees – share based payments	**$**	**40,000**	$	-

As at June 30, 2012 accounts payable includes $265,873 (June 30, 2011: $177,587) due to directors of the Company and companies with common directors. This amount is comprised of unpaid geological fees, consulting fees, office costs, royalties and travel costs. All amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Note 10 Non-Cash Investing and Financing Activities

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows. The following transactions have been excluded from the statement of cash flows:

At June 30, 2012, the Company had $233,788 (June 30, 2011 - $192,789) in accounts payable that related to exploration and evaluation assets expenditures.

During the year ended June 30, 2012, the Company:

- issued 193,547 common shares valued at $23,226 with respect to exploration and evaluation assets acquisition costs;
- granted 900,000 stock options valued at $59,092 with repect to exploration and evaluation assets costs;
- issued 1,280,000 common shares, as part of the 9,555,000 private placement, valued at $128,000 for services.

During the year ended June 30, 2011, the Company:

- issued 1,500,000 common shares valued at $180,000 with respect to exploration and evaluation assets acquisition costs;
- issued 1,500,000 warrants valued at $139,100 with respect to exploration and evaluation assets acquisition costs;
- granted 2,430,000 stock options valued at $309,475. $74,175 was allocated to resource property costs and $235,300 with repect to stock-based compensation.
- issued 330,000 common shares for $33,000 pursuant to the exercise of stock options. Upon exercise $38,775 was reallocated from contributed surplus to share capital. At July 31, 2011, $33,000 was receivable.
- issued 407,834 shares valued at $45,000 for geological services related to the Panama property.

Note 11 Financial Instruments

The fair value of the financial instruments approximates their carrying value as they are short term in nature.

Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management process. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. The types of risk exposure and the way in which such exposure is managed is provided as follows:

Note 11 **Financial Instruments** (Continued)

Credit Risk

The Company is primarily exposed to credit risk on its bank accounts. Credit risk exposure is limited by placing its cash with high-credit quality financial institutions.

Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the expected short and long term cash requirements.

Market Risk

The significant market risk exposures to which the Company is exposed are foreign exchange risk, interest rate risk, and commodity price risk.

The Company has operations in Canada, the United States and Serbia subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian dollars, United States dollars ("US dollars") and Serbian dinars, and the fluctuation of the Canadian dollar in relation to these other currencies will have an impact upon the profitability of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks.

Financial assets and liabilities denominated in currencies other than the Canadian dollar are as follows:

	June 30, 2012	
	Financial Assets	Financial Liabilities
US dollar	$ -	$ 219,688

Based on the above net exposures at June 30, 2012, and assuming that all other variables remain constant, a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of $21,969 in the Company's loss from operations.

Interest Rate Risk

As at June 30, 2012, the Company does not have any interest bearing financial instruments and accordingly the Company is not exposed to interest rate risks.

(Expressed in Canadian Dollars)

Note 12 **Income Taxes**

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2012	2011
Statutory rate	**26%**	28%
Loss before income taxes	**$ (1,137,000)**	$ (1,255,000)
Expected income tax recovery	**$ 296,000**	$ 351,000
(Increase) decrease in income tax recovery resulting from:		
Permanent differences	**(50,000)**	(67,000)
Change in tax rate	**(8,000)**	(15,000)
Discontinued operations	**-**	(26,000)
Change in estimates and other	**(76,000)**	-
Share issuance costs	**8,000**	55,000
Change in unrecognized deferred tax assets	**(170,000)**	(298,000)
Income tax recovery	**$ -**	$ -

The significant components of the Company's future income tax assets, after applying enacted corporate income tax rates, are as follows:

	2012	2011
Resource properties and deferred exploration	**$ 1,587,000**	$ 1,608,000
Non-capital losses carried forward	**1,177,000**	980,000
Unused share issuance costs	**42,000**	50,000
Equipment	**63,000**	62,000
Unrecognized deferred tax assets	**(2,869,000)**	(2,700,000)
	$ -	$ -

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is more likely-than-not that sufficient taxable income will not be realized in the future to utilize all future tax assets.

At June 30, 2012, the Company has accumulated Canadian and foreign exploration and development expenditures of approximately $11,232,000 and non-capital losses of approximately $4,707,000, that may be applied against future income for tax purposes. The non-capital losses expire by 2032.

(Expressed in Canadian Dollars)

Note 13 Capital Disclosures

The Company was formed for the purpose of acquiring exploration and development stage natural exploration and evaluation assets. The directors determine the Company's capital structure and make adjustments to it based on 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 Company is dependent upon incidental sales of gold and boron from mining operations and external financing to fund future exploration programs and its administrative costs. The Company will spend existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential provided it has adequate financial resources to do so.

The directors review the Company's capital management approach on an ongoing basis and believe that this approach, given the relative size of the Company, is reasonable. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern.

The Company considers the items included on the balance sheet in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

The Company's approach to capital management did not change during the year ended June 30, 2012.

Note 14 Segmented Information

Capital assets by geographic segment, at cost:

	June 30, 2012	June 30, 2011	July 1, 2010
Canada	**$ 391,997**	$ 366,997	$ 12,715
Panama	**-**	-	161,299
Serbia	**3,030,285**	838,107	193,049
United States	**1,475,172**	1,262,272	1,070,200
	$ 4,897,454	$ 2,467,376	$ 1,437,263

Note 15 Subsequent Events

Subsequent to June 30, 2012, the Company announced that it has entered into a non-binding Letter of Intent, which outlines the terms of an Earn-in Option Agreement whereby Mountain Man Minerals Corp. ("MMM"), a private BC company, may acquire the Deep River Gold project from the Company. MMM may earn 100% interest in Deep River in consideration for a total of $250,000 cash, $600,000 worth of shares, a $3,000,000 work expenditure over 4 years, and an ongoing NSR payment based on production.

Subsequent to June 30, 2012, the Company completed a private placement of 19,214,996 units at a price of $0.06 for total proceeds of $1,152,900. Each unit consists of one common share and one warrant which have a two year term and have an exercise price of $0.12 in the first year and $0.25 in the second year.

Note 16 Transition to International Financial Reporting Standards

The consolidated financial statements of the Company have been prepared in compliance with IFRS as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual financial statements prepared in accordance with IFRS. The preparation of the consolidated statement of financial position resulted in changes to the accounting policies as compared with the most recent annual balance sheet prepared under pre-changeover cGAAP. The accounting policies set out below have been applied in preparing the opening IFRS statement of financial position as at July 1, 2010 and June 30, 2011 for the purposes of the transition to IFRS as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1").

IFRS 1 *"First-time Adoption of International Financial Reporting Standards"*

IFRS 1 generally required that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company has elected to take the following IFRS1 optional exemptions:

- to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;
- to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the Transition Date including those foreign currency differences which arose on adoption of IFRS.

Note 16 **Transition to International Financial Reporting Standards** (Continued)

IFRS 1 *"First-time Adoption of International Financial Reporting Standards"* (Continued)

The Company applied the following mandatory exception:

Estimates

Hindsight is not used to create or revise estimates. In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under the previous cGAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of July 1, 2010 are consistent with its cGAAP estimates for the same date.

Reconciliation to previously reported financial statements

A reconciliation of the changes is included in these following Consolidated Statements of Financial Position and Consolidated Statements of Operations and Comprehensive Income for the dates noted below. The effects of transition from cGAAP to IFRS on the cash flow are not material; therefore a reconciliation of cash flows has not been presented.

- Transitional Consolidated Statement of Financial Position Reconciliation – July 1, 2010.
- Consolidated Statement of Financial Position Reconciliation – June 30, 2011.
- Consolidated Statement of Operations and Comprehensive Loss Reconciliation – for the year ended June 30, 2011.

(Expressed in Canadian Dollars)

Note 16 Transition to International Financial Reporting Standards (Continued)

The July 1, 2010 cGAAP consolidated statement of financial position has been reconciled to IFRS as follows:

	July 1, 2010 cGAAP	Effect of Transition to IFRS	**July 1, 2010 IFRS**
Assets			
Current			
Cash	$ 280,576	$ -	**$ 280,576**
HST receivable	29,463	-	**29,463**
Assets held for sale	750,715	-	**750,715**
	1,060,754	-	**1,060,754**
Equipment	2,891	-	**2,891**
Exploration and evaluation assets	1,434,372	-	**1,434,372**
	$ 2,498,017	$ -	**$ 2,498,017**
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 369,868	$ -	**$ 369,868**
Liabilities held for sale	158,507	-	**158,507**
	528,375	-	**528,375**
Shareholders' Equity			
Share capital	14,929,524	-	**14,929,524**
Share subscriptions receivable	(126,484)	-	**(126,484)**
Share-based payment reserve	650,330	-	**650,330**
Deficit	(13,483,728)	-	**(13,483,728)**
	1,969,642	-	**1,969,642**
	$ 2,498,017	$ -	**$ 2,498,017**

(Expressed in Canadian Dollars)

Note 16 **Transition to International Financial Reporting Standards** (Continued)

	cGAAP		**IFRS**
Assets			
Current			
Cash	$ 2,200,911	$ -	**$ 2,200,911**
HST receivable	44,241	-	**44,241**
	2,245,152	-	**2,245,152**
Equipment	21,501	-	**21,501**
Exploration and evaluation assets (a)	2,556,190	(110,315)	**2,445,875**
	$ 4,822,843	$ (110,315)	**$ 4,712,528**
Liabilities			
Current			
Accounts payable and accrued liabilities	$ 344,276	$ -	**$ 344,276**
Shareholders' Equity			
Share capital	18,196,214	-	**18,196,214**
Share subscriptions receivable	(149,784)	-	**(149,784)**
Share-based payment reserve	1,060,130	-	**1,060,130**
Deficit	(14,627,993)	(110,315)	**(14,738,308)**
	4,478,567	(110,315)	**4,368,252**
	$ 4,822,843	$ (110,315)	**$ 4,712,528**

(Expressed in Canadian Dollars)

Note 16 Transition to International Financial Reporting Standards (Continued)

The cGAAP consolidated statement of operations and comprehensive loss for the year ended June 30, 2011 has been reconciled to IFRS as follows:

	Year ended June 30, 2011 cGAAP	Effect of Transition to IFRS	**Year ended June 30, 2011 IFRS**
Administrative expenses			
Accounting and audit fees	$ 75,471	$ -	**$ 75,471**
Consulting fees	31,690	-	**31,690**
Depreciation	6,685	-	**6,685**
Filing fees	30,565	-	**30,565**
Interest and bank charges	8,905	-	**8,905**
Legal fees	22,049	-	**22,049**
Management fees	156,000	-	**156,000**
Office and miscellaneous	127,145	-	**127,145**
Rent	14,300	-	**14,300**
Share-based payments	235,300	-	**235,300**
Telephone	10,149	-	**10,149**
Transfer agent fees	23,837	-	**23,837**
Travel and promotion	90,684	-	**90,684**
Loss before other items, income taxes and discontinued operations	(832,780)	-	**(832,780)**
Other items:			
Foreign exchange gain	15,573	-	**15,573**
Write-down of exploration and evaluation assets	(349,751)	-	**(349,751)**
Recovery of advances	4,500	-	**4,500**
Loss before taxes and discontinued operations	(1,162,458)	-	**(1,162,458)**
Deferred income tax recovery (a)	110,315	(110,315)	**-**
Net loss from continuing operations	(1,052,143)	(110,315)	**(1,162,458)**
Net loss from discontinued operations	(92,122)	-	**(92,122)**
Net loss and comprehensive loss for the year	$ (1,144,265)	$ (110,315)	**$ (1,254,580)**

Note 16 **<u>Transition to International Financial Reporting Standards</u>** (Continued)

Explanation of Significant Adjustments

a) The Company capitalizes exploration and evaluation assets incurred by the Company. Under Canadian GAAP, a deferred income tax liability was recognized and measured in accordance with CICA section 3465 Income Taxes, with a corresponding increase to the carrying value of exploration and evaluation assets. Under IAS 12 Income Taxes, this deferred tax liability and the related gross-up in the carrying value of exploration and evaluation assets would not be recognized, either on acquisition or subsequently.