VELOCITY MINERALS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

SIX MONTH PERIOD ENDED
DECEMBER 31, 2009

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidation financial statements for the period ended December 31, 2009.

VELOCITY MINERALS LTD.
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

	December 31, 2009	June 30, 2009
ASSETS		
Current		
Cash	$ 2,277,614	$ 3,525,014
Accounts receivable	19,464	25,658
Prepaid expenses	2,483	22,170
	2,299,561	3,572,842
Equipment (Note 6)	9,181	10,305
Reclamation bonds (Note 7)	32,000	32,000
Mineral properties and deferred exploration costs (Note 8)	2,452,666	1,641,843
	$ 4,793,408	$ 5,256,990
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 24,013	$ 126,091
Shareholders' equity		
Capital stock (Note 9)	5,537,997	5,537,997
Contributed surplus (Note 9)	1,063,963	952,683
Deficit	(1,832,565)	(1,359,781)
	4,769,395	5,130,899
	$ 4,793,408	$ 5,256,990

Nature and continuance of operations (Note 1)

On behalf of the Board:

"Kenneth Holmes" Director *"D. Barry Lee"* Director

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

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited – Prepared by Management)

	Three month period ended December 31, 2009	Three month period ended December 31, 2008	Six month period ended December 31, 2009	Six month period ended December 31, 2008
EXPENSES				
Bank charges and interest	$ 758	$ 292	$ 1,305	$ 1,071
Consulting	4,900	54,515	7,330	95,181
Depreciation	562	201	1,124	402
Filing and transfer agent fees	2,176	5,638	8,730	17,688
Insurance	-	-	8,400	9,969
Investor relations and promotion	49,415	72,261	91,241	114,382
Management fees	75,000	68,000	150,000	119,000
Office and administration	18,884	9,070	33,476	16,288
Office rent	6,977	5,000	14,190	17,500
Professional fees	15,367	14,870	16,641	51,440
Property investigation	3,849	-	3,849	1,000
Stock-based compensation	-	-	111,280	-
Telephone	1,420	2,205	2,989	4,117
Travel and related	19,295	8,559	25,537	15,460
Website	610	1,412	875	1,412
Loss before other item	(199,213)	(242,023)	(476,967)	(464,910)
OTHER ITEM				
Interest income	4,183	11,101	4,183	16,648
Net loss for the period	(195,030)	(230,922)	(472,784)	(448,262)
Deficit, beginning of period	(1,637,535)	(1,298,887)	(1,359,781)	(1,081,547)
Deficit, end of period	$ (1,832,565)	$ (1,529,809)	$ (1,832,565)	$ (1,529,809)
Basic and diluted loss per share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)
Weighted average number of common shares outstanding	29,082,833	29,082,833	29,082,833	29,082,833

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

VELOCITY MINERALS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Three month period ended December 31, 2009	Three month period ended December 31, 2008	Six month period ended December 31, 2009	Six month period ended December 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	$ (195,030)	$ (230,922)	$ (472,784)	$ (448,262)
Items not affecting cash:				
Depreciation	562	201	1,124	402
Stock-based compensation	-	-	111,280	-
Changes in non-cash working capital items:				
Decrease (Increase) in accounts receivable	17,192	(64,031)	6,194	(94,877)
Decrease in prepaid expenses	-	-	19,687	-
(Decrease) in accounts payable and accrued liabilities	(241,600)	(20,766)	(91,878)	(204,274)
Net cash used in operating activities	(418,876)	(315,518)	(426,377)	(747,011)
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issue costs (paid) refunded	-	-	-	24,460
Net cash provided by financing activities	-	-	-	24,460
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of reclamation bond	-	-	-	(25,000)
Mineral property expenditures	(148,870)	(536,301)	(821,023)	(1,301,388)
Net cash used in investing activities	(148,870)	(536,301)	(821,023)	(1,326,388)
Change in cash for the period	(567,746)	(851,549)	(1,247,400)	(2,048,939)
Cash, beginning of period	2,845,360	4,758,506	3,525,014	5,955,896
Cash, end of period	$ 2,277,614	$ 3,906,957	$ 2,277,614	$ 3,906,957
Cash paid for interest	$ -	$ -	$ -	$ -
Cash paid for income taxes	$ -	$ -	$ -	$ -

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Velocity Minerals Ltd. (the "Company") was incorporated under the laws of the province of Alberta on September 22, 2000 and was continued into British Columbia on December 2, 2004.

The Company is in the process of exploring and developing its mineral properties and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of those mineral reserves and upon future profitable production.

These consolidated financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to continue to raise adequate financing. Management is continually targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions to ensure continuation of the Company's operations and exploration programs.

	December 31, 2009	June 30, 2009
Working capital	$ 2,275,548	$ 3,446,751
Deficit	(1,832,565)	(1,359,781)

These interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles has been condensed or omitted. These interim period consolidated statements should be read together with the Company's audited consolidated financial statements and the accompanying notes for the year ended June 30, 2009. In the opinion of the Company, its unaudited interim consolidated financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Velocity Exploration Ltd. incorporated in the province of British Columbia on December 28, 2007. All inter-company balances and transactions have been eliminated upon consolidation.

Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Cash and cash equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Equipment

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Computer equipment	30%
Office furniture and fixtures	20%

Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable mineral reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

The amounts shown for mineral properties and deferred exploration costs do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Asset retirement obligations

An asset retirement obligation is a legal obligation associated with the retirement of tangible long-lived assets that the Company is required to settle. The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

The Company does not have any significant asset retirement obligations.

Impairment of long-lived assets

A long-lived asset is tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value. For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Stock-based compensation

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year and does not include outstanding options and warrants. Diluted loss per share is not presented separately from loss per share as the conversion of outstanding stock options and warrants into common shares would be anti-dilutive for the periods presented.

Future income taxes

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

Flow-through shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Recording these expenditures for accounting purposes gives rise to taxable temporary differences.

Abstract EIC 146 "Flow-Through Shares" requires that, when flow-through expenditures are renounced, a portion of the future income tax assets that were not recognized in previous years, due to the recording of a valuation allowance, be recognized as a recovery of income taxes in the statement of operations.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The Company has classified its cash as held-for-trading. Accounts receivable are classified as loans and receivables, and accounts payable and accrued liabilities are classified as other liabilities, which are measured at amortized cost.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Assessing going concern (Section 1400)

The AcSB amended Section 1400, to include requirements for management to assess an entity's ability to continue as a going concern and to disclose material uncertainties related to events or conditions that may cast doubt upon the entity's ability to continue as a going concern. The Company has included the necessary disclosure in Note 1 to these financial statements.

Capital disclosures (Section 1535)

This new pronouncement establishes standards for disclosing information about an entity's capital and how it is managed. Section 1535 also requires the disclosure of any externally-imposed capital requirements, whether the entity has complied with them, and if not, the consequences (see Note 3).

Financial Instruments – Disclosure (Section 3862) and Presentation (Section 3863)

These new standards require additional disclosures to enable users to evaluate the significance of financial instruments for an entity's financial position and performance. In addition, qualitative and quantitative disclosures are provided to enable users to evaluate the nature and extent of risks arising from financial instruments (See Note 5).

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities – EIC 173

The Accounting Standards Board ("AcSB") issued EIC-173 which requires the corporation to consider its own credit risk as well and the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. This new standard is effective for the Company's annual consolidated financial statements commencing for the year ended June 30, 2009. The Company has performed an assessment as of June 30, 2009 and believed there to be no impact on its financial statements.

Mining Exploration Costs – EIC 174

The AcSB issued EIC-174 which provides guidance to mining enterprises related to the measurement of exploration costs and the conditions that a mining exploration enterprise should consider when determining the need to perform an impairment review of such costs. The accounting treatment provided for in EIC-174 has been applied in the preparation of these financial statements and did not have an impact on the valuation of the Company's mineral properties.

Recent accounting pronouncements

Goodwill and Intangible Assets (Section 3064)

This new standard replaces the current standard for goodwill and intangible assets, *Section 3062*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of pre-production and start-up costs and requires that these costs be expensed as incurred.

The adoption of this new pronouncement is not expected to have a material effect on the Company's financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Recent accounting pronouncements (cont'd…)

Business Combinations, Non-controlling Interest and Consolidated Financial Statements

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on or after January 1, 2011. Early adoption of this Section is permitted and all three Sections must be adopted concurrently.

International Financial Reporting Standards ("IFRS")

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended June 30, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. CAPITAL MANAGEMENT

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

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not exposed to externally imposed capital requirements.

4. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, interest rate risk and price risk.

Credit risk

Credit risk is the risk of loss associated with a payee's inability to fulfill its payment obligations to the Company. The Company's cash is held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The primary receivables owed to the Company are owed from the Federal Government of Canada as a result of GST refunds. The Company believes it has no significant credit risk.

Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2009 the Company had a cash balance of $2,277,614 (June 30, 2009 - $3,525,014) to settle current liabilities of $24,013 (June 30, 2009 - $126,091). Management believes that it has sufficient funds to meet its current liabilities as they become due.

Market risk

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

a) Interest rate risk:

The Company's interest rate risk is limited to the risk that the fair value of future cash flows from a financial instrument will fluctuate as a result of changes in market prices. The Company's financial assets and liabilities are not exposed to significant interest rate risk due to their short-term nature. The Company's investment policy focuses on the preservation of capital and limits investments of excess cash into high grade Canadian debt securities.

b) Price risk:

The Company is exposed to price risk with respect to commodity prices as it is in the resource industry. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations are affected by changes in the market prices for commodities. The supply and demand for commodities, the level of interest rates, the rate of inflation, investment decisions by large holders of commodities including governmental reserves and stability of exchange rates can all cause significant fluctuations in commodity prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

c) Foreign exchange risk:

The Company principally operates in Canada and the majority of its transactions are incurred in Canada, and is therefore not exposed to currency fluctuations denominated in currencies other than the Canadian dollar, the Company's functional currency. The Company's cash, accounts receivables and accounts payable and accrued liabilities are held in Canadian dollars and are therefore not subject to foreign exchange fluctuations.

5. ACQUISITION

During fiscal 2008, the Company acquired all of the issued and outstanding share capital of Velocity Exploration Ltd ("VEL"), a company incorporated on December 28, 2007. As consideration, the Company issued 12,000,000 common shares, of which 9,000,000 are held in escrow in accordance with the policies of the Toronto Stock Exchange.

Legally, the Company is the parent of VEL. However, as a result of the share exchange described above, control of the combined companies passed to the former shareholders of VEL. This type of share exchange, referred to as a "reverse takeover," deems VEL to be the acquirer for accounting purposes. Accordingly the net assets of VEL are included in the balance sheet at book values and the deemed acquisition of the Company is accounted for by the purchase method with the net assets of the Company recorded at fair market value at the date of acquisition. The expenses, assets and liabilities subsequent to the date of acquisition include the accounts of the Company.

The total purchase price of $44,583 was allocated as follows:

Cash	$	5,507
Accounts receivable		17,880
Prepaid expenses		15,000
Mineral properties		20,000
Accounts payable		(13,804)
	$	44,583

6. EQUIPMENT

	December 31, 2009			June 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	$ 2,678	$ 1,085	$ 1,593	$ 2,678	$ 804	$ 1,874
Office furniture and fixtures	8,935	1,347	7,588	8,935	504	8,431
	$ 11,613	$ 2,432	$ 9,181	$ 11,613	$ 1,308	$ 10,305

7. RECLAMATION BONDS

The Company has reclamation bonds in place for $32,000 (June 30, 2009 - $32,000) posted with the Government of British Columbia relating to the exploration of the Mt. Haskin ($7,000) and Cassiar Moly ($25,000) properties.

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of its interests are in good standing. The mineral property interests in which the Company has committed to earn an interest are located in Canada.

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd…)

Mt. Haskin

The Company holds a 100% interest in the Mt. Haskin property, which is located in the Cassiar District of Liard Mining Division in northwestern British Columbia, Canada. The claims are subject to a 3% net smelter royalty ("NSR"), which may be acquired by the Company for a cash payment of $1,500,000.

Cassiar Moly

The Company holds a 100% interest in the Cassiar Moly property, which is located in the Cassiar District of Liard Mining Division in northwestern British Columbia, Canada. Certain claims are subject to a 1.5% NSR, which may be acquired by the Company for a cash payment of $1,500,000.

The following mineral property and deferred exploration costs were incurred on the Company's mineral properties:

As at June 30, 2009	Mt. Haskin	Cassiar Moly	Total
Acquisition costs , June 30, 2009	$ 50,100	$ 45,100	$ 95,200
Deferred exploration costs			
Assays and lab tests	84,303	-	84,303
Camp geotech	111,098	26,896	137,994
Camp costs, room and board	55,661	14,854	70,515
Core storage	6,150	-	6,150
Drilling and related	539,833	-	539,833
Equipment rental	18,237	32,449	50,686
Exploration management	43,000	32,600	75,600
Filing and assessment	11,720	8,832	20,552
Fuel, travel and transportation	50,452	41,584	92,036
Geological consulting	120,520	41,352	161,872
Mapping and reproduction	31,898	10,068	41,966
Materials and supplies	35,914	5,754	41,668
Meals and lodging	13,369	10,117	23,486
Rock scaling	-	116,120	116,120
Site access	16,000	67,337	83,337
Telephone and communication	525	-	525
Total deferred exploration costs, June 30, 2009	1,138,680	407,963	1,546,643
Total mineral property and deferred exploration costs, June 30, 2009	$ 1,188,780	$ 453,063	$ 1,641,843

8. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd…)

As at December 31, 2009	Mt. Haskin	Cassiar Moly	Total
Acquisition costs			
Opening balance, as at June 30, 2009	$ 50,100	$ 45,100	$ 95,200
Adjustments	(5,100)	(5,100)	(10,200)
Total acquisition costs, as at December 31, 2009	45,000	40,000	85,000
Deferred exploration costs			
Opening balance, as at June 30, 2009	1,138,680	407,963	1,546,643
Assays and lab tests	11,572	6,864	18,436
Camp geotech	7,499	39,306	46,805
Camp costs, room and board	18,293	42,475	60,768
Core storage	19,688	-	19,688
Drilling and related	76,550	38,215	114,765
Equipment rental	3,150	12,517	15,667
Exploration management	11,500	36,500	48,000
Fuel, travel and transportation	15,534	91,883	107,417
Geological consulting	9,560	43,529	53,089
Materials and supplies	331	7,060	7,391
Meals and lodging	553	2,348	2,901
Mine entry access	-	313,026	313,026
Site access	5,060	11,710	16,770
Telephone and communication	943	4,209	5,152
Exploration tax credits	(8,152)	(700)	(8,852)
	172,081	648,942	821,023
Total deferred exploration costs, as at December 31, 2009	1,310,761	1,056,905	2,367,666
Total mineral property and deferred exploration costs, as at December 31, 2009	$ 1,355,761	$ 1,096,905	$ 2,452,666

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

	Number of Shares	Amount	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance, as at June 30, 2009	29,082,833	$ 5,537,997	$ 952,683
Stock-based compensation	-	-	111,280
Balance, as at December 31, 2009	29,082,833	$ 5,537,997	$ 1,063,963

9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (cont'd…)

Stock options

The Company, in accordance with its stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 10% of its issued and outstanding common stock. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options granted vest at the discretion of the board.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	December 31, 2009		June 30, 2009	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of period	2,300,000	$ 0.52	2,533,333	$ 0.52
Exercised	-	-	-	-
Granted	800,000	0.22	-	-
Expired/cancelled	(200,000)	0.50	(233,333)	0.50
Outstanding, end of period	2,900,000	0.44	2,300,000	0.52
Options exercisable, end of period	2,900,000	0.44	2,300,000	0.52

Stock options outstanding at December 31, 2009 are as follows:

	Number Of Shares	Exercise Price	Expiry Date
Stock options	300,000	$ 0.64(1)	May 20, 2010(1)
	1,800,000	0.50(2)	March 19, 2013
	800,000	0.22	September 15, 2014

(1) Subject to TSX approval, the exercise price has been re-priced to $0.22 and the expiry date extended to May 31, 2012

(2) Subject to TSX approval, the exercise price has been re-priced to $0.22

9. **SHARE CAPITAL AND CONTRIBUTED SURPLUS** (cont'd…)

Warrants

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

	December 31, 2009		June 30, 2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding, beginning of period	12,732,833	$ 1.13	12,830,798	$ 0.75
Exercised	-	-	-	-
Granted	-	-	-	-
Expired/cancelled	-	-	(97,965)	0.50
Outstanding, end of period	12,732,833	1.13	12,732,833	1.13
Warrants exercisable, end of period	12,732,833	1.13	12,732,833	1.13

Warrants outstanding at December 31, 2009 are as follows:

Number of Shares	Exercise Price	Expiry Date
9,399,500 (1)	$ 1.00	May 9, 2010
2,083,333 (2)	1.50	May 20, 2010
1,250,000 (3)	1.50	June 11, 2010

(1) Exercise price was $0.75 until May 9, 2009
(2) Exercise price was $1.00 until May 20, 2009
(3) Exercise price was $1.00 until June 11, 2009

10. STOCK-BASED COMPENSATION

During the six months ended December 31, 2009, the Company granted 800,000 stock options to acquire common shares with a weighted average fair value of $0.19 per share, all of which are vested, resulting in stock-based compensation expense of $111,280 during the period under the Black-Scholes option pricing model.

The following weighted average assumptions were used for the Black-Scholes valuation of stock options

Risk-free interest rate	2.25%
Expected life of options	5 years
Annualized volatility	100.00%
Dividend rate	0.00%

11. RELATED PARTY TRANSACTIONS

During the six months ended December 31, 2009 the Company entered into the following transactions with related parties:

a) Paid or accrued $102,000 (2008 - $72,000) in management fees to companies controlled by directors of the Company.

b) Paid or accrued $48,000 (2008 - $47,000) in management fees to directors of the Company.

c) Paid or accrued $Nil (2008 - $25,666) in consulting fees to a director of the Company.

d) Paid or accrued $48,000 (2008 - $Nil) in exploration management fees, $12,600 (2008 - $18,002) in equipment rental costs and $34,320 (2008 - $25,000) to two directors of the Company and a Company with common directors for construction services to facilitate site access. These costs are capitalized under mineral properties and deferred exploration costs and shown in Note 8 of the consolidated financial statements.

Included in accounts receivable is $Nil (June 30, 2009 - $15,000) due from a company controlled by a director of the Company and included in accounts payable is $Nil (June 30, 2009 - $32,179) due to directors and a company controlled by a director.

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

12. SEGMENT INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. The Company conducts all of its operations in Canada, and all of the Company's properties are located in Canada.

13. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the six months ended December 31, 2009 were as follows:

a) $10,200 of mineral properties and deferred exploration costs adjusted to correspond to a reduction in accounts payable and accrued liabilities.

b) Included in mineral properties and deferred exploration costs is $11,145 (2008 - $58,592) which relates to accounts payable and accrued liabilities.