



(FORMERLY COALCORP MINING INC.)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010  
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

## Management's Responsibility

### **NOTICE TO READER**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these unaudited interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants ("CICA") for a review of interim financial statements by an entity's auditor.

**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Interim Consolidated Statements of Financial Position**  
**(Expressed in Thousands of Canadian Dollars)**

	September 30, 2011	June 30, 2011	July 1, 2010
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	26,624	30,827	19,218
Marketable securities	-	-	-
Accounts receivable	-	-	99
Prepaid expenses and deposits	108	242	103
Restricted cash (Note 5)	-	-	8,384
Investment in Formation Metals Inc. (Note 6)	-	1,211	-
Investment in Oracle Mining Corp. (Note 7)	4,085	7,589	-
Assets of discontinued operations (Note 9)	4,074	3,937	19,211
	<b>34,891</b>	43,806	47,014
Investment in Formation Metals Inc. (Note 6)	-	-	7,865
	<b>34,891</b>	43,806	54,880
<b>Liabilities</b>			
Current Liabilities			
Accounts payable and accrued liabilities	3,342	3,245	4,388
Current portion of bonds payable (Note 8)	-	8,057	-
Liabilities of discontinued operations (Note 9)	452	418	4,483
	<b>3,794</b>	11,720	8,871
Long-term debt (Note 8)	-	-	8,530
Liabilities of discontinued operations (Note 9)	-	-	210
	<b>3,794</b>	11,720	17,611
<b>Shareholders' Equity</b>			
Share capital (Note 10(a))	375,885	375,836	375,836
Contributed surplus	159,051	158,633	158,633
Accumulated other comprehensive loss	(1,886)	(8)	-
Deficit	(501,953)	(502,375)	(497,200)
	<b>31,097</b>	32,086	37,269
	<b>34,891</b>	43,806	54,880

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

**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Interim Consolidated Statements of Operations and Comprehensive Income (loss)**  
**(Expressed in Thousands of Canadian Dollars)**

<b>For the three months ended September 30</b>	<b>2011</b>	<b>2010</b>
<b>Administrative Expenses</b>		
Office and administration	273	247
Loss from continuing operations before other income (expenses) and income taxes	(273)	(247)
<b>Other Income (Expense)</b>		
Interest income	36	400
Share based compensation (Note 4(a) and 10(c))	(418)	-
Interest on bonds payable	(169)	(294)
Foreign exchange gain	1,986	213
Loss on sale of marketable securities	(806)	-
	629	319
<b>Income from continuing operations, before taxes</b>	<b>356</b>	<b>72</b>
Current income taxes	-	-
Future income taxes	-	-
Income from continuing operations	356	72
Income from discontinued operations (Note 9)	66	94
	422	166
<b>Net income</b>	<b>422</b>	<b>166</b>
<b>Other Comprehensive Income</b>		
Unrealized gain (loss) on available for sale financial assets	(1,878)	1,002
<b>Comprehensive income (loss)</b>	<b>(1,456)</b>	<b>1,169</b>
<b>Earnings per share, continuing operations</b>	<b>0.01</b>	<b>0.00</b>
<b>Earnings per share, basic and fully diluted</b>	<b>0.01</b>	<b>0.01</b>
<b>Weighted average number of shares outstanding</b>	<b>173,034,033</b>	<b>173,007,049</b>

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**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Interim Consolidated Statements of Changes in Shareholders' Equity**  
**(Expressed in Thousands of Canadian Dollars)**

	Common Shares Number	Common Shares Amount	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance, July 1, 2010</b>	<b>173,007,049</b>	<b>375,836</b>	<b>158,633</b>	-	<b>(497,200)</b>	<b>37,269</b>
Net income	-	-	-	-	166	166
Other comprehensive income	-	-	-	1,002	-	1,002
Balance, September 30, 2010	173,007,049	375,836	158,633	1,002	(497,034)	38,437
Net income (loss)	-	-	-	-	(5,341)	(5,341)
Other comprehensive income (loss)	-	-	-	(1,011)	-	(1,011)
Balance, June 30, 2011	<b>173,007,049</b>	<b>375,836</b>	<b>158,633</b>	<b>(8)</b>	<b>(502,375)</b>	<b>32,086</b>
Net income	-	-	-	-	422	422
Other comprehensive income (loss)	-	-	-	(1,878)	-	(1,878)
Issued during the period	373,925	49	-	-	-	49
Share based compensation	-	-	418	-	-	418
<b>Balance, September 30, 2011</b>	<b>173,380,974</b>	<b>375,885</b>	<b>159,051</b>	<b>(1,886)</b>	<b>(501,953)</b>	<b>31,097</b>

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**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Interim Consolidated Statements of Cash Flows**  
**(Expressed in Thousands of Canadian Dollars)**

<b>For the three months ended September 30,</b>	<b>2011</b>	<b>2010</b>
<b>Cash and cash equivalents (used in) provided by:</b>		
<b>Operating Activities</b>		
Net income from continuing operations	\$ 356	\$ 72
Non-cash items included in net loss:		
Stock-based compensation	418	-
Shares issued for non-cash consideration	49	-
Foreign exchange gain	(1,451)	(213)
Loss on sale of marketable securities	806	-
Change in FV of marketable securities	(613)	-
Changes in non-cash working capital balances:	231	706
Cashflows from continuing operations	(204)	565
Cashflows from discontinued operations	(47)	(31)
Cashflows from operating activities	(251)	534
<b>Investing Activities</b>		
Proceeds on sale of marketable securities	2,644	-
Cash flows from continuing operations	2,644	-
Cash flows from discontinued operations	-	8,232
Cashflows from investing activities	2,644	-
<b>Financing Activities</b>		
Repayment of bonds payable	(8,592)	-
Financing cash flows from continuing operations	(8,592)	-
Financing cash flows from discontinued operations	-	-
Cashflows from financing activities	(8,592)	-
Foreign exchange loss on cash held in foreign currency	1,986	124
<b>Change in cash and cash equivalents during the period</b>	<b>(4,213)</b>	<b>8,890</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>32,070</b>	<b>20,861</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 27,857</b>	<b>\$29,751</b>

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

**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Interim Consolidated Statements of Cash Flows (Continued)**  
**(Expressed in Thousands of Canadian Dollars)**

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<b>For the three months ended September 30,</b>	<b>2011</b>	<b>2010</b>
<b>Comprised of:</b>		
Cash and cash equivalents of continuing operations	\$ 26,624	\$ 26,271
Cash and cash equivalents of discontinued operations	1,233	3,480
	<b>\$ 27,857</b>	<b>\$ 29,751</b>
<b>Cash and cash equivalents are comprised of:</b>		
Cash	\$ 3,142	\$ 5,112
Cash equivalents	\$ 24,715	\$ 24,639
	<b>\$ 27,857</b>	<b>\$ 29,751</b>
Cash received (paid) for interest	\$ (143)	\$ 244
Cash received (paid) for income taxes	\$ -	\$ -

Amounts received or paid for interest and income taxes are included in cash flows from operating activities in the consolidated statement of cash flows.

**Melior Resources Inc.**  
**(Formerly Coalcorp Mining Inc.)**  
**Notes to Condensed Interim Consolidated Financial Statements**  
**September 30, 2011 and 2010**  
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**1. Corporate Information**

Melior Resources Inc. (formerly "Coalcorp Mining Inc."), (the "Corporation"), is a Canadian investment company focused on making strategic investments in, and developing, resource based opportunities offering capital appreciation potential.

On September 28, 2011, the Corporation changed its name to Melior Resources Inc. Effective September 29, 2011, the common shares and warrants commenced trading on the TSXV under the symbols MLR and MLR.WT.B, respectively.

The Corporation is incorporated under the laws of the province British Columbia, Canada. The Corporation's principal place of business is 120 Adelaide Street West, Suite 2500, Toronto, Ontario, Canada.

**2. Statement of Compliance**

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standard 1 First-time adoption of IFRS ("IFRS 1") and International Accounting Standard 34 Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These statements are condensed and do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Corporation as at and for the year ended June 30, 2011, prepared under Canadian generally accepted accounting principles ("Canadian GAAP").

These are the Corporation's first interim condensed consolidated financial statements prepared in accordance with IAS 34. The accounting policies have been selected to be consistent with IFRS as is expected to be effective on June 30, 2012, the Corporation's first annual IFRS reporting date. Previously, the Corporation prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below were consistently applied to all periods presented unless otherwise noted. They also have been applied in the preparation of an opening IFRS statement of financial position as at July 1, 2010, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in note 14.

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these interim consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending June 30, 2012.

These interim consolidated financial statements for the period ended September 30, 2011 were authorized for issuance by the Board of Directors of the Corporation on December 14, 2011.

**3. Significant Accounting Policies**

(a) Basis of presentation:

These interim consolidated interim financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified as at fair value through profit or loss or available for sale, which are measured at fair value.

(b) Basis of consolidation:

These consolidated financial statements include the accounts of the Corporation and its subsidiaries, all of which are wholly-owned. All significant intercompany transactions and balances have been eliminated.



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(c) Translation of foreign currencies:

The Corporation's functional and presentation currency is the Canadian dollar. Functional currency is also determined for each of the Corporation's subsidiaries, and items included in the financial statements of the subsidiary are measured using that functional currency. The functional currency of all of Corporation's subsidiaries has also been determined to be the Canadian dollar.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the statement of operations.

(d) Financial Instruments:

The Corporation recognizes financial assets and financial liabilities when the Corporation becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

i) *Financial assets at fair value through profit or loss (FVTPL)*

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of operations.

The Corporation's financial assets classified as FVTPL include cash and cash equivalents, restricted cash, marketable securities (comprising of the Corporation's investments in shares of Formation Metals and Oracle Mining Corp.) and the embedded derivative component (conversion feature) of the investment in Formation Metals.

ii) *Available for sale financial assets)*

Available-for-sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with changes recognized in other comprehensive income. Upon sale or impairment, the accumulated fair value adjustments recognized in other comprehensive income are recorded in the consolidated statements of operations.

Available-for-sale financial assets include the investment in Formation Metals and investment in Oracle Mining.

iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument to the net carrying amount on initial recognition.

Accounts receivable are classified as loans and receivables.

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*iv) Other financial liabilities*

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Corporation's financial liabilities classified as other financial liabilities include accounts payable and accrued liabilities and long-term debt.

(e) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, deposits in banks and highly liquid investments with an original maturity of ninety days or less.

(f) Income taxes:

Income taxes are determined using the assets and liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable.

(g) Stock-based compensation:

Stock options granted are settled with shares of the Corporation. The expense is determined based on the fair value of the award granted and recognized over the period when services are received, which is usually the vesting period. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the statement of operations.

(h) Per share information:

Basic loss per share is computed by dividing the loss for the year available to common shareholders by the weighted average number of shares outstanding during the years. Diluted loss per share is computed similarly to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the years. Options and warrants are anti-dilutive and, therefore, have not been taken into account in the per share calculations.

**Future Accounting Changes**

The following accounting pronouncements have been released but have not yet been adopted by the Corporation.

(a) *IFRS 9 Financial Instruments*

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The IASB has proposed to amend this effective date to January 1, 2015.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential

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impact the adoption of IFRS 9 will have on the Corporation's consolidated financial statements.

(b) IFRS 13 Fair Value Measurement

On May 12, 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Corporation's consolidated financial statements.

(c) Other

In June 2011, the IASB issued amendments to IFRS 7 *Financial Instruments: Disclosures*. The Corporation does not believe the changes resulting from these amendments are relevant to its financial statements.

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The Corporation does not believe the changes resulting from these new standards are relevant to its financial statements.

In June 2011, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 19 *Employee Benefits*, primarily related to accounting for defined benefit pension plans. The Corporation does not believe the changes resulting from these amendments will have an impact on its financial statements.

#### **4. Critical Accounting Estimates and Judgments**

The preparation of these interim consolidated financial statements requires the Corporation to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the financial statements. These estimates have a direct effect on the measurement of transactions and balances recognized in the financial statements. Actual results could differ from estimates.

In addition, the Corporation has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

(a) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards and the number of awards that are expected to vest. These estimates affect the amount recognized as stock-based compensation in the statement of operations. For the three months ended September 30, 2011 the Company recognized \$418 of stock-based compensation expense [2010 - \$Nil].

(b) Income Taxes

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 actual amount of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

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**5. CNRI Settlement**

On March 3, 2011 the Corporation entered into a Settlement Agreement (the "CNRI Settlement") with certain affiliates of the Goldman Sachs Group, Inc. ("Goldman Sachs"), including Colombian Natural Resources I SAS ("CNRI") and Colombian Natural Resources II SAS (together with CNRI, the "CNR Parties").

Pursuant to the CNRI Settlement, the Corporation and the CNRI Parties have irrevocably released and discharged each other from any and all claims, including those raised by CNRI in the Notices of Claim announced on November 3, 2010 and December 30, 2010, arising out of or relating to the March 19, 2010 transaction ("Transaction").

In accordance with the terms of an escrow agreement (the "Escrow Agreement") dated March 19, 2010 among Computershare, Melior, and the CNR Parties, Computershare was holding USD 8,000 in escrow in connection with the Transaction and previously recorded on the statement of financial position as restricted cash. Upon completion of the CNRI Settlement, a payment of USD 6,231 was released by Computershare to the CNR Parties and USD 1,769 was released to Melior. This resulted in a loss of \$6,144 (USD 6,231) and was recorded in the statement of operations for the year ended June 30, 2011.

**6. Investment in Formation Metals Inc.**

On May 6, 2010, the Corporation invested \$8,000 in an unsecured convertible debenture in Formation Metals Inc. ("Formation"). The debenture had an initial term of 18 months with an interest rate of 12%, payable in common shares in the capital of Formation ("Formation Shares"). Interest was calculated daily and payable quarterly in Formation Shares, subject to regulatory approval at a price equal to the five-day volume weighted average trading price at the time of issue.

During fiscal 2011, the Corporation redeemed \$1,000 of the debenture for 666,666 Formation Shares under the terms of the conversion rights of the underlying agreement. The Corporation also received two interest payments made under the debenture for which Melior received an aggregate of 429,772 Formation Shares.

For the year ended June 30, 2011, the Corporation sold an aggregate of 300,800 Formation Shares for net proceeds of \$670, resulting in a gain of \$286.

On March 14, 2011, the Corporation completed an agreement with Formation for the prepayment of the remaining \$7,000 debenture outstanding. Following this agreement, the Corporation surrendered the debenture to Formation upon receipt of \$9,333 in cash and 400,000 Formation Shares. This resulted in a gain on disposition of the debenture of \$2,917.

On June 30, 2011 Melior held 1,195,638 Formation Shares. These shares have been designated as available-for-sale marketable securities on the Corporation's statement of financial position and are presented at fair market value. The Formation Shares were sold during the current period for net proceeds of \$961, resulting in a loss on sale of \$608 which has been recorded in the statement of operations.

The following table summarizes the value of each debenture component and the embedded derivative component (conversion feature) of this compound financial instrument:

	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>July 1, 2010</b>
Debenture component	-	-	7,310
Embedded derivatives component	-	-	555
<b>Total Investment in Formation Metals Inc.</b>	<b>-</b>	<b>-</b>	<b>7,865</b>

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**7. Investment in Oracle Mining Corp. (Formerly Gold Hawk Resources Inc.)**

On November 8, 2010, the Corporation acquired 6,000,000 common shares of Oracle Mining Corp., a company listed on the TSXV, by means of a non-brokered private placement at a subscription price of \$1.25 per common share for an aggregate cost of \$7,846, including transaction costs. During fiscal 2011, the Corporation sold 123,100 shares for a net realized gain of \$14, and acquired a further 119,900 shares on the open market.

During the three month ended September 30, 2011, the Corporation sold 1,508,000 Oracle Shares for net proceeds of \$1,683, resulting in a loss on sale of \$198, which has been recorded on the statement of operations.

As at September 30, 2011, the Corporation held 4,488,800 shares, classified as available-for-sale, and are presented at market value on the Corporation's statement of financial position, resulting in an unrealized loss of \$1,886.

**8. Long-term Debt**

As of September 30, 2011, the carrying values of long-term debt are as follows:

	<b>September 30, 2011</b>	<b>June 30, 2011</b>	<b>July 1, 2010</b>
12% senior secured guaranteed notes, due August 31, 2011	-	8,057	8,530
Less current portion	-	8,057	-
Long-term portion	-	-	<b>8,530</b>

The senior secured guaranteed notes, including all outstanding interest payable, were repaid August 31, 2011.

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**9. Discontinued Operations**

The income from the respective discontinued operations is as follows:

Three months ended September 30, 2011	La Francia I	Caypa	Cartagena	Total
Revenue	-	-	-	-
Income before income taxes	66	-	-	-
Net income from discontinued operations	66	-	-	-
Basic and diluted income from discontinued operations per share	\$0.00	-	-	\$0.00

Three months ended September 30, 2010	La Francia I	Caypa	Cartagena	Total
Revenue	-	-	-	-
Income before income taxes	94	-	-	94
Net income from discontinued operations	94	-	-	94
Basic and diluted income from discontinued operations per share	\$0.00	0.00	0.00	0.00

The carrying values of the net assets related to the discontinued operations are as follows:

September 30, 2011	La Francia I	Caypa	Cartagena	Total
Current assets	4,074	-	-	4,074
Current liabilities	(452)	-	-	(452)
Long-term liabilities	-	-	-	-
Net assets (liabilities) of discontinued operations	3,622	-	-	3,622

September 30, 2010	La Francia I	Caypa	Cartagena	Total
Current assets	8,947	2,058	-	11,005
Current liabilities	(3,760)	-	-	(3,760)
Long-term liabilities	-	-	(206)	(206)
Net assets (liabilities) of discontinued operations	5,187	2,058	(206)	7,039

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**10. Share Capital**

**(a) Authorized**

Unlimited preferred shares without par value  
 Unlimited common shares without par value

**Issued**

	Number of Common Shares	Stated Value
Balance, July 1, 2010 and June 30, 2011	173,007,049	\$375,836
Issued during the period	373,925	49
Balance as at September 30, 2011	173,380,974	375,885

During the current period, 373,925 shares were issued to one of the Directors of the Company in accordance with a consulting agreement. These shares have been valued and recorded at the market price on the day preceding their issuance and the corresponding charge has been recorded in office and administration expenses.

**(b) Warrants**

The following summarizes the warrant activity for the three months ended September 30, 2011:

	Number of Warrants	Weighted Average Exercise Price
Balance, June 30, 2011	81,752,467	\$ 3.93
Expired	(19,878,577)	8.40
<b>Balance, September 30, 2011</b>	<b>61,873,890</b>	<b>\$ 2.50</b>

As of September 30, 2011, the following warrants were outstanding:

Expiry Date	Number of Warrants	Weighted Average Exercise Price
<b>June 5, 2013</b>	<b>61,873,890</b>	<b>\$ 2.50</b>

**(c) Stock Options**

As at September 30, 2011, 12,863,097 common shares remain available for grant under the plan. Under the plan, the exercise price of each option equals the market price of the Corporation's common shares on the date of grant or the price determined by the Board of Directors, not being less than the market price, and an option's maximum term is ten years. Options are granted upon approval by the Board of Directors.

	Number of Stock Options	Weighted Average Exercise Price
Balance, July 1, 2010 and June 30, 2011	600,000	\$1.13
Granted and issued during the period	3,875,000	0.17
Balance as at September 30, 2011	4,475,000	\$0.30

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The Company used the Black Scholes option pricing model to estimate the fair value of the options granted using the following assumptions:

Risk-free interest rate	1.85%
Expected stock price annual volatility	100.0%
Expected life	6 years
Estimated forfeiture rate	Nil
Expected dividend yield	0.0%
Fair value cost per option	\$0.108

**11. Related Party Transactions**

During the three months ended September 30, 2011 and 2010 the Corporation did not have any transactions involving related parties.

**12. Capital Disclosures**

The Corporation's objectives, when managing capital, are to safeguard cash as well as maintain financial liquidity and flexibility in order to preserve its ability to meet financial obligations and deploy capital to grow its business. In the definition of capital, the Corporation includes, as disclosed on its statement of financial position: deficit of \$501,953; capital stock and contributed surplus, \$534,936 and long-term debt, including the current portion, Nil.

The Corporation's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to business growth opportunities and changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, repay outstanding debt, issue new debt (secured, unsecured, convertible and/or other types of debt instruments), refinance existing debt with different characteristics, acquire or dispose of assets or adjust the amount of cash and short-term investments balances. The Corporation is currently not subject to externally imposed capital requirements.

**13. Financial Instruments**

**Fair Values**

The fair values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, and current portion of long-term debt approximate their carrying values due to the short-term to maturity of these financial instruments.

The investment in Formation Metals Inc. comprised a compound financial instrument. Within this investment, embedded derivatives (the conversion feature) were identified and separated ("embedded derivative component") from the host instrument. The fair value of the embedded derivative component was determined using a financial model, which considers the interdependencies among the various embedded derivatives. The fair value of the debenture component was based on the valuation date, share price of Formation at period end, share volatility, risk free interest rate, and yield.

Assets and liabilities carried at fair value must be classified using a three-level hierarchy that reflects the significance and transparency of the inputs used in making the fair value measurements. The classifications are as follows: the use of quoted market prices for identical assets or liabilities (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information as inputs (Level 3).

The Corporation's financial instruments measured at fair value include cash and cash equivalents, restricted cash, marketable securities comprising the investment in Formation Metals and the investment in Oracle Mining. These financial assets are reported at Level 1 of the fair value hierarchy. The Corporation has no financial assets and liabilities measured at fair value at Level 2 or Level 3 as at June 30, 2011 or September 30, 2011.



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**Risk Management**

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

Credit Risk

Credit risk on financial instruments arises from the potential for counterparties to default on their obligations to the Corporation. Current credit exposure relates to the loss that would be incurred if the Corporation's counterparties were to default on their current obligations.

Liquidity Risk

The Corporation's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they become due. As at September 30, 2011, the Corporation had a cash and cash equivalents of \$26,624 (June 30, 2011 - \$30,827) to settle current liabilities, including relating to discontinued operations, \$3,794 (June 30, 2011 - \$11,720). Most of the Corporation's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

Market Risk

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

(a) Interest Rate Risk

Interest on the Corporation's long-term debt and cash and cash equivalents is based on both fixed and variable rates and exposes the Corporation to interest rate risk. The Corporation has not entered into any derivative agreements to mitigate this risk. The impact in the change in interest rates of 1% in either direction at September 30, 2011 would be \$266 per year on the interest earned on cash and cash equivalents.

(b) Foreign Currency Risk

As at September 30, 2011, a portion of the Corporation's cash and cash equivalents were held in United States dollars. In addition, the Corporation's net assets from discontinued operations, principally located in Colombia, are held in the local currency, exposing the Corporation to potential foreign exchange risk in its financial position and cash flows. Derivative financial instruments are not used to reduce exposure to fluctuations in foreign exchange rates. If the exchange rate moved 1% in either direction during the three months ended September 30, 2011, it would have had an effect of approximately \$34 on foreign exchange gain or loss for continuing and discontinued operations.

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**14. Transition to IFRS**

**Overview**

The Corporation has adopted IFRS, effective for interim and annual financial statements relating to its fiscal year ended June 30, 2012. These are the Corporation's first interim consolidated financial statements that have been prepared in accordance with IAS 34 using accounting policies consistent with IFRS.

The accounting policies have been selected to be consistent with IFRS as is expected to be effective on June 30, 2012, the Corporation's first annual IFRS reporting date. Previously the Corporation prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP.

First-time adoption of IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Corporation has elected to apply the following optional exemptions in its preparation of its opening IFRS consolidated statement of financial position as at July 1, 2010, the Corporation's Transition Date.

- To apply IFRS 2 *Share-based Payments* only to equity instruments that were issued after November 7, 2002 and had not vested by the Transition Date.
- To apply IFRS 3 *Business Combinations* prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To elect to designate certain existing financial instruments as available-for-sale as at the Transition Date.
- To elect apply IAS 21 *The Effect of Changes in Foreign Exchange Rates* prospectively from the Transition Date, and deem the cumulative translation differences for all foreign operations to be zero at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Corporation's opening IFRS statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

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**Changes to accounting policies**

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP, and has resulted in changes to the recognition and measurement of transactions and balances within these financial statements. Accounting policies have been changed to be consistent with IFRS as is expected to be effective on June 30, 2012.

The following summarizes the significant changes to the Corporation's accounting policies on adoption of IFRS, and the effect on the Corporation's financial statements.

*Share-based Payments*

In certain circumstances, IFRS requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires that each tranche (that vests separately) must be treated as a separate grant and that an estimate of forfeitures be included in the determination of the expense associated with stock option grants.

Due to the nature of the Corporation's stock options, these changes in accounting policy did not have a significant impact on the Corporation's financial statements.

*Financial Instruments*

IFRS requires that financial instruments, except those classified as at fair value through profit and loss, be recognized net of transaction costs. Under Canadian GAAP, the Corporation's accounting policy was to expense transaction costs related to long-term debt as incurred.

The effect of applying these changes in accounting policies was a decrease in the carrying value of long-term debt and a corresponding decrease in the deficit.

*Functional currency*

IFRS requires that the functional currency of the Corporation and its subsidiaries be determined separately, and the process of considering factors to determine functional currency is somewhat different than Canadian GAAP.

The Corporation has determined that the functional currency under IFRS of the Corporation and all of its subsidiaries is the Canadian Dollar. Under Canadian GAAP, the functional currency of the Corporation and all of its subsidiaries was the United States Dollar. The Corporation also decided to change its presentation currency to the Canadian Dollar.

The change in the functional currency of the Corporation and all of its subsidiaries was applied retrospectively, and resulted in changes to the translation of these entities into the presentation currency. Transactions in currencies other than the Canadian Dollar are translated into Canadian Dollars using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the Canadian Dollars are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the statement of operations. Previously under Canadian GAAP, similar translation methods were used, however transactions and balances were translated into United States dollars.

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**Reconciliation of Canadian GAAP to IFRS**

The following provides reconciliations of shareholders' equity and the comprehensive income from Canadian GAAP to IFRS for the respective periods. The adoption of IFRS did not have a material impact on the interim consolidated statement of cash flows.

	note	June 30, 2011	September 30, 2010	July 1, 2010
(thousands of United States dollars)				
<b>Shareholders' equity under Canadian GAAP</b>		<b>32,839</b>	<b>37,251</b>	<b>35,431</b>
Financial instruments – transaction costs	(a)	(19)	103	131
		32,820	37,354	35,562

**Translated to Canadian dollar functional currency**

(thousands of Canadian Dollars)

<b>Shareholders' equity under IFRS</b>	(b)	<b>32,086</b>	<b>38,437</b>	<b>37,269</b>
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	note	Year ended June 30, 2011	Three months ended September 30, 2010
(thousands of United States dollars)			
<b>Comprehensive income (loss) under Canadian GAAP</b>		<b>(2,592)</b>	<b>1,820</b>
Financial instruments – transaction costs	(a)	(112)	(28)
		(2,704)	1,792

**Translated to Canadian dollar functional currency**

(thousands of Canadian Dollars)

<b>Comprehensive income (loss) under IFRS</b>	(b)	<b>(5,184)</b>	<b>1,169</b>
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- (a) The effect of the change in accounting policy to measure long-term debt net of transaction costs.
- (b) The result, in thousands of Canadian dollars, of the change in functional currency to Canadian dollars, applied retrospectively.

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The following provides a reconciliation of the consolidated statements of financial position and statements of operations from Canadian GAAP to IFRS at the respective dates. The IFRS adjustments are referenced to the explanatory notes directly above.

	June 30, 2010 Canadian GAAP	IFRS Adjustment	USD (000s)	July 1, 2010 Translated to CAD functional and presentation currency IFRS
	USD (000s)	USD (000s) (a)	USD (000s)	CAD (000s) (b)
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	18,338		18,338	19,218
Marketable securities	-		-	-
Accounts receivable	94		94	99
Prepaid expenses and deposits	98		98	103
Restricted cash	8,000		8,000	8,384
Investment in Formation Metals Inc.	-		-	-
Investment in Oracle Mining Corp.	-		-	-
Assets of discontinued operations	18,331		18,331	19,211
	44,861	-	44,861	47,014
Investment in Formation Metals Inc.	7,505		7,505	7,865
Investment in Gold Hawk Resources	-		-	-
	52,366	-	52,366	54,880
<b>Liabilities</b>				
Current Liabilities				
	4,187			
Accounts payable and accrued liabilities			4,187	4,388
Liabilities of discontinued operations	4,278		4,278	4,483
	8,465	-	8,465	8,871
Long-term debt	8,270	(131)	8,139	8,530
Liabilities of discontinued operations	200		200	210
	16,935	(131)	16,804	17,611
<b>Shareholders' Equity</b>				
Share capital	333,375		333,375	375,836
Contributed surplus	144,856		144,856	158,633
Accumulated other comprehensive loss	-		-	-
Deficit	(442,800)	131	(442,669)	(497,200)
	35,431	131	35,562	37,269
	52,366	-	52,366	54,880

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	September 30, 2010 Canadian GAAP	IFRS Adjustment	USD (000s)	September 30, 2010 Translated to CAD functional and presentation currency IFRS
	USD (000s)	USD (000s) (a)		CAD (000s) (b)
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	25,531		25,531	26,271
Marketable securities	421		421	433
Accounts receivable	273		273	281
Prepaid expenses and deposits	62		62	64
Restricted cash	8,000		8,000	8,232
Investment in Formation Metals Inc.	-		-	-
Investment in Oracle Mining Corp.	-		-	-
Assets of discontinued operations	10,695		10,695	11,005
	44,982	-	44,982	46,286
Investment in Formation Metals Inc.	8,294		8,294	8,535
Investment in Oracle Mining Corp.	-		-	-
	53,276	-	53,276	54,821
<b>Liabilities</b>				
Current Liabilities				
Accounts payable and accrued liabilities	3,651		3,651	3,757
Current portion of bonds payable	8,520	(103)	8,417	8,661
Liabilities of discontinued operations	3,654		3,654	3,760
	15,825	(103)	15,722	16,178
Long-term debt	-		-	-
Liabilities of discontinued operations	200		200	206
	16,025	(103)	15,922	16,384
<b>Shareholders' Equity</b>				
Share capital	333,375		333,375	375,836
Contributed surplus	144,856		144,856	158,633
Accumulated other comprehensive loss	974		974	1,002
Deficit	(441,954)	103	(441,851)	(497,034)
	<b>37,251</b>	<b>103</b>	<b>37,354</b>	<b>38,437</b>
	<b>53,276</b>	<b>-</b>	<b>53,276</b>	<b>54,821</b>

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	June 30, 2011 Canadian GAAP	IFRS Adjustment	USD (000s)	June 30, 2011 Translated to CAD functional and presentation currency IFRS
	USD (000s)	USD (000s) (a)		CAD (000s) (b)
<b>Assets</b>				
Current Assets				
Cash and cash equivalents	31,569		31,569	30,827
Marketable securities	-		-	-
Accounts receivable	-		-	-
Prepaid expenses and deposits	247		247	241
Restricted cash	-		-	-
Investment in Formation Metals Inc.	1,240		1,240	1,211
Investment in Oracle Mining Corp.	7,772		7,772	7,589
Assets of discontinued operations	4,032		4,032	3,937
	44,860	-	44,860	43,806
Investment in Formation Metals Inc.	-		-	-
Investment in Oracle Mining Corp.	-		-	-
	44,860	-	44,860	43,806
<b>Liabilities</b>				
Current Liabilities				
Accounts payable and accrued liabilities	3,323		3,323	3,245
Current portion of bonds payable	8,270	(19)	8,251	8,057
Liabilities of discontinued operations	428		428	418
	12,021	(19)	12,002	11,720
Long-term debt	-		-	-
Liabilities of discontinued operations	-		-	-
	12,021	(19)	12,002	11,720
<b>Shareholders' Equity</b>				
Share capital	333,375		333,375	375,836
Contributed surplus	144,856		144,856	158,633
Accumulated other comprehensive loss	(215)		(215)	(8)
Deficit	(445,177)	(19)	(445,196)	(502,375)
	32,839	(19)	32,820	32,086
	44,860	(38)	44,822	43,806

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Year ended June 30, 2011	Canadian GAAP	IFRS Adjustment	Translated to CAD functional and presentation currency IFRS	
	USD (000s)	USD (000s) (a)	USD (000s)	CAD (000s) (b)
<b>Administrative Expenses</b>				
Office and administration	1,566		1,566	1,573
Loss from continuing operations before other income (expenses) and income taxes	(1,566)	-	(1,566)	(1,573)
<b>Other Income (Expense)</b>				
Interest income	936		936	950
Interest on bonds payable	(1,011)	(112)	(1,123)	(1,125)
Foreign exchange (loss) gain	1,043		1,043	(1,110)
Gain on sale of marketable securities	284		284	286
Gain on disposition of convertible debenture	2,965		2,965	2,917
Loss on settlement with Goldman Sachs Group, Inc.	(6,231)		(6,231)	(6,144)
	(2,014)	(112)	(2,126)	(4,226)
<b>Net loss from continuing operations for the year, before taxes</b>	(3,580)	(112)	(3,692)	(5,799)
Current income taxes	-		-	-
Future income taxes	-		-	-
Loss from continuing operations	(3,580)	(112)	(3,692)	(5,799)
Income from discontinued operations	1,203		1,203	624
<b>Net (loss)</b>	(2,377)	(112)	(2,489)	(5,175)
Other Comprehensive Income	(215)		(215)	(8)
<b>Comprehensive (loss)</b>	(2,592)	(112)	(2,704)	(5,183)



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Three months ended September 30, 2010	Canadian	IFRS	Translated to	
	GAAP	Adjustment	USD (000s)	CAD functional and presentation currency IFRS
	USD (000s)	USD (000s)	USD (000s)	CAD (000s)
		(a)		(b)
<b>Administrative Expenses</b>				
Office and administration	238		238	247
Loss from continuing operations before other income (expenses) and income taxes	(238)	-	(238)	(247)
<b>Other Income (Expense)</b>				
Interest income	385		385	400
Interest on bonds payable	(255)	(28)	(283)	(294)
Foreign exchange gain	568		568	213
Gain on sale of marketable securities	-		-	-
Gain on disposition of convertible debenture	-		-	-
Loss on settlement with Goldman Sachs Group, Inc.	-		-	-
	698	(28)	670	319
<b>Net income from continuing operations for the year, before taxes</b>	460	(28)	432	72
Current income taxes	-		-	-
Future income taxes	-		-	-
Income from continuing operations	460	(28)	432	72
Income from discontinued operations	386		386	95
<b>Net income</b>	846	(28)	818	167
Other Comprehensive Income	974		974	1,002
<b>Comprehensive income</b>	1,820	(28)	1,792	1,169

**15. Subsequent Events**

Subsequent to September 30, 2011, the Corporation sold the remaining Oracle shares for net proceeds of \$3.6 million, resulting in a net loss on sale of approximately \$0.5 million.