



INTERNATIONAL SAMUEL EXPLORATION CORP.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2011 AND 2010



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
International Samuel Exploration Corp.

We have audited the accompanying consolidated financial statements of International Samuel Exploration Corp., which comprise the consolidated balance sheets as at June 30, 2011 and 2010, and the consolidated statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of 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 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 International Samuel Exploration Corp. as at June 30, 2011 and 2010, and its results of operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which indicates that the Company incurred a net loss of \$3,753,507 during the year ended June 30, 2011 and, as of that date, had an accumulated deficit of \$13,232,490. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern

(signed) "BDO Canada LLP"

Chartered Accountants

Vancouver, BC
October 26, 2011

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONSOLIDATED BALANCE SHEETS
AS AT JUNE 30

| | 2011 | 2010 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents (Note 4) | \$ 887,799 | \$ 923,925 |
| HST/GST receivable | 20,795 | 31,683 |
| Prepaid expenses and deposits | <u>81,131</u> | <u>59,819</u> |
| | 989,725 | 1,015,427 |
| Equipment (Note 5) | 1,755 | 2,508 |
| Loan receivable (Note 6) | 86,756 | 128,052 |
| Mineral properties (Note 3) | <u>999,039</u> | <u>3,473,709</u> |
| | <u>\$ 2,077,275</u> | <u>\$ 4,619,696</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 79,768 | \$ 153,119 |
| Shareholders' equity | | |
| Share capital (Note 8) | 12,981,651 | 11,934,922 |
| Commitment to issue shares | - | 210,000 |
| Contributed surplus (Note 8) | 2,248,346 | 1,800,638 |
| Deficit | <u>(13,232,490)</u> | <u>(9,478,983)</u> |
| | <u>1,997,507</u> | <u>4,466,577</u> |
| | <u>\$ 2,077,275</u> | <u>\$ 4,619,696</u> |

Nature and continuance of operations (Note 1)

Commitments (Note 3 and 10)

Subsequent events (Note 13)

On behalf of the Board:

"Conrad K. Swanson" Director
Conrad K. Swanson

"Kinder Deo" Director
Kinder Deo

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEARS ENDED JUNE 30

| | 2011 | 2010 |
|---|------------------------|-----------------------|
| EXPENSES | | |
| Accounting and administration (Note 7) | \$ 47,441 | \$ - |
| Amortization | 753 | 600 |
| Consulting (Note 7) | 10,540 | 11,200 |
| Investor relations | 47,412 | 17,685 |
| Management fees (Note 7) | 155,799 | 196,967 |
| Office and miscellaneous | 23,983 | 21,895 |
| Professional fees | 55,072 | 46,535 |
| Rent (Note 7) | 13,737 | 18,000 |
| Stock-based compensation (Note 8) | 134,216 | 157,443 |
| Transfer agent and filing fees | 25,438 | 32,559 |
| Travel and promotion | 9,863 | 12,672 |
| | <u> </u> | <u> </u> |
| Loss before other items | (524,254) | (515,556) |
| OTHER ITEMS: | | |
| Interest income | 12,933 | 11,143 |
| Management fee income | - | 41,729 |
| Write-off of mineral properties (Note 3) | (3,564,311) | (924,207) |
| | <u> </u> | <u> </u> |
| | (3,551,378) | (871,335) |
| Loss before income taxes | (4,075,632) | (1,386,891) |
| Future income tax recovery (Note 10) | 322,125 | - |
| | <u> </u> | <u> </u> |
| Net and comprehensive loss for the year | (3,753,507) | (1,386,891) |
| Deficit, beginning of year | (9,478,983) | (8,092,092) |
| | <u> </u> | <u> </u> |
| Deficit, end of year | \$ (13,232,490) | \$ (9,478,983) |
| <hr/> | | |
| Basic and diluted loss per common share | \$ (0.24) | \$ (0.20) |
| <hr/> | | |
| Weighted average number of common shares outstanding | 15,264,473 | 7,094,736 |
| <hr/> | | |

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30

| | 2011 | 2010 |
|--|--------------------------|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss for the year | \$ (3,753,507) | \$ (1,386,891) |
| Items not affecting cash: | | |
| Amortization | 753 | 600 |
| Accrued loan interest income | (8,704) | (11,143) |
| Stock-based compensation | 134,216 | 157,443 |
| Write-off of mineral properties | 3,564,311 | 924,207 |
| Future income tax recovery | (322,125) | - |
| Changes in non-cash working capital items: | | |
| HST/GST receivable | 10,888 | (16,556) |
| Prepaid expenses and deposits | (21,312) | (58,319) |
| Accounts payable and accrued liabilities | <u>(49,218)</u> | <u>3,825</u> |
| Net cash used in operating activities | <u>(444,698)</u> | <u>(386,834)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Loan receivable | 50,000 | 45,000 |
| Mineral properties | <u>(621,724)</u> | <u>(257,672)</u> |
| Net cash used in investing activities | <u>(571,724)</u> | <u>(212,672)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Commitment to issue shares | - | 210,000 |
| Proceeds from issuance of shares | 1,006,050 | 1,369,758 |
| Share issuance costs | <u>(25,754)</u> | <u>(89,616)</u> |
| Net cash provided by financing activities | <u>980,296</u> | <u>1,490,142</u> |
| Change in cash and cash equivalents during the year | (36,126) | 890,636 |
| Cash and cash equivalents, beginning of the year | <u>923,925</u> | <u>33,289</u> |
| Cash and cash equivalents, end of the year | <u>\$ 887,799</u> | <u>\$ 923,925</u> |

Supplement disclosures with respect to cash flows (Note 9)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

International Samuel Exploration Corp. (the "Company") was incorporated under the laws of British Columbia, Canada. The Company is primarily engaged in the acquisition, exploration and development of mineral properties. The common shares of the Company are listed for trading on the TSX Venture Exchange (TSX-V) under the symbol "ISS".

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company is in the process of exploring and developing its mineral properties and has not yet determined whether its mineral properties contain ore reserves that are economically recoverable. The Company has incurred losses since inception, incurred a loss of \$3,753,507 during the year ended June 30, 2011, has an accumulated operating deficit of \$13,232,490 at June 30, 2011 and expects to incur further losses in the development of its business plan. These circumstances lead to significant doubt as to the ability of the Company to continue as a going concern.

The ability of the Company to recover the costs it has incurred to date on the mineral properties is dependent upon the Company being able to identify a commercial ore body, to finance its exploration and development costs and to resolve any environmental, regulatory, or other constraints which may hinder the successful development of the properties. Although the Company has been successful in raising funds in the past, there is no assurance that it will be able to obtain adequate financing in which case the Company may be unable to meet its obligations. Should the Company be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. These consolidated financial statements do not include adjustments that would be required if going concern is not an appropriate basis for preparation of the consolidated financial statements. These adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, International Samuel Holding Corp. All significant inter-company balances and transactions have been eliminated upon consolidation.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to the valuation of stock-based compensation and other share-based payments, impairment of long-lived assets, and recoverability of future income tax assets. Actual results could differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment and amortization

Equipment is recorded at cost less accumulated amortization. Amortization is recognized on a declining balance basis at annual rates of 30% for office furniture and equipment and 30% for computer equipment. Additions during the year are amortized at one-half the annual rate.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition, exploration and development of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment of their value. These costs will be amortized on a basis of units produced in relation to the proven reserves available in the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property with the excess revenue recognized in the statement of operations. Properties which have reached the production stage will have the gain or loss calculated based on the portion of that property sold.

The carrying amount of mineral property interests is based on cash paid and the value of shares issued as consideration. This amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production. 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.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Mining Tax Credits

Mining tax credits are recorded when received by the Company. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Financial instruments

The Company classifies all financial instruments either as held to maturity, available-for-sale, held for trading, loans and receivables or other financial liabilities. Financial assets classified as held to maturity, loans and other receivables and financial liabilities other than those held for trading are measured at amortized cost. Available-for-sale financial instruments are measured at fair market value with temporary unrealized gains and losses recorded in other comprehensive income. Realized losses and other than temporary unrealized losses on available-for-sale financial assets are recognized in the statement of operations. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the statement of operations for the period.

The Company has designated its cash and cash equivalents as held-for-trading. Loan receivable is classified as loans and receivables. Accounts payable and accrued liabilities have been classified as other financial liabilities.

The Company provides disclosure that enables users to evaluate (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and the balance sheet date and how the entity manages those risks.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income (loss) is defined as revenues, expenses, gains and losses that, in accordance with primary sources of GAAP, are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale. As at June 30, 2011 and 2010, the Company has no items that represent comprehensive income and therefore has not included a schedule of comprehensive income in these consolidated financial statements.

Stock-based compensation

All stock based awards to employees and non-employees are recognized over the vesting period at fair value on the date of the grant as determined using a Black-Scholes option pricing model. The expense is charged to operations and the offset is credited to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

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. The Company records a future income tax liability and a reduction in capital stock for the estimated tax benefit transferred to shareholders. When flow-through expenditures are renounced, a portion of future income tax assets not recognized in previous years, due to the recording of a valuation allowance, will be applied against the future income tax liability and be recognized as a recovery of future income taxes in the statement of operations.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

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. Dilutive 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.

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.

For the year ended June 30, 2011, the Company has potentially dilutive common shares, relating to share purchase options and warrants totaling 15,770,290 (2010 - 8,848,214).

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 year 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.

Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

Future accounting changes

International financial reporting standards ("IFRS")

In January 2006, the Canadian Institute of Chartered Accountants' (CICA) Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian GAAP with international financial reporting standards ("IFRS") for Canadian enterprises with public accountability ("PAEs"). The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises. For these entities, IFRS will be required for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company's 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, 2010. The Company is currently evaluating the impacts of the conversion on the Company's consolidated financial statements and is considering accounting policy choices available under IFRS.

Other accounting pronouncements issued by the CICA with future effective dates are either not applicable or are not expected to be significant to the consolidated financial statements of the Company.

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. MINERAL PROPERTIES

| 2011 | Frog Property | NIV Property | Omega Property | Rasp Property | Snow Lake Property | Pelly Bay 30% Property | Pelly Bay 50% Property | Blackwater Property | Total |
|-----------------------------------|------------------|-----------------|-------------------|------------------|-----------------------|---------------------------|---------------------------|------------------------|--------------------|
| Acquisition costs | | | | | | | | | |
| Cash payments | \$ 30,000 | \$ 10,000 | \$ 10,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 50,000 |
| Share and warrant payments | <u>28,600</u> | <u>5,250</u> | <u>10,500</u> | <u>-</u> | <u>-</u> | <u>9,000</u> | <u>-</u> | <u>438,700</u> | <u>492,050</u> |
| | 58,600 | 15,250 | 20,500 | - | - | 9,000 | - | 438,700 | 542,050 |
| Deferred exploration expenditures | | | | | | | | | |
| Analytical | - | - | - | - | 35 | - | - | 522 | 557 |
| Drilling | - | - | - | 127,739 | - | - | - | - | 127,739 |
| Field costs | - | - | - | 183,691 | - | - | - | 100,481 | 284,172 |
| Geological | 2,557 | 5,181 | 5,181 | 22,112 | 2,300 | - | - | 14,278 | 51,609 |
| Geophysical | 23,884 | 31,713 | 31,713 | 1,500 | - | - | - | 39,000 | 127,810 |
| Miscellaneous | <u>-</u> | <u>1,507</u> | <u>-</u> | <u>9,891</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>706</u> | <u>12,104</u> |
| | <u>26,441</u> | <u>38,401</u> | <u>36,894</u> | <u>344,933</u> | <u>2,335</u> | <u>-</u> | <u>-</u> | <u>154,987</u> | <u>603,991</u> |
| Net costs for the year | 85,041 | 53,651 | 57,394 | 344,933 | 2,335 | 9,000 | - | 593,687 | 1,146,041 |
| Balance, beginning of the year | - | - | - | 31,610 | 425,225 | 2,924,949 | 91,925 | - | 3,473,709 |
| Recovery of costs | - | - | - | - | (1,150) | (55,250) | - | - | (56,400) |
| Write off of property | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,878,699)</u> | <u>(91,925)</u> | <u>(593,687)</u> | <u>(3,564,311)</u> |
| Balance, June 30, 2011 | \$ 85,041 | \$ 53,651 | \$ 57,394 | \$ 376,543 | \$ 426,410 | \$ - | \$ - | \$ - | \$ 999,039 |

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

3. MINERAL PROPERTIES (cont'd...)

| 2010 | Rasp Property | Snow Lake Property | Pelly Bay 30% Property | Pelly Bay 50% Property | Blackwater Property | Total |
|-----------------------------------|------------------|-----------------------|---------------------------|---------------------------|------------------------|------------------|
| Acquisition costs | | | | | | |
| Cash payments | \$ 10,000 | \$ - | \$ - | \$ - | \$ 10,000 | \$ 20,000 |
| Share payments | <u>13,500</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,500</u> |
| | 23,500 | - | - | - | 10,000 | 33,500 |
| Deferred exploration expenditures | | | | | | |
| Analytical | - | 624 | - | - | - | 624 |
| Drilling | - | 105,247 | 55,000 | - | - | 160,247 |
| Field costs | - | 107,662 | - | - | - | 107,662 |
| Geological | 8,110 | 72,299 | - | - | 14,350 | 94,759 |
| Geophysical | - | 117,230 | - | - | - | 117,230 |
| Miscellaneous | - | 180 | - | - | - | 180 |
| Project management | <u>-</u> | <u>41,729</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>41,729</u> |
| | <u>8,110</u> | <u>444,971</u> | <u>55,000</u> | <u>-</u> | <u>14,350</u> | <u>522,431</u> |
| Net costs for the year | 31,610 | 444,971 | 55,000 | - | 24,350 | 555,931 |
| Balance, beginning of the year | - | 1,109,620 | 2,869,949 | 91,925 | - | 4,071,494 |
| Recovery of costs | - | (229,509) | - | - | - | (229,509) |
| Write off of property | <u>-</u> | <u>(899,857)</u> | <u>-</u> | <u>-</u> | <u>(24,350)</u> | <u>(924,207)</u> |
| Balance, June 30, 2010 | \$ 31,610 | \$ 425,225 | \$ 2,924,949 | \$ 91,925 | \$ - | \$ 3,473,709 |

3. MINERAL PROPERTIES (cont'd...)

Title to mineral properties 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 properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties is in good standing.

Frog Property, British Columbia

The Company's Frog property is located in the Liard Mining District of northern British Columbia and includes the Pit Bullfrog and Wolverine properties as follows:

Pit Bullfrog property

On February 17, 2011 the Company entered into a purchase agreement to acquire a 100% interest in one mineral claim located in the Liard mining district of northern British Columbia. In consideration for a 100% interest, the Company is required to pay \$20,000 and issue 100,000 common shares to the vendor as follows:

- Pay \$10,000 (paid) and issue 40,000 common shares (issued with a fair value of \$5,600) upon execution of the Agreement; and
- Pay \$10,000 and issue 60,000 common shares by February 17, 2012.

The vendor retains a 1% net smelter returns royalty ("NSR"). The Company may purchase half of the NSR (0.5%) at any time for \$500,000.

Wolverine property

On February 22, 2011, the Company entered into a purchase agreement to acquire a 100% interest in an additional 40 claims forming the Frog Property. In consideration for the 100% interest, the Company is required to pay \$70,000 and issue 1,000,000 common shares to the optionor over a two year period as follows:

- Pay \$20,000 (paid) and issue 100,000 common shares (issued with a fair value of \$23,000) upon execution of the Agreement;
- Pay \$50,000 and issue 250,000 common shares by February 22, 2012; and
- Issue 650,000 common shares by February 22, 2013.

The vendor retains a 1% NSR. The Company may purchase half of the NSR (0.5%) at any time for \$500,000.

NIV Property, British Columbia

On January 17, 2011, the Company entered into a purchase agreement to acquire a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia. In consideration for the 100% interest, the Company is required to pay \$50,000, issue 300,000 common shares and incur exploration expenditure of \$50,000 over a three year period as follows:

- Pay \$10,000 (paid) and issue 25,000 common shares (issued with a fair value of \$5,250) upon execution of the Agreement;
- Issue 75,000 common shares by January 17, 2012;
- Issue 200,000 common shares by January 17, 2013; and
- Incur exploration expenditures of \$50,000 by January 17, 2014.

The vendor retains a 2% NSR. The Company may purchase half of the NSR (1%) at any time for \$1,000,000.

3. MINERAL PROPERTIES (cont'd...)

Omega Property, British Columbia

On January 17, 2011, the Company entered into a purchase agreement to acquire a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia. In consideration for the 100% interest, the Company is required to pay \$30,000, issue 430,000 common shares and incur exploration expenditure of \$100,000 over a three year period as follows:

- Pay \$10,000 (paid) and issue 50,000 common shares (issued with a fair value of \$10,500) upon execution of the Agreement;
- Pay \$20,000 and issue 100,000 common shares by January 17, 2012;
- Issue 280,000 common shares by January 17, 2013; and
- Incur exploration expenditures of \$100,000 by January 17, 2014.

The vendor retains a 2% NSR. The Company may purchase half of the NSR (1%) at any time for \$1,000,000.

Rasp Property, Manitoba

In March 2010, the Company entered into an option agreement to acquire a 100% interest in the Rasp Property located in northern Manitoba. In consideration for the 100% interest, the Company is required to pay \$100,000, issue 800,000 common shares and incur exploration expenditure of \$1,000,000 over a four year period as follows:

- Pay \$10,000 (paid) and issue 50,000 common shares upon execution of the Agreement (issued with a value of \$13,500);
- Incur exploration expenditures of \$100,000 by April 6, 2011 (completed);
- Pay \$20,000, issue 100,000 common shares, and incur additional exploration expenditures of \$200,000 by April 6, 2012; (subsequently amended, Note 13)
- Pay \$20,000, issue 100,000 common shares, and incur additional exploration expenditures of \$200,000 by April 6, 2013; and
- Pay \$50,000, issue 550,000 common shares, and incur additional exploration expenditures of \$500,000 by April 6, 2014.

The vendor retains a 2% NSR. The Company may purchase half of the NSR (1%) at any time for \$1,000,000.

Snow Lake Property, Manitoba

During the year ended June 30, 2008, the Company acquired a 50% interest in three mineral exploration licenses and certain mining claims located in western Manitoba by making a cash payment of \$450,000, issuing 40,000 shares (with a fair value of \$112,000), and reimbursing staking costs of \$27,257.

The vendor retains a 1% NSR. The Company may purchase half of the NSR (0.5%) at any time for \$500,000.

During the year ended June 30, 2010, the Company decided to relinquish its title to part of the mineral exploration licenses and thus wrote off the related acquisition and deferred exploration costs totaling \$899,857.

The Company and the other 50% interest holder of the property formed a joint venture for the further development of the property.

3. MINERAL PROPERTIES (cont'd...)

Pelly Bay (30% interest) Property, Nunavut

On July 26, 2006, the Company signed a letter agreement with Diamonds North Resources Ltd. ("DNR"), whereby the Company has an option to earn a 30% interest in certain mineral claims located in Pelly Bay, Nunavut. In order to exercise the option, the Company must issue 100,000 common shares (issued) and incur exploration expenditures of \$3,000,000 (\$2,700,000 completed) by December 31, 2010. On September 20, 2010, the Company and DNR signed an amendment whereby DNR accepted the Company's aggregate exploration expenditures of \$2,700,000 as satisfactory completion of the original \$3,000,000 exploration expenditure requirement in consideration of receiving 50,000 common shares of the Company (issued with a fair value of \$9,000). DNR also accepted the Company's assignment of the security bond refunds of approximately \$72,000 as a payment of the \$55,250 outstanding exploration invoice. The property is subject to a 2% gross overriding royalty on all diamonds and a 2% NSR on all other minerals.

Subsequent to June 30, 2011, the Company decided not to proceed with further exploration of the property and accordingly wrote off the capitalized costs of \$2,878,699, effective for fiscal 2011.

Pelly Bay (50% interest) Property, Nunavut

During the year ended June 30, 2007, the Company acquired a 100% interest in certain mineral claims in Pelly Bay, Nunavut by staking. During the year ended June 30, 2008, the Company entered into a joint venture agreement with Diamond North Resources Ltd. ("DNR") whereby DNR contributed its 100% interest in certain mineral claims that are contiguous to the Company Pelly Bay properties. Each company will have a 50% joint venture interest in this property with combined claims.

Subsequent to June 30, 2011, the Company decided to abandon the property and accordingly wrote off the capitalized costs of \$91,925, effective for fiscal 2011.

Blackwater Property, British Columbia

During the year ended June 30, 2010, the Company entered into agreements to purchase a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia. To earn its interest, the Company was required to pay \$10,000 (paid), issue 750,000 common shares (issued with a fair value of \$127,500) and 2,000,000 share purchase warrants exercisable at a price of \$0.25 per share until July 12, 2012 (issued with a fair value of \$311,200), and incur exploration expenditures of \$500,000 before July 12, 2012.

In October 2010, the Company decided to allow the mineral claims to lapse. The Company has therefore, written off the acquisition and deferred exploration costs of \$24,350 during the year ended June 30, 2010 and wrote off the remaining capitalized costs of \$593,686 during the year ended June 30, 2011.

4. RESTRICTED CASH

As at June 30, 2011, the Company segregated \$3,091 (2010 - \$13,241) of its cash resources as funds held in trust for the benefit of its Joint Venture partner on the Snow Lake project with this trust obligation recorded as part of accounts payable. In addition, the Company segregated \$838,320 (2010 - \$832,545) in an exploration flow through account to fund ongoing tax qualified exploration project costs.

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5. EQUIPMENT

| | 2011 | | | 2010 | | |
|-------------------------|--------------|--------------------------|----------------|--------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Computer equipment | \$ 12,038 | \$ 11,230 | \$ 808 | \$ 12,038 | \$ 10,882 | \$ 1,156 |
| Furniture and equipment | <u>6,878</u> | <u>5,931</u> | <u>947</u> | <u>6,878</u> | <u>5,526</u> | <u>1,352</u> |
| | \$ 18,916 | \$ 17,161 | \$ 1,755 | \$ 18,916 | \$ 16,408 | \$ 2,508 |

6. LOAN RECEIVABLE (Note 6)

The loan receivable was due from a company with directors in common with the Company. The loan bears interest at 12% per annum and is unsecured and repayable on demand. As at June 30, 2011, the loan consists of \$35,000 (2010 - \$85,000) of principal and \$51,756 (2010 - \$43,052) of accrued interest.

7. RELATED PARTY TRANSACTIONS

Included in accounts payable and accrued liabilities is \$11,200 (2010 - \$31,192) owing to related parties for services rendered to the Company and is unsecured, non-interest bearing, and has no specific terms of repayment.

Included in loan receivable is \$86,756 (2010 - \$128,052) of principal and accrued interest due from a company with directors in common with the Company (Note 6).

The Company entered into the following transactions with related parties during the year ended June 30, 2011:

- a) Paid or accrued management fees of \$96,299 (2010 - \$142,967) and rent of \$3,091 (2010 - \$18,000) to two companies controlled by the President of the Company.
- b) Paid or accrued management fees of \$59,500 (2010 - \$54,000) to a company controlled by the former chief financial officer of the Company.
- c) Paid or accrued consulting fees of \$9,640 (2010 - \$nil) and geological consulting fees of \$17,932 (2010 - \$nil) to a company controlled by a director of the Company.
- d) Paid or accrued consulting fees of \$nil (2010 - \$9,570) and geological consulting fees of \$21,250 (2010 - \$24,278) to a company controlled by a former director of the Company.
- e) Paid or accrued accounting and administration fees of \$3,060 (2010 - \$nil) to an officer of the Company.
- f) Paid or accrued rent of \$9,487 (2010 - \$nil) and exploration expenses of \$48,017 (2010 - \$nil) to a company with directors in common with the Company.
- g) Accrued interest income of \$8,704 (2010 - \$11,143) on a loan to a company with directors in common with the Company.

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. SHARE CAPITAL

| | Number of Shares | Amount | Contributed Surplus |
|---|---------------------|---------------|------------------------|
| Authorized | | | |
| Unlimited number of common shares without par value | | | |
| Issued | | | |
| Balance, July 1, 2009 | 5,211,840 | \$ 10,708,388 | \$ 1,569,587 |
| Flow-through private placements | 4,114,000 | 1,028,500 | - |
| Non-flow-through private placements | 2,500,000 | 290,000 | - |
| Acquisition of mineral properties | 50,000 | 13,500 | - |
| Exercise of stock options | 26,250 | 42,788 | (36,750) |
| Exercise of warrants | 175,000 | 41,250 | - |
| Agent's shares | 173,180 | 42,245 | - |
| Share-for-debt settlement | 50,000 | 6,500 | - |
| Share issuance costs | - | (127,891) | - |
| Finders' fee warrants | - | (110,358) | 110,358 |
| Stock-based compensation | - | - | 157,443 |
| Balance, June 30, 2010 | 12,300,270 | 11,934,922 | 1,800,638 |
| Flow-through private placements | 3,437,500 | 727,500 | - |
| Non-flow-through private placements | 2,678,333 | 456,750 | - |
| Acquisition of mineral properties | 1,015,000 | 180,850 | - |
| Exercise of stock options | 15,000 | 4,500 | (2,700) |
| Exercise of warrants | 150,000 | 30,000 | - |
| Warrants issued for mineral property | - | - | 311,200 |
| Share issuance costs | - | (30,746) | 4,992 |
| Stock-based compensation | - | - | 134,216 |
| Future income tax on flow-through shares | - | (322,125) | - |
| Balance, June 30, 2011 | 19,596,103 | \$ 12,981,651 | \$ 2,248,346 |

Share issuance

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

- a) Completed a non-brokered private placement of 1,100,000 units at the price of \$0.20 per unit for gross proceeds of \$220,000. Each unit is comprised of one common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.30 until July 7, 2012.
- b) Completed a non-brokered private placement of 800,000 flow-through units at a price of \$0.25 per unit and 733,333 non-flow-through units at a price of \$0.15 per unit for gross proceeds of \$310,000. Each flow-through unit is comprised of one flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.40 until January 17, 2013. Each non-flow-through unit is comprised of one non-flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until January 17, 2013. The Company issued 38,400 agent's warrants as a finder's fee. The agent's warrants have the same terms as the warrants issued under the non-flow-through private placement. The agent's warrants were valued at \$4,992 using the Black-Scholes option pricing model (assuming a risk-free interest rate of 1.77%, an expected life of 2 year, annualized volatility of 130.92% and a dividend rate of 0%).

INTERNATIONAL SAMUEL EXPLORATION CORP.
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8. SHARE CAPITAL (cont'd...)

Share issuance (cont'd...)

- c) Completed a non-brokered private placement of 2,487,500 flow-through units at a price of \$0.20 per unit and 845,000 non-flow-through units at a price of \$0.15 per unit for gross proceeds of \$624,250. Each flow-through unit is comprised of one flow-through common share and one half of a share purchase warrant; each full share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until June 3, 2012. If at any time after the closing of the private placement, the weighted average price of the Company's shares is greater than \$0.50 for a period of 10 consecutive days, the Company may provide notice to warrant holders that the exercise period will be shortened to 30 days from the date of notice. Each non-flow-through unit is comprised of one non-flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until June 3, 2012. The Company paid \$13,598 as finder's fees and \$12,156 for legal and filing fees.
- d) Completed a non-brokered private placement of 150,000 flow-through units at a price of \$0.20 per unit for gross proceeds of \$30,000. Each flow-through unit is comprised of one flow-through common share and one half of a share purchase warrant; each full share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until June 23, 2012. If at any time after the closing of the private placement, the weighted average price of the Company's shares is greater than \$0.50 for a period of 10 consecutive days, the Company may provide notice to warrant holders that the exercise period will be shortened to 30 days from the date of notice.
- e) Issued 1,015,000 common shares pursuant to mineral property agreements with a total value of \$180,850 as follows:

| | Common Shares | Value |
|------------------------------------|------------------|-------------------|
| Frog Property - Pit Bullfrog claim | 40,000 | \$ 5,600 |
| Frog Property - Wolverine claims | 100,000 | 23,000 |
| NIV Property | 25,000 | 5,250 |
| Omega Property | 50,000 | 10,500 |
| Pelly Bay (30% interest) Property | 50,000 | 9,000 |
| Blackwater Property | <u>750,000</u> | <u>127,500</u> |
| | <u>1,015,000</u> | <u>\$ 180,850</u> |

- f) Issued 15,000 common shares at \$0.12 per share from the exercise of stock options for gross proceeds of \$1,800. Accordingly, \$2,700 was transferred from contributed surplus to share capital.
- g) Issued 150,000 common shares at \$0.20 per share from the exercise of warrants for gross proceeds of \$30,000.

During the year ended June 30, 2010, the Company:

- a) Completed a non-brokered private placement of 2,100,000 units at the price of \$0.10 per unit for gross proceeds of \$210,000. Each unit is comprised of one common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional share at a price of \$0.20 until December 2, 2011. The Company paid a finder's fee of \$12,200 and issued 170,000 agent's warrants. The agent's warrants have the same terms as the warrants issued under the private placement. The agent's options were valued at \$31,722 using the Black-Scholes option pricing model.

8. SHARE CAPITAL (cont'd...)

Share issuance (cont'd...)

- b) Completed a non-brokered private placement of 1,290,000 flow-through units at a price of \$0.25 per unit and 300,000 non-flow-through units at a price of \$0.20 per unit for gross proceeds of \$382,500. Each flow-through unit is comprised of one flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until March 19, 2012. Each non-flow-through unit is comprised of one non-flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.25 until March 19, 2012. The Company issued 87,500 flow-through units with a fair value of \$21,875 and 21,000 non-flow-through units with a fair value of \$4,200 as finder's fees. The agent's units have the same terms as the units issued under the flow-through and non-flow-through private placements, respectively, except that the shares forming the flow-through units were non-flow-through shares. The 108,500 warrants issued as part of the agents' units were valued at \$29,068 using the Black-Scholes option pricing model.
- c) Completed a non-brokered private placement of 2,824,000 flow-through units at a price of \$0.25 per unit and 100,000 non-flow-through units at a price of \$0.20 per unit for gross proceeds of \$726,000. Each flow-through unit is comprised of one flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.40 until June 23, 2012. Each non-flow-through unit is comprised of one non-flow-through common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional non-flow-through share at a price of \$0.30 until June 24, 2012. The Company issued 57,680 finder's units with a fair value of \$14,420 to a finder at arm's length to the Company as a finder's fee. Each finder's unit is comprised of one common share and one share purchase warrant; each share purchase warrant entitles the holder to acquire one additional common share at a price of \$0.40 until June 8, 2012. The Company also paid \$37,500, issued 7,000 non-flow-through units with a fair value of \$1,750 and 150,000 agent's options as finders' fees. Each agent's option is exercisable at a price of \$0.25, to acquire one common share of the Company and one share purchase warrant until June 23, 2012 with each warrant having the same terms as the warrants issued under the private placement. The agent's options were valued at \$120,407 using the Black-Scholes option pricing model. The 214,680 warrants issued as part of the agents' units were valued at \$49,568 using the Black-Scholes option pricing model.
- d) Issued 26,250 common shares at \$0.23 per share from the exercise of stock options for gross proceeds of \$6,038. Accordingly, \$36,750 was transferred from contributed surplus to share capital.
- e) Issued 175,000 common shares at prices ranging from \$0.20 to \$0.25 per share from the exercise of warrants for gross proceeds of \$41,250.
- f) Issued 50,000 common shares at \$0.13 per share to settle \$6,500 of accounts payable.

Stock options

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

INTERNATIONAL SAMUEL EXPLORATION CORP.
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8. SHARE CAPITAL (cont'd...)

Stock options (cont'd...)

Stock option transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|--|----------------------|---------------------------------------|
| Options outstanding, July 1, 2009 | 459,600 | \$ 0.23 |
| Options granted | 542,684 | \$ 0.22 |
| Exercised | (26,250) | \$ 0.22 |
| Cancelled | <u>(187,500)</u> | \$ 0.23 |
| Options outstanding, June 30, 2010 | 788,534 | \$ 0.22 |
| Options granted | 688,993 | \$ 0.20 |
| Exercised | (15,000) | \$ 0.12 |
| Expired/cancelled | <u>(217,400)</u> | \$ 0.23 |
| Options outstanding, June 30, 2011 | 1,245,127 | \$ 0.21 |
| Options exercisable at June 30, 2011 | 1,245,127 | \$ 0.21 |
| Weighted average fair value of options granted during the year | \$ 0.195 | (2010 - \$0.29) |

As at June 30, 2011, the following stock options were outstanding with a weighted average remaining contractual life of 3.16 years (2010 - 1.64 years):

| Number of Options | Exercise Price | Expiry Date |
|----------------------|-------------------|------------------|
| 250,000 | \$ 0.12 | December 3, 2011 |
| 83,450 | \$ 0.21 | January 30, 2014 |
| 219,000 | \$ 0.31 | March 19, 2015 |
| 38,684 | \$ 0.31 | March 24, 2015 |
| 653,993 | \$ 0.20 | July 20, 2015 |
| <u>1,245,127</u> | | |

Stock-based compensation

For the year ended June 30, 2011, the Company recorded \$134,216 (2010 - \$157,443) in stock-based compensation expense to operations. The fair value of the options granted was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

| | 2011 | 2010 |
|--------------------------|---------|------------|
| Risk-free interest rate | 1.4% | 2.05% |
| Expected life of options | 5 Years | 3.53 Years |
| Annualized volatility | 198% | 219% |
| Dividend rate | Nil | Nil |

INTERNATIONAL SAMUEL EXPLORATION CORP.
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8. SHARE CAPITAL (cont'd...)

Warrants

Warrant transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|---------------------------------------|----------------------|---------------------------------------|
| Warrants outstanding, July 1, 2009 | 1,238,187 | \$ 0.69 |
| Warrant granted | 6,664,000 | \$ 0.31 |
| Exercised | (175,000) | \$ 0.24 |
| Expired/cancelled | <u>(180,687)</u> | \$ 3.00 |
| Warrants outstanding, June 30, 2010 | 7,546,500 | \$ 0.31 |
| Warrant granted | 6,797,083 | \$ 0.30 |
| Exercised | (150,000) | \$ 0.20 |
| Expired | <u>(200,000)</u> | \$ 0.50 |
| Warrants outstanding, June 30, 2011 | 13,993,583 | \$ 0.30 |
| Warrants exercisable at June 30, 2011 | 13,993,583 | \$ 0.30 |

As at June 30, 2011, the following warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|-----------------------|-------------------|--------------------------------------|
| 50,000 | \$ 0.25 | July 29, 2011 (subsequently expired) |
| 1,900,000 | \$ 0.20 | December 2, 2011 |
| 300,000 | \$ 0.25 | March 19, 2012 |
| 1,290,000 | \$ 0.30 | March 19, 2012 |
| 824,000 | \$ 0.40 | June 8, 2012 |
| 2,000,000 | \$ 0.40 | June 23, 2012 |
| 100,000 | \$ 0.30 | June 24, 2012 |
| 732,500 | \$ 0.25 | January 29, 2014 |
| 1,100,000 | \$ 0.30 | July 7, 2012 |
| 2,000,000 | \$ 0.25 | July 12, 2012 |
| 800,000 | \$ 0.40 | January 17, 2013 |
| 733,333 | \$ 0.30 | January 17, 2013 |
| 2,088,750 | \$ 0.30 | June 3, 2012 |
| 75,000 | \$ 0.30 | June 23, 2012 |
| <u>13,993,583</u> | | |

INTERNATIONAL SAMUEL EXPLORATION CORP.
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8. SHARE CAPITAL (cont'd...)

Warrants (cont'd...)

Agent's warrant transactions are summarized as follows:

| | Number of Options | Weighted Average Exercise Price |
|---|----------------------|---------------------------------------|
| Agent's warrants outstanding, July 1, 2009 | - | \$ - |
| Granted | <u>493,180</u> | \$ 0.26 |
| Agent's warrants outstanding, June 30, 2010 | 493,180 | \$ 0.26 |
| Granted | <u>38,400</u> | \$ 0.30 |
| Agent's warrants outstanding, June 30, 2011 | <u>531,580</u> | \$ 0.26 |
| Agent's warrants exercisable at June 30, 2011 | <u>531,580</u> | \$ 0.26 |

As at June 30, 2011, the following agents' warrants were outstanding:

| Number of Warrants | Exercise Price | Expiry Date |
|-----------------------|-------------------|------------------|
| 170,000 | \$ 0.20 | December 2, 2011 |
| 87,500 | \$ 0.30 | March 19, 2012 |
| 21,000 | \$ 0.25 | March 19, 2012 |
| 57,680 | \$ 0.40 | June 8, 2012 |
| 7,000 | \$ 0.30 | June 8, 2012 |
| 150,000 | \$ 0.25 | June 23, 2012 |
| 38,400 | \$ 0.30 | January 17, 2013 |
| <u>531,580</u> | | |

9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

| | 2011 | 2010 |
|--|------|------|
| Cash paid for income taxes during the year | \$ - | \$ - |
| Cash paid for interest during the year | \$ - | \$ - |

INTERNATIONAL SAMUEL EXPLORATION CORP.
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9. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS (cont'd...)

Significant non-cash transactions during the year ended June 30, 2011 included:

- a) The Company issued 2,000,000 warrants pursuant to the Blackwater property option agreement with a fair value of \$311,200.
- b) The Company issued 1,015,000 common shares pursuant to mineral property agreements with a total fair value of \$180,850.
- c) The Company issued 38,400 agent's warrants with a fair value of \$4,992 as finder's fee for a private placement.
- d) The Company transferred \$2,700 from contributed surplus to share capital as a result of the exercise of 15,000 stock options.
- e) Included in mineral property costs are \$31,387 related to accounts payable and accrued liabilities.

Significant non-cash transactions during the year ended June 30, 2010 included:

- a) The Company issued 50,000 common shares pursuant to mineral property agreements with a total fair value of \$13,500.
- b) The Company issued 493,180 agent's warrants with a fair value of \$110,358 as finder's fee for private placements.
- c) The Company issued 50,000 common shares at \$0.13 per share to settle \$6,500 of accounts payable.
- d) The Company transferred \$36,750 from contributed surplus to share capital as a result of the exercise of 26,250 stock options.
- e) Included in mineral property costs are \$55,520 related to accounts payable and accrued liabilities.

10. INCOME TAXES

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

| | 2011 | 2010 |
|---|----------------|----------------|
| Loss before income taxes | \$ (4,075,632) | \$ (1,386,891) |
| Statutory tax rate | 28.00% | 29.25% |
| Expected income tax recovery at statutory rates | \$ (1,141,176) | \$ (405,000) |
| Non-deductible items | 37,580 | 47,000 |
| Impact of tax rate changes | 118,242 | 67,000 |
| Change in valuation allowance | 682,474 | 263,000 |
| Other | (19,245) | 28,000 |
| Total income tax recovery | \$ (322,125) | \$ - |

INTERNATIONAL SAMUEL EXPLORATION CORP.
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10. INCOME TAXES (cont'd...)

Details of future income tax assets and liabilities are as follows:

| | 2011 | 2010 |
|---|--------------------|------------------|
| Future income tax assets (liabilities): | | |
| Non-capital loss carryforwards | \$ 607,815 | \$ 494,000 |
| Capital loss carryforwards | 270,439 | 270,000 |
| Mineral properties | 409,352 | (172,000) |
| Share issuance costs | 40,338 | 54,000 |
| Other | <u>4,530</u> | <u>4,000</u> |
| Future income tax assets | 1,332,474 | 650,000 |
| Less: Valuation allowance | <u>(1,332,474)</u> | <u>(650,000)</u> |
| Net future income tax assets | <u>\$ -</u> | <u>\$ -</u> |

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,430,000. These losses, if not utilized, will expire through 2031. Subject to certain restrictions, the Company also has resource expenditures of approximately \$3,100,000 available to reduce taxable income in future years. Future tax benefits which may arise as a result of these non-capital losses and resource deductions have not been recognized in these financial statements and have been offset by a valuation allowance.

During the fiscal year ended June 30, 2011, the Company issued 3,437,500 (2010 – 4,114,000) common shares on a flow-through basis for gross proceeds of \$727,500 (2010 - \$1,028,500). The flow-through agreements require the Company to renounce certain deductions for Canadian exploration expenditures incurred on the Company's resource properties. As a result of the flow-through share renunciation, the Company is committed to incurring approximately \$470,000 in qualifying expenditures in Canada by December 31, 2011.

11. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes shareholders' equity in the definition of capital.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets.

The Company's investment policy is to invest its cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition, selected with regards to the expected timing of expenditures from continuing operations.

There were no changes in the Company's approach to capital management during the year ended June 30, 2011. The Company is not subject to externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS

The carrying values of loan receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short period to maturity of these financial instruments. The fair value of cash and cash equivalents is measured using level 1 inputs as explained below.

The Company's financial instruments and risk exposures are summarized below.

Credit risk

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and loan receivable. The Company's credit risk with respect to its cash and cash equivalents are minimal as they are held with high-credit quality financial institutions. Loan receivable is due from a company with directors in common with the Company. Management believes that the credit risk concentration with respect to loan receivable is minimal.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. The Company manages liquidity by maintaining adequate cash and cash equivalents balances. As at June 30, 2011, the Company had cash and cash equivalents of \$887,799 available to settle current liabilities of \$79,767. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms.

Market risk

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

(a) Interest rate risk

The Company is exposed to interest rate risk in relation to cash and cash equivalents held at financial institutions and a loan receivable from a company with directors in common with the Company. The interest rate risks on cash and cash equivalents are not considered significant due to their short-term nature and maturity. The loan receivable bears a fix interest rate at 12% per annum. As such, management believes that the Company's exposure to interest rate risk is not significant.

(b) Foreign exchange rate risk

The Company is not exposed to foreign exchange risk as all its activities are carried out in Canada and all its financial assets and liabilities are denominated in Canadian dollars.

Fair Value

CICA Handbook Section 3862 "Financial Instruments – disclosures" establishes a fair value hierarchy that prioritizes the inputs used to measure fair value as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

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12. FINANCIAL INSTRUMENTS (cont'd...)

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|------------|---------|---------|------------|
| Cash and cash equivalents | \$ 887,799 | \$ - | \$ - | \$ 887,799 |

13. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the Company:

i) Entered into a purchase agreement to acquire a 100% interest in certain mineral claims, referred as the Jewelry Box Property, located approximately 50 kilometres southeast of Smithers, British Columbia. In consideration for the 100% interest, the Company is required to pay \$130,000 and issue 1,100,000 common shares over a two year period as follows:

- Pay \$10,000 (paid) and issue 100,000 common shares (issued with a fair value of \$7,500) upon execution of the Agreement;
- Pay \$40,000 and issue 200,000 common shares by August 15, 2012; and
- Pay \$80,000 and issue 800,000 common shares by August 15, 2013.

The vendor retains a 2% NSR. The Company may purchase 1% NSR at any time at a price of \$500,000 for each 0.5% NSR.

ii) Entered into an amendment with the RASP property optionor, whereby the Company is not required to make the option payments of \$20,000 and 100,000 shares due on April 6, 2012 in consideration of granting the optionor a 2% royalty on the claims. The Company has the option to buy back half of the royalty (1%) for \$1,000,000. All other terms of the agreement remain the same.

iii) Granted 714,483 common share stock options to consultants, employees and a director of the Company. The options are exercisable at \$0.12 per share for a period of two years.