



INTERNATIONAL SAMUEL EXPLORATION CORP.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED SEPTEMBER 30, 2011

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL REPORT

The accompanying unaudited interim financial report of the Company has been prepared by and is the responsibility of the Company's management. The Company's independent auditor has not performed a review of this financial report in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

	Note	September 30, 2011	June 30, 2011	July 1, 2010
ASSETS				
Current assets				
Cash and cash equivalents	4	\$ 179,888	\$ 887,799	\$ 923,925
Receivables	5	98,120	20,795	31,683
Prepaid expenses and deposits	6	6,626	81,131	59,819
		284,634	989,725	1,015,427
Non-current assets				
Equipment	7	3,367	1,755	2,508
Exploration and evaluation assets	8	1,677,306	999,039	3,473,709
Loan receivable	9	67,774	86,756	128,052
		1,748,447	1,087,550	3,604,269
Total assets		\$ 2,033,081	\$ 2,077,275	\$ 4,619,696
LIABILITIES AND EQUITY				
Current liabilities				
Trade and other payables	10	\$ 87,550	\$ 79,768	\$ 153,119
Flow-through share premium liability	11	131,875	131,875	215,700
		219,425	211,643	368,819
Equity				
Share capital	12	12,883,701	12,876,201	11,719,222
Commitment to issue shares		-	-	210,000
Share-based payments reserve	13	2,301,661	2,248,346	1,800,638
Deficit		(13,371,706)	(13,258,915)	(9,478,983)
Total equity		1,813,656	1,865,632	4,250,877
Total liabilities and equity		\$ 2,033,081	\$ 2,077,275	\$ 4,619,696

Commitments (Note 8 and 15)

Event after the reporting period (Note 18)

The financial statements were authorised for issue by the board of directors on December 23, 2011 and were signed on its behalf by:

“Conrad K. Swanson”
Chief Executive Officer

Director

“Kinder Deo”
Chief Financial Officer

Director

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
THREE MONTHS ENDED SEPTEMBER 30,
(Unaudited – Prepared by Management)

	Note	2011	2010
EXPENSES			
Accounting and administration		\$ 24,660	\$ 6,269
Amortization		200	188
Consulting		-	270
Investor relations		322	11,855
Management fees		29,000	27,150
Office and miscellaneous		4,411	4,873
Professional fees		9,475	8,042
Rent		3,348	3,700
Stock-based compensation	13	53,315	137,799
Transfer agent and filing fees		3,351	1,208
Travel and promotion		20,289	2,223
Loss before other items		(148,371)	(203,577)
OTHER ITEMS			
Interest income		1,018	2,579
Management fee income		34,562	-
Write-off of exploration and evaluation assets	8	-	(240,671)
		35,580	(238,092)
Net and comprehensive loss for the period		(112,791)	(441,669)
Basic and diluted loss per common share	12	\$ (0.01)	\$ (0.03)
Weighted average number of common shares outstanding		19,679,939	12,724,928

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

	Note	Number of Shares	Share capital	Commitment to issue shares	Share-based payments reserve	Deficit	Total equity
Balance, July 1, 2010		12,300,270	\$ 11,719,222	\$ 210,000	\$ 1,800,638	\$ (9,478,983)	\$ 4,250,877
Comprehensive loss for the year		-	-	-	-	(3,779,932)	(3,779,932)
Transactions with owners							
Flow-through private placements		3,437,500	727,500	-	-	-	727,500
Non-flow-through private placements		2,678,333	456,750	(210,000)	-	-	246,750
Acquisition of mineral properties		1,015,000	180,850	-	-	-	180,850
Exercise of stock options		15,000	4,500	-	(2,700)	-	1,800
Exercise of warrants		150,000	30,000	-	-	-	30,000
Warrants issued for mineral property		-	-	-	311,200	-	311,200
Share issuance costs		-	(30,746)	-	4,992	-	(25,754)
Stock-based compensation		-	-	-	134,216	-	134,216
Premium on flow-through shares		-	(211,875)	-	-	-	(211,875)
Transactions with owners		7,295,833	1,156,979	(210,000)	447,708	-	1,394,687
Balance, June 30, 2011		19,596,103	\$ 12,876,201	\$ -	\$ 2,248,346	\$ (13,258,915)	\$ 1,865,632
Comprehensive loss for the period		-	-	-	-	(112,791)	(112,791)
Transactions with owners							
Acquisition of mineral properties		100,000	7,500	-	-	-	7,500
Stock-based compensation		-	-	-	53,315	-	53,315
Transactions with owners		100,000	7,500	-	53,315	-	60,815
Balance, September 30, 2011		19,696,103	\$ 12,883,701	\$ -	\$ 2,301,661	\$ (13,371,706)	\$ 1,813,656

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited – Prepared by Management)

	Note	Number of Shares	Share capital	Commitment to issue shares	Share-based payments reserve	Deficit	Total equity
Balance, July 1, 2010		12,300,270	\$ 11,719,222	\$ 210,000	\$ 1,800,638	\$ (9,478,983)	\$ 4,250,877
Comprehensive loss for the period		-	-	-	-	(441,669)	(441,669)
Transactions with owners							
Non-flow-through private placements		1,100,000	220,000	(210,000)	-	-	10,000
Acquisition of mineral property		750,000	127,500	-	-	-	127,500
Exercise of warrants		100,000	20,000	-	-	-	20,000
Stock-based compensation		-	-	-	137,799	-	137,799
Transactions with owners		1,950,000	367,500	(210,000)	137,799	-	295,299
Balance, September 30, 2010		14,250,270	\$ 12,086,722	\$ -	\$ 1,938,437	\$ (9,920,652)	\$ 4,104,507

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED SEPTEMBER 30,
(Unaudited – Prepared by Management)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	\$ (112,791)	\$ (441,669)
Items not affecting cash:		
Amortization	200	188
Accrued loan interest income	(1,018)	-
Stock-based compensation	53,315	137,799
Write-off of exploration and evaluation assets	-	240,671
Changes in non-cash working capital items:		
Receivable	(77,325)	(927)
Prepaid expenses and deposits	74,505	9,619
Trade and other payables	9,293	(4,008)
Net cash used in operating activities	<u>(53,821)</u>	<u>(58,327)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan receivable	20,000	(2,571)
Exploration and evaluation assets	(672,278)	(202,955)
Purchase of equipment	(1,812)	-
Net cash used in investing activities	<u>(654,090)</u>	<u>(205,526)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	30,000
Net cash provided by financing activities	<u>-</u>	<u>30,000</u>
Change in cash and cash equivalents during the period	(707,911)	(233,853)
Cash and cash equivalents, beginning of the period	<u>887,799</u>	<u>923,925</u>
Cash and cash equivalents, end of the period	<u>\$ 179,888</u>	<u>\$ 690,072</u>

Supplement disclosures with respect to cash flows (Note 14)

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

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011
(Unaudited – Prepared by Management)

1. NATURE OF BUSINESS

International Samuel Exploration Corp. (the "Company") was incorporated under the laws of British Columbia, Canada and maintains its registered and head office at Suite 888, 700 West Georgia Street, Vancouver, British Columbia, Canada, V7Y 1G5. The Company is engaged in the acquisition, exploration, and development of mineral properties in North America. The common shares of the Company are listed for trading on the TSX Venture Exchange (TSX-V) under the symbol "ISS".

2. BASIS OF PREPARATION

These condensed interim consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first interim consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The impact of the transition from Canadian Generally Accepted Accounting Principles (Canadian GAAP) to IFRS is explained in note 19. These condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* and do not include all of the disclosures required for a complete set of annual financial statements.

Basis of consolidation

These interim consolidated financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary, International Samuel Holding Corp. All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as fair value through profit or loss or available-for-sale, which are stated at their fair values. In addition these condensed interim consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Functional and presentation currency

These interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

Reclassification

Certain comparative figures have been reclassified to conform to the presentation of the current period financial statements. The Company has also renamed certain line items on the statements of financial position and statements of comprehensive loss as required by IFRS and where it was considered more meaningful and where it provided better comparisons to financial statements of other companies.

- i) Mineral properties have been renamed as exploration and evaluation assets.
- ii) Contributed surplus has been renamed as share-based payments reserve.
- iii) Accounts payable and accrued liabilities have been renamed as trade and other payables.
- iv) Future income taxes have been renamed as deferred income taxes.

2. BASIS OF PREPARATION (cont'd. ...)

Going concern

The Company is an exploration stage company. The Company has a history of losses with no operating revenue. 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. The aforementioned factors indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent on its ability to obtain adequate financing on reasonable terms from lenders, shareholders and other investors and/or to commence profitable operations in the future. 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. The management, after reviewing the current cash position and having considered the Company's ability to raise funds in the short term, adopt the going concern basis in preparing its interim financial statements.

These condensed interim consolidated financial statements do not include adjustments that would be required if going concern is not an appropriate basis for preparation of the financial statements. These adjustments could be material.

Use of estimates and judgements

The preparation of these condensed interim consolidated financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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 reporting period. Actual results could differ from these estimates. Significant areas requiring the use of management estimates include:

- (i) Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these properties. The assessment of indications of impairment loss and the reversal of an impairment loss and the measuring of the recoverable amount when impairment tests has been done involve judgment. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.
- (ii) The determination of the fair value of stock options and warrants using stock pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.
- (iii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.
- (iv) The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its exploration projects and working capital requirements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

2. BASIS OF PREPARATION (cont'd...)

New accounting pronouncements

- i) Amendments to IAS 12 *Income Taxes* (IAS 12) have been issued to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendments are applicable for annual periods beginning on or after January 1, 2012, with early adoption permitted.
- ii) New standard IFRS 9 *Financial Instruments* (IFRS 9) has been issued by IASB to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- iii) New standard IFRS 10 *Consolidated Financial Statements* (IFRS 10) has been issued by IASB to replace IAS 27 *Consolidated and Separate Financial Statements* and SIC 12 *Consolidation—Special Purpose Entities*. IFRS 10 provides a new single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.
- iv) New standard IFRS 13 *Fair Value Measurement* (IFRS 13) has been issued by IASB. IFRS 13 defines fair value and sets out a framework for measuring fair value and disclosures about fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company has not early adopted these revised standards and is currently assessing the impact of these standards on the Company's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim consolidated financial statements and in preparing the opening IFRS statement of financial position at July 1, 2010 for the purposes of the transition to IFRSs.

Cash and cash equivalents

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

Equipment

Equipment is recorded at cost less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset into operation and an initial estimate of the rehabilitation obligation. 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.

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income. The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

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

Exploration and evaluation assets

Once a license to explore an area has been secured, all direct costs related to the acquisition, exploration and evaluation of mineral property interests are capitalized into intangible assets on a property by property basis until such time that technical feasibility and commercial viability of extracting a mineral resource has been determined for a property, in which case the capitalized exploration and evaluation costs are transferred and capitalized into property, plant and equipment. The Company records expenditures on exploration and evaluation activities at cost. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Management assesses the exploration and evaluation assets for impairment at least annually and whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The assessment is based on the development program, the nature of the mineral deposit, commodity prices and the Company's intentions and ability for development of the undeveloped property. 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 recoverable amount. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provision for decommissioning and restoration

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for a decommissioning liability is recognized based on expected cash flows required to settle the obligation and discounted at a pre-tax rate specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows. As at September 30, 2011, the Company has no known restoration, rehabilitation or environmental liabilities related to its mineral properties.

Financial instruments

(i) Financial assets

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are initially recognized at fair value and subsequently carried at amortized cost less any impairment. The Company's loans and receivables are comprised of cash and cash equivalents, receivables and loan receivable.

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

Financial instruments (cont'd...)

(i) Financial liabilities

The Company classifies its financial liabilities as other financial liabilities which include trade and other payables. Other financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(ii) Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. The diluted loss per share reflects all dilutive potential common shares equivalents, which comprise outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and the share purchase warrants were anti-dilutive for the three month periods ended September 30, 2010 and 2011.

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

Share capital

The Company records proceeds from issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

Share-based payments

Share-based payments to employees and others providing similar services are measured at grant date at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of options expected to vest. The offset to the recorded cost is to share-based payments reserve. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital.

The fair value of the stock options is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

Income taxes

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

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. On issue, share capital is recorded at the trading value of an ordinary common share. The difference between the proceeds and the ordinary common share value is recorded as a flow-through share premium liability. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred income tax liability is recognized and the flow-through share premium liability will be reversed. To the extent that suitable deferred income tax assets are available, the Company will reduce the deferred income tax liability and record a deferred income tax recovery.

INTERNATIONAL SAMUEL EXPLORATION CORP.**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

THREE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited – Prepared by Management)

4. CASH AND CASH EQUIVALENTS

	September 30, 2011	June 30, 2011	July 1, 2010
Cash	\$ 179,888	\$ 887,799	\$ 423,925
Guaranteed investment certificates	-	-	500,000
	<u>\$ 179,888</u>	<u>\$ 887,799</u>	<u>\$ 923,925</u>

5. RECEIVABLES

	September 30, 2011	June 30, 2011	July 1, 2010
GST/HST recoverable	\$ 65,694	\$ 20,795	\$ 31,683
Other receivable	32,426	-	-
	<u>\$ 98,120</u>	<u>\$ 20,795</u>	<u>\$ 31,683</u>

The Company anticipates full recovery of its receivables and therefore no impairment has been recorded against these amounts. The credit risk on the GST/HST and other receivable has been further discussed in Note 17.

6. PREPAID EXPENSES AND DEPOSITS

	September 30, 2011	June 30, 2011	July 1, 2010
Exploration advances	\$ 626	\$ 75,131	\$ 49,000
Prepaid expenses	-	-	10,819
Reclamation deposits	6,000	6,000	-
	<u>\$ 6,626</u>	<u>\$ 81,131</u>	<u>\$ 59,819</u>

7. EQUIPMENT

	September 30, 2011			June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 13,850	\$ 11,359	\$ 2,491	\$ 12,038	\$ 11,230	\$ 808
Furniture and equipment	<u>6,878</u>	<u>6,002</u>	<u>876</u>	<u>6,878</u>	<u>5,931</u>	<u>947</u>
	<u>\$ 20,728</u>	<u>\$ 17,361</u>	<u>\$ 3,367</u>	<u>\$ 18,916</u>	<u>\$ 17,161</u>	<u>\$ 1,755</u>

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011
(Unaudited – Prepared by Management)

8. EXPLORATION AND EVALUATION ASSETS

September 30, 2011	Frog Property	NIV Property	Omega Property	Jewelry Box Property	Rasp Property	Snow Lake Property	Total
Acquisition costs							
Cash payments	\$ 4,267	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ 14,267
Share and warrant payments	-	-	-	7,500	-	-	7,500
	<u>4,267</u>	<u>-</u>	<u>-</u>	<u>17,500</u>	<u>-</u>	<u>-</u>	<u>21,767</u>
Deferred exploration expenditures							
Equipment rental	10,000	10,000	10,000	-	-	-	30,000
Field costs	1,598	49,214	46,483	-	-	-	97,295
Field labour	-	47,700	41,329	-	-	-	89,029
Geological	8,822	31,684	39,201	-	1,260	-	80,967
Geophysical	49,690	76,628	76,628	-	39,561	-	242,507
Miscellaneous	-	-	-	-	240	-	240
Transportation	25,098	45,795	45,569	-	-	-	116,462
	<u>95,208</u>	<u>261,021</u>	<u>259,210</u>	<u>-</u>	<u>41,061</u>	<u>-</u>	<u>656,500</u>
Net costs for the period	99,475	261,021	259,210	17,500	41,061	-	678,267
Balance, beginning of the year	85,041	53,651	57,394	-	376,543	426,410	999,039
Recovery of costs	-	-	-	-	-	-	-
Write off of property	-	-	-	-	-	-	-
Balance, September 30, 2011	\$ 184,516	\$ 314,672	\$ 316,604	\$ 17,500	\$ 417,604	\$ 426,410	\$ 1,677,306

INTERNATIONAL SAMUEL EXPLORATION CORP.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED SEPTEMBER 30, 2011
(Unaudited – Prepared by Management)

8. EXPLORATION AND EVALUATION ASSETS

Fiscal 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

8. EXPLORATION AND EVALUATION ASSETS (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.

8. EXPLORATION AND EVALUATION ASSETS (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.

Jewelry Box Property, British Columbia

On August 15, 2011, the Company entered into an agreement to acquire a 100% interest in certain mineral claims 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.

Rasp Property, Manitoba

In March 2010, the Company entered into an option agreement to acquire a 100% interest in the certain mineral claims located in northern Manitoba. Pursuant to the amended agreement, the Company is required to pay \$80,000, issue 700,000 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);
- incur additional exploration expenditures of \$200,000 by April 6, 2012 (completed);
- 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.

8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

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

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

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 paid \$10,000, issued 750,000 common shares (with a fair value of \$127,500) and 2,000,000 share purchase warrants (with a fair value of \$311,200) exercisable at a price of \$0.25 per share until July 12, 2012, and was required to 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.

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9. LOAN RECEIVABLE

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 September 30, 2011, the loan consists of \$15,000 (June 30, 2011 - \$35,000, July 1, 2010 - \$85,000) of principal and \$52,774 (June 30, 2011 - \$51,756, July 1, 2010 - \$43,052) of accrued interest.

10. TRADE AND OTHER PAYABLES

The Company's trade and other payables are broken down as follows:

	September 30, 2011	June 30, 2011	July 1, 2010
Trade payables	\$ 46,314	\$ 46,091	\$ 90,176
Accrued expenses	38,145	30,586	49,702
Deposit from mineral property partner	3,091	3,091	13,241
	\$ 87,550	\$ 79,768	\$ 153,119

Trade payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and accrued expenses for operating activities. The usual credit period taken for trade purchases is between 30 to 90 days. At September 30, 2011, over 75% of trade payables were outstanding less than 30 days.

11. RELATED PARTY TRANSACTIONS

Included in trade and other payables is \$22,997 (June 30, 2011 - \$11,200, July 1, 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 \$67,774 (June 30, 2011 - \$86,756, July 1, 2010 - \$128,052) of principal and accrued interest due from a company with directors in common with the Company (Note 9).

Key management includes directors (executive and non-executive) and senior officers of the Company. The compensation paid or payable to key management personnel during the three month periods ended September 30 is as follows:

	2011	2010
Short-term employee benefits	\$ -	\$ -
Share-based payments	42,534	72,854
Total	\$ 42,534	\$ 72,854

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11. RELATED PARTY TRANSACTIONS (cont'd...)

The Company entered into the following transactions relating to key management personnel and entities over which they have control or significant influence during the three month period ended September 30, 2011 :

- a) Paid or accrued management fees of \$24,000 (2010 - \$28,299) and equipment rental charges of \$30,000 (2010 - \$nil) to two companies controlled by the President of the Company.
- b) Paid or accrued management fees of \$5,000 (2010 - \$14,000) to a company controlled by the former chief financial officer of the Company.
- c) Paid or accrued geological consulting fees of \$14,250 (2010 - \$nil) to a company controlled by a director of the Company.
- d) Paid or accrued accounting and administration fees of \$8,100 (2010 - \$nil) to a company controlled by an officer of the Company.
- e) Paid or accrued accounting and administration fees of \$10,560 (2010 - \$nil) and rent of \$3,348 (2010 - \$nil) to a company with directors in common with the Company.
- f) Paid or accrued geological consulting fees of \$nil (2010 - \$19,200) to a company controlled by a former director of the Company.
- g) Accrued interest income of \$1,018 (2010 - \$2,571) 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.

12. SHARE CAPITAL

Authorized share capital

The Company has authorized an unlimited number of common shares with no par value.

Issued share capital

At September 30, 2011, the Company had 19,696,103 common shares outstanding (June 30, 2011 - 19,596,103).

Share issuance

During the three months ended September 30, 2011, the Company issued 100,000 common shares pursuant to Jewelry Box mineral property agreement with a total value of \$7,500.

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.

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

Share issuance (cont'd...)

- 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%).
- 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>

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

Share issuance (cont'd...)

- 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.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the three month period ended September 30, 2011 was based on the loss attributable to common shareholders of \$112,791 (2010 - \$441,669) and a weighted average number of common shares outstanding of 19,679,939 (2010 - 12,724,928).

At September 30, 2011, 1,959,610 stock options (2010 - 1,315,127), 13,943,583 warrants (2010 - 10,546,500), and 531,580 agent's warrants (2010 - 493,180) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

13. SHARE-BASED PAYMENTS

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.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
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 granted	<u>714,483</u>	\$ 0.12
Options outstanding, September 30, 2011	<u>1,959,610</u>	\$ 0.18
Options exercisable at September 30, 2011	<u>1,959,610</u>	\$ 0.18
Weighted average fair value of options granted during the period	\$ 0.075	(2010 - \$0.20)

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13. SHARE-BASED PAYMENTS (cont'd...)

Stock options (cont'd...)

As at September 30, 2011, the following stock options were outstanding with a weighted average remaining contractual life of 2.51 years (2010 - 3.91 years):

Number of Options	Exercise Price	Expiry Date
250,000	\$ 0.12	December 3, 2011 (subsequently expired)
714,483	\$ 0.12	July 20, 2013
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
1,959,610		

Stock-based compensation

For the three months ended September 30, 2011, the Company recorded \$53,315 (2010 - \$137,799) in stock-based compensation expense to operations. The fair value of the options granted during the period was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	1.52%	1.40%
Expected life of options	2 Years	5 Years
Annualized volatility	143%	219%
Dividend rate	Nil	Nil

Warrants

Warrant transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Warrants outstanding, June 30, 2010	7,546,500	\$ 0.31
Warrant granted	6,797,083	\$ 0.30
Exercised	(150,000)	\$ 0.20
Expired	(200,000)	\$ 0.50
Warrants outstanding, June 30, 2011	13,993,583	\$ 0.30
Expired	(50,000)	\$ 0.25
Warrants outstanding, September 30, 2011	13,943,583	\$ 0.30
Warrants exercisable at September 30, 2011	13,943,583	\$ 0.30

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13. SHARE-BASED PAYMENTS (cont'd...)

Warrants (cont'd...)

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

Number of Warrants	Exercise Price	Expiry Date
1,900,000	\$ 0.20	December 2, 2011(subsequently expired)
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
13,943,583		

Agent's warrant transactions are summarized as follows:

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

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

Number of Warrants	Exercise Price	Expiry Date
170,000	\$ 0.20	December 2, 2011 (subsequently expired)
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
531,580		

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14. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

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

Significant non-cash investing and financing transactions during the three month period ended September 30, 2011 included:

- a) The Company issued 100,000 common shares pursuant to Jewelry Box mineral property agreements with a total fair value of \$7,500.
- b) Included in mineral property costs are \$29,876 related to trade and other payables.

Significant non-cash investing and financing transactions during the three month period ended September 30, 2010 included:

- a) The Company issued 750,000 common shares pursuant to Blackwater mineral property agreements with a total fair value of \$127,500.

15. INCOME TAXES

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

	September 30, 2011	June 30, 2011
Loss before income taxes	\$ (112,791)	\$ (4,075,632)
Statutory tax rate	27.00%	28.00%
Expected income tax recovery at statutory rates	\$ (30,453)	\$ (1,141,176)
Non-deductible items	14,395	37,580
Impact of tax rate changes	1,190	118,242
Change in valuation allowance	15,272	682,474
Other	(404)	7,180
Total deferred income tax recovery	\$ -	\$ (295,700)

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15. INCOME TAXES (cont'd...)

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

	September 30, 2011	June 30, 2011	July 1, 2010
Deferred income tax assets (liabilities):			
Non-capital loss carryforwards	\$ 622,634	\$ 607,815	\$ 494,000
Capital loss carryforwards	270,439	270,439	270,000
Exploration and evaluation assets	409,352	409,352	(172,000)
Share issuance costs	40,338	40,338	54,000
Other	<u>4,984</u>	<u>4,530</u>	<u>4,000</u>
Deferred income tax assets	1,347,747	1,332,474	650,000
Less: Valuation allowance	<u>(1,347,747)</u>	<u>(1,332,474)</u>	<u>(650,000)</u>
Net deferred income tax assets	\$ -	\$ -	\$ -

The Company has available for deduction against future taxable income non-capital losses of approximately \$2,490,000. These losses, if not utilized, will expire through 2032. 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. At September 30, 2011, the Company has completed its commitment for 2011 under the flow-through share renunciation.

16. 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 three months ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

17. FINANCIAL INSTRUMENTS

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.

The carrying amount of financial assets and liabilities carried at amortized cost is a reasonable approximation of fair value due to the relatively short period to maturity of these financial instruments.

Financial risk management

The Company’s financial risks arising from its financial instruments are credit risk, liquidity risk, interest rate risk. The Company’s exposures to these risks and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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, receivable 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. The Company’s receivables mainly consist of harmonized sale tax (“HST”) refund from Canadian governments and management fee receivable from an exploration company. Management does not expect these counterparties to fail to meet their obligations.

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 September 30, 2011, the Company had cash and cash equivalents of \$179,888 available to settle current liabilities of \$87,550. 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.

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.

18. EVENT AFTER THE REPORTING PERIOD

Subsequent to September 30, 2011, the Company announced a non-brokered private placement of 8,000,000 flow-through units at a price of \$0.10 per unit and 2,000,000 non-flow-through units at a price of \$0.10 per unit for gross proceeds of \$1,000,000. 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 \$0.25 for a one year period from the closing date. 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 for a one year period from the closing date.

19. TRANSITION TO IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these consolidated financial statements, making them the first interim consolidated financial statements of the Company under IFRS. The Company previously applied the available standards under Canadian generally accepted accounting principles ("Canadian GAAP") that were issued by the Accounting Standards Board of Canada. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position and financial performance and cash flows is set out in this note.

The accounting policies set out in note 3 have been applied in preparing these condensed interim consolidated financial statements for the period ended September 30, 2011, the comparative information presented in these financial statements for the period ended September 30, 2010 and in the preparation of an opening IFRS balance sheet at July 1, 2010 (the Company's date of transition).

IFRS initial elections upon adoption

IFRS 1 *First-time Adoption of International Financial Reporting Standards* generally requires that first-time adopters retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date. IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions to this general principle. The IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS are as follows:

i) Share-based payment transactions

The Company has elected under IFRS 1 to not apply IFRS 2 *Share-based Payment* to all stock options that vested before the date of transition. As a result of applying this exemption, the Company has applied the provision of IFRS 2 to all outstanding stock options that were unvested prior to July 1, 2010. The Company had no options that had not vested on the date of transition.

ii) Estimates

The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to create or revise estimates.

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19. TRANSITION TO IFRS (cont'd...)

Adjustments on transition to IFRS

IFRS has many similarities with Canadian GAAP as it is based on a similar conceptual framework. However, there are differences with regard to recognition, measurement and disclosure. While adoption of IFRS did not change the Company's cash flows, it resulted in changes to the Company's statements of financial position and statements of comprehensive loss as set out below:

(a) Share-based payment

The Company has elected under IFRS 1 to apply the provision of IFRS 2 only to all outstanding stock options that were unvested prior to July 1, 2010. The Company had no options that had not vested on the date of transition. The stock options granted during the three months ended September 30, 2010 were fully vested upon grant. Thus, the Company has determined that no adjustments were required on transition and for the three months ended September 30, 2010.

(b) Premium on flow-through shares

Flow-through share agreements transfer the rights to income tax deductions on the Canadian exploration expenditures from the Company to the flow-through shareholders. Under Canadian GAAP the funds received were recorded as share capital at the time of issue. At the time the expenditures were renounced to the shareholders, the Company recorded a deferred income tax liability and a share issuance cost. IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby share capital is recorded at the trading value of an ordinary common share and the difference between the proceeds and the ordinary common share value is recorded as a flow-through share premium liability. When the flow-through expenditures are renounced, the loss of tax benefits is recorded as a deferred income tax liability with an offsetting reduction of the flow-through share premium liability and the difference between the share premium liability and the deferred income tax liability on the renounced expenditures is expensed.

The new accounting policy for recording of flow-through shares has been adopted effective July 1, 2011 and the 2011 figures have been restated. In March 2009, the Company received \$60,000 from a flow-through share private placement and recorded the proceeds as share capital. Under the new accounting policy, the flow-through share premium of \$10,000 is recorded as a flow-through share premium liability and a reduction in share capital. Additional flow-through share private placements totaling \$1,028,500 were completed during fiscal 2010, which, under the new accounting policy, have resulted in the recording of flow-through share premium liabilities of \$205,700. Since these flow-through private placements were not renounced until December 31, 2010, the opening balance sheet at July 1, 2010 is adjusted for a flow-through share premium liability of \$215,700 and a reduction in share capital.

In January and June 2011, the Company received \$200,000 and \$527,500, respectively, from two flow-through share private placements and recorded the proceeds as share capital. Under the new accounting policy, the flow-through share premium of \$80,000 and \$131,875 is recorded in each respective period as a flow-through share premium liability and a reduction in share capital. In February 2011 the Company renounced \$1,288,500 of exploration expenditures to flow-through shareholders and recorded \$322,125 of deferred income tax liability and as a reduction of share capital. Under the new accounting policy, the deferred income tax liability offsets the flow-through share premium of \$295,700 and the difference of \$26,425 is recorded as a deferred income tax expense. Because the Company has sufficient deferred income tax assets available to offset the deferred income tax liability, the net effect of this transition change is to increase share capital and to reduce deferred income tax recovery by \$26,425.

A reconciliation of the above noted changes is included in the following balance sheets and statements of comprehensive loss for the dates noted below.

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of balance sheet as at July 1, 2010 reported under the Canadian GAAP to IFRS is as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash and cash equivalents		\$ 923,925	\$ -	\$ 923,925
HST/GST receivable		31,683	-	31,683
Prepaid expenses and deposits		<u>59,819</u>	<u>-</u>	<u>59,819</u>
		1,015,427	-	1,015,427
Equipment		2,508	-	2,508
Loan receivable		128,052	-	128,052
Mineral properties		<u>3,473,709</u>	<u>-</u>	<u>3,473,709</u>
		\$ 4,619,696	\$ -	\$ 4,619,696
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		\$ 153,119	\$ -	\$ 153,119
Flow-through share premium liability	19(b)	<u>-</u>	<u>215,700</u>	<u>215,700</u>
		153,119	215,700	368,819
Shareholders' equity				
Share capital	19(b)	11,934,922	(215,700)	11,719,222
Commitment to issue shares		210,000	-	210,000
Contributed surplus		1,800,638	-	1,800,638
Deficit		<u>(9,478,983)</u>	<u>-</u>	<u>(9,478,983)</u>
		<u>4,466,577</u>	<u>(215,700)</u>	<u>4,250,877</u>
		\$ 4,619,696	\$ -	\$ 4,619,696

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of balance sheet as at September 30, 2010 reported under the Canadian GAAP to IFRS is as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
Current				
Cash and cash equivalents		\$ 690,072	\$ -	\$ 690,072
HST/GST receivable		32,610	-	32,610
Prepaid expenses and deposits		<u>50,200</u>	<u>-</u>	<u>50,200</u>
		772,882	-	772,882
Equipment		2,320	-	2,320
Loan receivable		130,623	-	130,623
Mineral properties		<u>3,618,743</u>	<u>-</u>	<u>3,618,743</u>
		\$ 4,524,568	\$ -	\$ 4,524,568
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities		\$ 204,361	\$ -	\$ 204,361
Flow-through share premium liability	19(b)	<u>-</u>	<u>215,700</u>	<u>215,700</u>
		204,361	215,700	420,061
Shareholders' equity				
Share capital	19(b)	12,302,422	(215,700)	12,086,722
Contributed surplus		1,938,437	-	1,938,437
Deficit		<u>(9,920,652)</u>	<u>-</u>	<u>(9,920,652)</u>
		<u>4,320,207</u>	<u>(215,700)</u>	<u>4,104,507</u>
		\$ 4,524,568	\$ -	\$ 4,524,568

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of balance sheet as at June 30, 2011 reported under the Canadian GAAP to IFRS is as follows:

	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Current			
Cash and cash equivalents	\$ 887,799	\$ -	\$ 887,799
HST/GST receivable	20,795	-	20,795
Prepaid expenses and deposits	<u>81,131</u>	<u>-</u>	<u>81,131</u>
	989,725	-	989,725
Equipment	1,755	-	1,755
Loan receivable	86,756	-	86,756
Mineral properties	<u>999,039</u>	<u>-</u>	<u>999,039</u>
	\$ 2,077,275	\$ -	\$ 2,077,275
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities	\$ 79,768	\$ -	\$ 79,768
Flow-through share premium liability	19(b) <u>-</u>	<u>131,875</u>	<u>131,875</u>
	79,768	-	211,643
Shareholders' equity			
Share capital	19(b) 12,981,651	(105,450)	12,876,201
Contributed surplus	2,248,346	-	2,248,346
Deficit	19(b) <u>(13,232,490)</u>	<u>(26,425)</u>	<u>(13,258,915)</u>
	<u>1,997,507</u>	<u>(131,875)</u>	<u>1,865,632</u>
	\$ 2,077,275	\$ -	\$ 2,077,275

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of equity as at July 1, 2010 reported under the Canadian GAAP to equity under IFRS is as follows:

	Note	Share capital	Commitment to Issue shares	Share-based payments reserve	Deficit	Total equity
Balance, July 1, 2010 – Canadian GAAP		\$ 11,934,922	\$ 210,000	\$ 1,800,638	\$ (9,478,983)	\$ 4,466,577
Reversal of flow-through share premium	19(b)	(215,700)	-	-	-	(215,700)
Balance, July 1, 2010 – IFRS		\$ 11,719,222	\$ 210,000	\$ 1,800,638	\$ (9,478,983)	\$ 4,250,877

A reconciliation of equity as at September 30, 2010 reported under the Canadian GAAP to equity under IFRS is as follows:

	Note	Share capital	Share-based payments reserve	Deficit	Total equity
Balance, September 30, 2010 – Canadian GAAP		\$ 12,302,422	\$ 1,938,437	\$ (9,920,652)	\$ 4,320,207
Reversal of flow-through share premium	19(b)	(215,700)	-	-	(215,700)
Balance, September 30, 2010 – IFRS		\$ 12,086,722	\$ 1,938,437	\$ (9,920,652)	\$ 4,104,507

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

A reconciliation of equity as at June 30, 2011 reported under the Canadian GAAP to equity under IFRS is as follows:

	Note	Share capital	Share-based payments reserve	Deficit	Total equity
Balance, June 30, 2011 – Canadian GAAP		\$ 12,981,651	\$ 2,248,346	\$ (13,232,490)	\$ 1,997,507
Reversal of flow-through share premium	19(b)	(427,575)	-	-	(427,575)
Reversal of tax benefits renounced	19(b)	322,125	-	(26,425)	295,700
Net change		(105,450)	-	(26,425)	(131,875)
Balance, June 30, 2011 – IFRS		\$ 12,876,201	\$ 2,248,346	\$ (13,258,915)	\$ 1,865,632

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

The Canadian GAAP statement of comprehensive loss for the year ended June 30, 2011 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Accounting and administration		\$ 47,441	\$ -	\$ 47,441
Amortization		753	-	753
Consulting		10,540	-	10,540
Investor relations		47,412	-	47,412
Management fees		155,799	-	155,799
Office and miscellaneous		23,983	-	23,983
Professional fees		55,072	-	55,072
Rent		13,737	-	13,737
Stock-based compensation		134,216	-	134,216
Transfer agent and filing fees		25,438	-	25,438
Travel and promotion		<u>9,863</u>	<u>-</u>	<u>9,863</u>
Loss before other items		<u>(524,254)</u>	<u>-</u>	<u>(524,254)</u>
OTHER ITEMS				
Interest income		12,933	-	12,933
Write-off of mineral properties		<u>(3,564,311)</u>	<u>-</u>	<u>(3,564,311)</u>
		<u>(3,551,378)</u>	<u>-</u>	<u>(3,551,378)</u>
Loss before income taxes		(4,075,632)	-	(4,075,632)
Future income tax recovery	19(b)	<u>322,125</u>	<u>(26,425)</u>	<u>295,700</u>
Net and comprehensive loss for the year		(3,753,507)	(26,425)	(3,779,932)
Basic and diluted loss per common share				
		\$ (0.24)	\$ -	\$ (0.24)
Weighted average number of common shares outstanding				
		15,264,473	-	15,264,473

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19. TRANSITION TO IFRS (cont'd...)

Reconciliations of Canadian GAAP to IFRS

The Canadian GAAP statement of comprehensive loss for the three months ended September 30, 2010 has been reconciled to IFRS as follows:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES				
Accounting and administration		\$ 6,269	\$ -	\$ 6,269
Amortization		188	-	188
Consulting		270	-	270
Investor relations		11,855	-	11,855
Management fees		27,150	-	27,150
Office and miscellaneous		4,873	-	4,873
Professional fees		8,042	-	8,042
Rent		3,700	-	3,700
Stock-based compensation		137,799	-	137,799
Transfer agent and filing fees		1,208	-	1,208
Travel and promotion		<u>2,223</u>	<u>-</u>	<u>2,223</u>
Loss before other items		<u>(203,577)</u>	<u>-</u>	<u>(203,577)</u>
OTHER ITEMS				
Interest income		2,579	-	2,579
Write-off of mineral properties		<u>(240,671)</u>	<u>-</u>	<u>(240,671)</u>
		<u>(238,092)</u>	<u>-</u>	<u>(238,092)</u>
Net and comprehensive loss for the period		(441,669)	-	(441,669)
Basic and diluted loss per common share		\$ (0.03)	\$ -	\$ (0.03)
Weighted average number of common shares outstanding		12,724,928	-	12,724,928

Reconciliation of cash flow statements

The transition from Canadian GAAP to IFRS has had no effect on the reported cash flows of the Company for the three month period ended September 30, 2010 and for the year ended June 30, 2011. The changes made to the statements of financial position and statements of comprehensive loss have resulted in reclassifications of various amounts on the statements of cash flows, however, as there have been no changes to the net cash flows, no reconciliations have been presented.