

# **AMERICAN MANGANESE INC.**

Condensed Consolidated Interim Financial Statements

Period ended January 31, 2012

Unaudited – Prepared by Management

# **AMERICAN MANGANESE INC.**

## **Condensed Consolidated Interim Financial Statements**

**Period Ended January 31, 2012**

**(Unaudited)**

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## **NOTICE**

The accompanying unaudited condensed consolidated interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors. The Company's independent auditors have not performed a review of these financial statements.

# AMERICAN MANGANESE INC.

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)

	January 31, 2012	July 31, 2011 (Note 20.4)	August 1, 2010 (Note 20.1)
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents	\$ 521,062	\$ 788,533	\$ 129,004
Short-term investment	3,246,000	6,700,000	-
Amounts receivable (Note 7)	262,518	159,017	40,614
Receivable from related parties (Note 8b)	277,730	16,563	8,717
Marketable securities (Note 9)	9,000	16,875	-
Prepaid expenses	12,167	94,988	45,000
Project advances	334,995	334,995	-
	<b>4,663,471</b>	<b>8,110,971</b>	<b>223,335</b>
<b>Non-current</b>			
Equipment	-	5,580	7,957
Reclamation deposits	33,852	35,021	35,021
Exploration and evaluation assets (Note 11)	8,267,378	6,604,554	4,584,016
<b>Total assets</b>	<b>\$ 12,964,702</b>	<b>\$ 14,756,126</b>	<b>\$ 4,850,330</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	\$ 180,085	\$ 384,583	\$ 87,990
Payable to related parties (Note 8b)	-	-	35,962
	<b>180,805</b>	<b>384,583</b>	<b>123,952</b>
<b>Equity</b>			
Share capital (Note 12)	\$ 23,236,047	\$ 22,958,206	\$ 13,048,514
Share-based payments reserve	2,965,501	1,845,571	1,881,936
Warrants reserve	2,796,956	2,796,956	-
Accumulated other comprehensive income	(167,374)	(424,811)	-
Deficit	(16,046,514)	(12,804,377)	(10,204,073)
<b>Total equity</b>	<b>12,784,616</b>	<b>14,371,544</b>	<b>4,726,377</b>
<b>Total liabilities and equity</b>	<b>\$ 12,964,702</b>	<b>\$ 14,756,126</b>	<b>\$ 4,850,330</b>

Nature and continuance of operations (Note 1)

Contingent liability (Note 17)

Event after the reporting date (Note 19)

**Approved by the Board of Directors and authorized for issue on April 2nd 2012**

Larry Reaugh

Director

Edward Lee

Director

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

# AMERICAN MANGANESE INC.

Condensed Consolidated Interim Statements of Changes in Equity  
 For the six months ended January 31, 2012 and 2011  
 (Unaudited)

	Number of shares (Note 12, 20)	Share capital (Note 12, 20)	Share-based payments reserve (Note 12, 20)	Warrants reserve (Note 12, 20)	Deficit (Note 12, 20)	Accumulated other comprehensive income (loss) (Note 12,20)	Total equity
<b>Balance, August 1, 2010</b>	<b>63,078,504</b>	<b>\$ 13,048,514</b>	<b>\$ 1,865,444</b>	<b>\$ -</b>	<b>\$ 10,186,906</b>	<b>\$ -</b>	<b>\$ 4,727,052</b>
Issued pursuant to private placements	23,417,135	13,048,514	-	2,521,643	-	-	9,630,322
Cash share issuance costs	-	(1,146,064)	-	282,244	-	-	(863,820)
Issued pursuant to exercise of options	1,484,766	422,306	(218,574)	-	-	-	203,732
Issued pursuant to exercise of warrants	16,758,200	3,412,771	-	(6,931)	-	-	3,405,840
Share-based compensation	-	-	171,605	-	-	-	171,605
Issued for mineral property acquisition	200,000	112,000	-	-	-	-	112,000
Total comprehensive loss for the period	-	-	-	-	(2,509,547)	(428,072)	(2,937,619)
<b>Balance, July 31, 2011</b>	<b>104,938,605</b>	<b>\$ 22,958,206</b>	<b>\$ 1,818,475</b>	<b>\$ 2,796,956</b>	<b>\$ (12,696,452)</b>	<b>\$ (428,072)</b>	<b>\$ 14,449,112</b>
Issued pursuant to exercise of options	35,000	5,000	(2,140)	-	-	-	2,860
Issued pursuant to exercise of warrants	880,350	272,841	-	-	-	-	272,841
Share-based compensation	-	-	1,149,166	-	-	-	1,149,166
Total comprehensive income (loss) for the period	-	-	-	-	(3,350,062)	260,698	(3,089,364)
<b>Balance, January 31, 2012</b>	<b>105,853,955</b>	<b>\$ 23,236,047</b>	<b>\$ 2,965,501</b>	<b>\$ 2,796,956</b>	<b>\$ (16,046,514)</b>	<b>\$ (167,374)</b>	<b>\$ 12,784,616</b>

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

# AMERICAN MANGANESE INC.

Condensed Consolidated Interim Statements of Comprehensive Loss  
For the three and six months ended January 31, 2012 and 2011  
(Unaudited)

	Six months ended January 31,		Three months ended January 31,	
	2012	2011 (Note 20.3)	2012	2011
<b>Expenses</b>				
Administration (Note 13)	\$ 2,267,169	\$ 682,932	\$ 1,160,703	\$ 403,791
Research and development	965,919	57,546	213,170	18,455
<b>Loss from operations</b>	<b>3,233,088</b>	<b>740,478</b>	<b>1,373,873</b>	<b>422,246</b>
Finance income	(13,028)	(135)	(2,412)	(64)
Loss on foreign exchange	22,077	3,609	16,187	6,812
<b>Loss for the period</b>	<b>3,242,137</b>	<b>743,952</b>	<b>1,387,648</b>	<b>428,994</b>
<b>Other comprehensive loss</b>				
Foreign currency loss (gain) on translation of subsidiary	\$ (265,312)	\$ 185,097	\$ (43,066)	\$ 139,805
Unrealized loss on marketable securities	7,875	-	7,875	-
<b>Other comprehensive loss (income) for the period</b>	<b>(257,437)</b>	<b>185,097</b>	<b>(35,191)</b>	<b>139,805</b>
<b>Total comprehensive loss for the period</b>	<b>2,984,701</b>	<b>929,049</b>	<b>1,352,457</b>	<b>568,799</b>
<b>Basic and diluted loss per share (Note 14)</b>				
	\$ (0.02)	\$ (.01)	\$ (0.01)	\$ (0.01)

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

# AMERICAN MANGANESE INC.

Condensed Consolidated Interim Statements of Cash Flows  
For the six months ended January 31, 2012 and 2011  
(Unaudited)

	2012		2011
<b>Cash flows from (used in) operating activities</b>			
Loss for the period	\$ (2,984,701)	\$	(704,484)
Add items not affecting cash			-
Depreciation and amortization	645		1442
Stock based compensation	1,116,771		70,311
Unrealized loss on marketable securities	7,875		
Unrealized foreign exchange gain (loss)	(4,623)		-
Net changes in non-cash working capital items related to operations:			
Amounts receivable	(103,501)		(27,448)
Receivable from related parties	(261,167)		(33,792)
Prepaid expenses	82,821		(24,439)
Accounts payable and accrued liabilities	(204,497)		(20,300)
Net cash from (used in) operating activities	634,324		(34,226)
<b>Cash flows from (used in) investing activities</b>			
Reclamation bonding	1,169		
Equipment	5,580		-
Project advance	-		(274,995)
Proceeds from short term-investment	3,454,000		-
Exploration and evaluation expenditures	(1,662,824)		(227,108)
Net cash from (used in) investing activities	1,797,925		(502,103)
<b>Cash flows from (used in) financing activities</b>			
Proceeds from issuance of shares	-		412,231
Share issuance costs	-		(34,435)
Obligation to issue shares			2,864,837
Proceeds from exercise of warrants	277,841		917,340
Proceeds from issuance of options	7,140		87,605
Net cash from (used in) financing activities	284,981		4,247,578
<b>Change in cash</b>	<b>(267,471)</b>		<b>3,006,765</b>
<b>Cash, beginning of period</b>	<b>788,533</b>		<b>129,044</b>
<b>Cash, end of period</b>	<b>\$ 521,062</b>	<b>\$</b>	<b>3,135,769</b>
<b>Supplementary Cash Flow Information</b>			
Interest paid	\$ -	\$	-
Income taxes paid	-		-
<b>Supplementary Non-Cash Information</b>			
Accounts payable related to mineral properties	\$ 7,372	\$	12,540

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# AMERICAN MANGANESE INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 1. Corporate Information

American Manganese Inc. (the "Company") was incorporated under the laws of British Columbia on July 8, 1987, and is a publicly traded company with its shares listed on the TSX Venture Exchange. The name of the Company was changed from Rocher Deboule Minerals Corp. to American Manganese Inc. on January 20, 2010. The Company is principally engaged in the acquisition, exploration and development of interests in mineral resource projects in British Columbia, Canada and Arizona, USA. To date, the Company has not generated any revenues and is considered to be in the exploration stage.

The address of the Company's corporate office and principal place of business is 2A – 15782 Marine Drive, White Rock, British Columbia, Canada, V4B 1E6.

These condensed consolidated interim financial statements comprise the financial statements of American Manganese Inc. and its wholly owned subsidiary, Rocher Manganese Inc., incorporated in the state of Nevada, USA.

The business of exploring and developing mineral resource properties involves a high degree of risk, and there can be no assurance that planned exploration and development programs will result in profitable mining operations. The recoverability of amounts shown for capitalized exploration and development costs is dependent on the ability of the Company to obtain necessary financing to complete the development and future profitable production or, alternatively, upon disposition of such properties at a profit. Changes in future conditions could require material write-downs of the carrying values of exploration and evaluation interests.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

At January 31, 2012, the Company had working capital of \$4,483,386 (July 31, 2011 – \$7,726,388) but has not yet achieved profitable operations and expects to incur further losses in the development of its business. For the three and six months ended January 31, 2012, the Company reported a comprehensive loss of \$1,352,457 and \$2,984,701 (January 31, 2011 – \$544,530 and \$929,049) and as at January 31, 2012 had an accumulated deficit of \$16,046,514 (July 31, 2011 – \$12,804,377).

The Company has financed its exploration activities and operations through equity issuances and expects to continue to do so to the extent such instruments are issuable under terms acceptable to the Company until such time as its operations provide positive cash flows. Accordingly, the Company's financial statements are presented on a going concern basis, which assumes that the Company will continue to realize its assets and discharge its liabilities in the normal course of operations. Management believes that the going concern assumption is appropriate for these financial statements based on their continuing ability to raise financing through share issuances. If future financing is unavailable, the Company may not be able to meet



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its ongoing obligations, in which case the realizable value of its assets may decline materially from current estimates. If the going concern assumption was not appropriate for these financial statements, then potentially material adjustments may be necessary to the carrying value of assets and liabilities, the reported expenses and the statement of financial position classifications used.

## **2. Basis of Presentation**

### **a) Statement of compliance**

These condensed consolidated interim financial statements are unaudited and represent the first condensed consolidated interim financial statements of the Company prepared in accordance with International Accounting Standard 34 (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). The Company adopted International Financial Reporting Standards (“IFRS”) in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards. The first date at which IFRS was applied was August 1, 2010. In accordance with IFRS, the Company has:

- provided comparative financial information;
- applied the same accounting policies throughout all periods presented;
- retrospectively applied all effective IFRS standards as of August 1, 2010 as required; and,
- applied certain optional exemptions and certain mandatory exceptions as applicable for first-time IFRS adopters.

The Company’s consolidated annual financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Canadian GAAP differs in some areas from IFRS. In preparing these condensed consolidated interim financial statements, management has amended certain accounting and measurement methods previously applied in the Canadian GAAP consolidated financial statements to comply with IFRS. Note 20 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity and comprehensive loss along with line by line reconciliations of the consolidated statements of financial position as at August 1, 2010, January 31, 2011 and July 31, 2011, and the consolidated statements of loss and comprehensive loss for the six months ended January 31, 2011 and the year ended July 31, 2011.

The Company’s disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company’s accounting policies in accordance with IFRS and certain additional disclosures required under IFRS, which also highlight the change from the Company’s 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company’s condensed consolidated interim financial statements under IFRS as the reader will be able to rely on the annual consolidated financial statements which will be prepared in accordance with IFRS.

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Notes to the Condensed Consolidated Interim Financial Statements  
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These condensed consolidated interim financial statements were authorized by the Company's Board of Directors on April 2, 2012.

These condensed consolidated interim financial statements are stated in Canadian dollars and were prepared under the historical cost convention, except for share-based payment transactions (Note 12d).

The standards that are available for adoption in the financial statements for the year ending July 31, 2012 are subject to change and may be affected by additional interpretations. Accordingly, the accounting policies will be finalized when the first annual financial statements are prepared for the year ending July 31, 2012.

## **b) Functional and presentation currency**

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiary is the United States dollar ("USD"). The accounts of the subsidiary have been translated to the Canadian dollar in accordance with Note 3(b).

## **c) Critical accounting estimates and judgments**

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the condensed consolidated interim financial statements are as follows:

### **(i) Exploration and evaluation assets**

The Company makes certain estimates and assumptions regarding the recoverability of the carrying values of exploration and evaluation assets. These assumptions are changed when conditions exist that indicate the carrying value may be impaired, at which time an impairment loss is recorded.

Development projects in progress are assets arising from the development phase of internal projects. These are recognised if the Company can demonstrate all of the following:

### **(ii) Share-based payments**

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of

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the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 12 and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project which will impact the financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

### **(iii) Useful lives of equipment depreciation**

The Company estimates the useful lives of equipment based on the period over which the assets are expected to be available for use. The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company. The amounts and timing of recorded expenses for any period would be affected by changes in assumptions and estimates used.

### **(iv) Taxes**

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

### **(v) Decommissioning liabilities**

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

## **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently, to all periods presented in these condensed consolidated interim financial statements and have been applied consistently by the Company and its subsidiary.

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Notes to the Condensed Consolidated Interim Financial Statements  
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## **a) Principles of consolidation**

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned and controlled subsidiary as described in Note 1 above. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. All inter-company transactions and balances have been eliminated upon consolidation.

## **b) Foreign currency**

Items included in the financial statements of each consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of an entity are recognized in the statement of comprehensive income.

Assets and liabilities of the subsidiary with a functional currency in US dollars are translated at the period end rates of exchange, and the results of its operations are translated at average rates of exchange for the period. The resulting translation adjustments are included in accumulated other comprehensive income as shareholders’ equity. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are included in accumulated other comprehensive income.

## **c) Cash and cash equivalents**

Cash and cash equivalents include short-term investments that are readily convertible into cash with original maturities of three months or less.

## **d) Reclamation deposit**

The Company maintains cash deposits, as required by regulatory bodies, as assurance for the funding of decommissioning costs. These funds are restricted to that purpose and are not available to the Company until the reclamation obligations have been fulfilled, and are therefore classified as long term assets.

## **e) Research and development**

Expenditures on research activities taken to develop a hydrometallurgical process to extract and recover high purity manganese from lower grade domestic resources within North American are expensed as incurred. Development expenditures are expensed in the period incurred unless the project meets certain strict accounting criteria for deferral and amortization. No development expenditures have met the criteria for deferral to date.

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## **f) Government assistance**

The Company is in receipt of funding from the National Research Council of Canadian Industrial Research Assistance Program ("NRC-IRAP") to continue the research and development of its hydrometallurgical process. Funds received under the NRC-IRAP program are credited to research and development expenses in the statement of operations. Total government assistance received and credited to the statement of operations for the three and six months ended January 31, 2012 is \$28,699 (2011 - \$20,800).

The Company is eligible for a refundable tax credit related to eligible exploration expenditures conducted in certain regions of British Columbia. The refundable mining exploration tax credits are recorded as government assistance against exploration and evaluation assets at fair value when there is reasonable assurance that they will be received.

## **g) Exploration and evaluation assets**

General exploration and evaluation expenditures incurred prior to acquiring the legal right to explore are charged to the statement of comprehensive loss as incurred.

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration / pre-development stage, which are incurred subsequent to the acquisition of the legal right to explore.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development when they are determined to meet certain technical feasibility and commercial viability thresholds as determined by management.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Drilling and related costs;
- Professional / technical fees;
- Surveying, geological and geotechnical;
- Land maintenance;
- Sampling and storage; and
- Mineral claims and permits.

Exploration and evaluation expenditures related to an area of interest where the Company has tenure are capitalized as intangible assets and are recorded at cost less impairment.

Exploration and evaluation expenditures also include the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only

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allocated to the extent that those costs can be related directly to operations activities in the relevant area of interest.

All capitalized exploration and evaluation expenditures are assessed for impairment if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to that property are written off in the period.

## **h) Equipment**

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use, along with borrowing costs and the future cost of dismantling and removing the asset. Such cost includes the cost of replacing part of the plant and equipment, significant overhauls, and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection or overhaul is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are recognized in the statement of comprehensive loss as incurred.

Depreciation is calculated on the declining balance basis to recognize the cost less estimated residual value over the estimated useful lives of the assets, at rates ranging from 20% - 100%.

Residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate. When parts of an item of equipment have different useful lives, they are accounted for as separate major components.

## **i) Impairment of non-financial assets**

Non-financial assets are evaluated at the end of each reporting period by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit ("CGU"), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets, where the recoverable amount of the CGU is the greater of the CGU's fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments to the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive loss.

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Where an impairment loss subsequently reverses for assets with a finite useful life, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

## **j) Income taxes**

Tax expense comprises current and deferred tax. Tax is recognized in income except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred taxes are the taxes expected to be payable or recoverable on differences between the carrying amount of assets in the statement of financial position and their corresponding tax bases used in the computation of taxable profit or loss, and are accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax liabilities are not recognized for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future, or on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. Deferred tax assets are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognized in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

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## **k) Earnings (loss) per share**

Basic earnings (loss) per share ("EPS") is calculated by dividing profit or loss attributable to ordinary equity holders (numerator) by the weighted average number of ordinary shares outstanding (denominator) during the period. The denominator is calculated by adjusting the shares issued at the beginning of the period by the number of shares bought back during the period, multiplied by a time-weighting factor.

Diluted EPS is calculated by adjusting the earnings and number of shares for the effects of dilutive options and other dilutive potential units. The effects of anti-dilutive potential units are ignored in calculating diluted EPS. All options are considered anti-dilutive when the Company is in a loss position.

## **l) Segmented reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are reviewed regularly by the Company's President and CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Company manages its business on the basis of one reportable segment under two geographic regions, being Canada and the United States ("USA").

## **m) Share-based payments**

The Company has an equity settled share purchase stock option plan that is described in Note 12. Share-based payments to employees are measured at the fair value of the instruments issued at the grant date using the Black-Scholes pricing model, and are expensed over the vesting period, which is the period over which all of the specific vesting conditions are satisfied. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period.

Share-based payments to non-employees are measured at the fair value of 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 offset to the recorded cost is to share-based payments reserve. 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. Upon expiry the recorded value is transferred to deficit.

The share-based compensation fair value is determined using an estimated forfeiture rate. Compensation ultimately recognized is revised in subsequent periods to reflect final grant amounts. For employees and consultants who are working on specific capital projects, the share-based compensation is allocated to projects under development. For the remainder of employees and consultants, the compensation is expensed.



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## **n) Decommissioning liabilities**

The Company records a liability for the reclamation of its exploration and evaluation interests based on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate, and the liability is recognized at the time the environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The fair value of the provision for closure and reclamation liabilities is estimated using expected cash flows, based on engineering and environmental reports prepared by third party industry specialists, discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amount and timing of future site closure and reclamation cash flows. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the provision at the reporting date.

## **o) Share capital**

The Company records proceeds from share issuances net of issuance costs. Shares issued for consideration other than cash are valued at the quoted price on the date the agreement to issue the shares was reached.

## **p) Financial instruments**

### **(i) Financial assets**

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition.

#### *Fair value through profit or loss*

Financial assets at fair value through profit or loss are initially recognized at fair value with changes in fair value recorded through the statement of comprehensive loss. Cash and short-term investment are included in this category of financial assets.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are financial assets that are designated as available for sale and that are not classified in any of the other categories. Subsequent to initial recognition at fair value, they are measured at fair value and changes therein are recognized in accumulated other comprehensive income and presented within equity in accumulated other comprehensive income (loss). When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. Marketable securities are included in this category of financial assets.

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## *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 classified as current assets or non-current assets based on their maturity date, and are carried at amortized cost, using the effective interest method, less any impairment. Loans and receivables are comprised of amounts receivable, receivable from related parties, prepaid deposits, project advances and reclamation deposits.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence indicating that one or more events have had a negative impact on the estimated future cash flows of that asset. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

An impairment loss in respect of a financial assets measured at amortized cost is calculated as the difference between its carrying amount and the net present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale asset is calculated by reference to its fair value and any amounts in other comprehensive income are transferred to earnings.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred.

Gains or losses related to impairment or de-recognition are recognized in the statement of comprehensive loss in the period in which they occur. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

## **(ii) Financial liabilities**

The Company classifies its financial liabilities as other financial liabilities. Management determines the classification of its financial liabilities at initial recognition. Other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Other financial liabilities include accounts payable and accruals.

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## **(iii) Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received net of direct issuance costs.

## **q) Leases**

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leases in which the Company does not assume substantially all the risks and rewards of ownership are classified as operating leases, which are recognised as an expense on a straight-line basis over the lease term.

## **r) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost in the statement of comprehensive loss.

## **s) Finance expenses**

Finance expenses comprise interest expense on borrowings and unwinding of the discount on provisions. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in the statement of comprehensive loss using the effective interest method. Interest incurred on qualifying assets is capitalized during the period of time that is required to complete and prepare the assets for their intended use or sale at the rate of interest applicable to the specific borrowings financing the asset, or where financed through general borrowings, at a capitalization rate representing the average interest rate on such borrowings.

## **4. Recent Accounting Pronouncements**

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

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## a) IFRS 9 – Financial Instruments

IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

## b) IFRS 10 – Consolidated Financial Statements

IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

## c) IFRS 11 – Joint Arrangements

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company does not expect this standard to have a significant impact on the financial statements.

## d) IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company does not expect this standard to have a significant impact on the financial statements.

## e) IFRS 13 – Fair Value Measurement

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific

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measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

## 5. Cash

Cash is comprised of cash at banks and on hand. Cash at banks earn interest at floating rates based on daily bank deposit rates.

## 6. Short-term investment

Short-term investment is comprised of a one-year guaranteed investment certificate bearing interest at a floating rate based on prime.

## 7. Amounts Receivable

Amounts receivable are all current and include the following:

	January 31, 2012	July 31, 2011	August 1, 2010
HST receivable	\$ 248,018	\$ 136,004	\$ 19,814
Other	14,500	23,013	20,800
	<u>\$ 262,518</u>	<u>\$ 159,017</u>	<u>\$ 40,614</u>

No allowance is deemed to be required.

## 8. Related Party Transactions

### a) Investment in subsidiaries

The wholly owned subsidiary of the Company has been incorporated in the USA and is included in these condensed consolidated interim financial statements as disclosed in Note 1.

### b) Transactions with related parties

The Company shares its office premises with Goldrea Resources Corp. and Molycor Gold Corp., companies which share common directors with the Company. In addition, certain personnel are shared between the three companies. Expenses related to the common office facilities are shared among the companies and are allocated according to the relative amount of office space used by each of the companies. The salary and related costs of common personnel are allocated according to the relative time expended on each company.

Included in receivable from related parties at January 31, 2012 is \$277,730 receivable from the related companies (July 31, 2011 - \$4,103).

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As at January 31, 2012, \$19,339 has been advanced to the President and CEO for expenses (July 31, 2011 - \$12,460). The amount is non-interest bearing, unsecured and has no fixed terms of repayment.

## 9. Marketable Securities

Under the terms of an option agreement described in Note 11(b), in January, 2011 the Company received 75,000 shares of Rara Terra Capital Corp. Upon initial recognition, the shares were measured at their fair value. Subsequent changes in fair value are as follows:

	January 31, 2012	July 31, 2011	August 1, 2010
Rara Terra Minerals Corp. – 75,000 common shares at cost (July 31, 2011 – 75,000; August 1, 2010 – nil)	\$ 30,000	\$ 30,000	\$ -
Decrease in fair value	(21,000)	(13,125)	-
Fair value	<u>\$ 9,000</u>	<u>\$ 16,875</u>	<u>\$ -</u>

## 10. Project Advances

During the year ended July 31, 2011, the Company advanced funds to conduct a feasibility study, to perform a market study, and to continue development of the Company's metallurgical process. These projects are expected to be completed within one year and have accordingly been classified as current.

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## 11. Exploration and Evaluation Assets

	Balance August 1, 2010		Expenditures		Balance July 31, 2011		Expenditures		Balance January 31, 2012	
<b>a) Rocher Deboule property, British Columbia</b>										
Acquisition and staking	\$	146,047	\$	4,265	\$	150,312	\$	3,210	\$	153,522
Assays and analysis		45,311		10,261		55,572		15,875		71,447
Camp and supplies		59,504		-		59,504		-		59,504
Drilling		146,826		-		146,826		-		146,826
Geological and geophysical		494,091		25,000		519,091		3,637		522,728
Geologist travel and accommodation		15,940		4,274		20,214		-		20,214
Freight and transport		80,162		419		80,581		17,057		97,638
BC Mining Exploration Tax Credit		(232,929)		-		(232,929)		(25,665)		(258,594)
	\$	<b>754,953</b>	\$	<b>44,219</b>	\$	<b>799,171</b>	\$	<b>14,114</b>	\$	<b>813,285</b>
<b>b) Lonnie property, British Columbia</b>										
Acquisition and staking	\$	58,728	\$	-	\$	58,728	\$	-	\$	58,728
Assays and analysis		20		4,508		4,528		-		4,528
Drilling		60,073		-		60,073		-		60,073
Geological and geophysical		40,615		5,300		45,915		-		45,915
Geologist travel and accommodation		-		188		188		-		188
Mineral property option		-		(50,000)		(50,000)		-		(50,000)
BC Mining Exploration Tax Credit		-		-		-		(28,480)		(28,480)
	\$	<b>159,435</b>	\$	<b>(40,004)</b>	\$	<b>119,432</b>	\$	<b>(28,480)</b>	\$	<b>90,950</b>
<b>c) Pond property, British Columbia</b>										
Acquisition and staking	\$	17,500	\$	330	\$	17,830	\$	744	\$	18,574
	\$	<b>17,500</b>	\$	<b>330</b>	\$	<b>17,830</b>	\$	<b>744</b>	\$	<b>18,574</b>

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	Balance August 1, 2010		Expenditures		Balance July 31, 2011		Expenditures		Balance January 31, 2012	
<b>d) SoCal property, California</b>										
Acquisition and staking	\$	-	\$	141,096	\$	141,096	\$	-	\$	141,096
	\$	-	\$	141,096	\$	141,096	\$	-	\$	141,096
<b>e) Black Prince, Junction Creek and Olson properties, British Columbia</b>										
Acquisition and staking	\$	4,197	\$	3,073	\$	7,270	\$	-	\$	7,270
Geological and geophysical		946		-		946		-		946
	\$	5,143	\$	3,073	\$	8,216	\$	-	\$	8,216
<b>f) Artillery Peak property, Arizona</b>										
Acquisition	\$	1,301,706	\$	562,552	\$	1,864,258	\$	311,963	\$	2,176,221
Assays and analysis		156,380		96,045		252,425		30,062		282,487
Drilling		1,172,872		810,862		1,983,734		205,581		2,189,315
Equipment rentals		-		63,740		63,740		1,200		64,940
Geological and geophysical		641,048		436,370		1,147,418		1,170,458		2,247,876
Geologist travel and accommodation		98,250		113,728		211,978		(63,812)		148,166
Property maintenance		73,557		-		73,557		(57,618)		15,939
Subtotal		3,438,131		2,166,547		5,604,678		1,597,834		7,315,810
Translation to reporting currency		203,486		(211,787)		(8,301)		78,612		70,309
		3,641,617		1,954,760		5,596,377		1,676,446		73,861,119
<b>Total</b>	\$	<b>4,584,330</b>	\$	<b>2,020,224</b>	\$	<b>6,604,554</b>	\$	<b>1,662,824</b>	\$	<b>8,267,378</b>



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## **11. Exploration and Evaluation Assets (continued)**

### **a) Rocher Deboule property, British Columbia**

The Rocher Deboule property consists of mineral claims covering 10,230 hectares near Hazelton, British Columbia. The Company initially acquired 4 staked claims consisting of 1,325 hectares in May 2011, and expanded the area of the property through additional staking. The Company owns a 100% interest in the Rocher Deboule property.

### **b) Lonnie property, British Columbia**

The Lonnie property is a niobium exploration property which covers approximately 3,477 hectares in the Omineca mining division of British Columbia. The Company initially staked mineral claims covering an area of approximately 692 hectares. In October 2007, the Company acquired additional claims covering approximately 2,735 hectares at a cost of \$10,000 and 100,000 shares of the Company.

In May 2011, the Company entered into an option agreement with Rara Terra Capital Corp. ("Rara Terra") where Rara Terra has the right to earn a 60% interest in the Lonnie property in exchange for a cash payment of \$60,000 (\$20,000 paid) and issuance of 285,000 common shares of Rara Terra (75,000 received). To acquire the 60% interest, Rara Terra must also spend \$500,000 in exploration expenditures on the property.

### **c) Pond property, British Columbia**

The Pond property is a magnesium exploration property and covers approximately 913 hectares located in the Golden mining division of British Columbia. The two claims were acquired during the fiscal year ended July 31, 2008 by the Company for cash consideration of \$10,000 and issuance of 50,000 common shares of the Company. The Company owns a 100% interest in the property.

### **d) SoCal property, California, USA**

In May 2011, the Company entered into a purchase agreement with Elemental Solutions, LLC as to 50% and Lodestar Management Group, LLC as to 50% to purchase a total 100% interest in the SoCal manganese unpatented lode mining claims. The total purchase price was \$200,000 USD and 200,000 shares of the Company. The property is subject to a net smelter royalty ("NSR"), of which the Company has the right to repurchase 1% for \$2,000,000 USD.

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## e) **Black Prince, Junction Creek, and Olson properties, British Columbia**

These manganese exploration properties were staked by the Company, and cover approximately 704 hectares located in the Alberni and Clinton mining divisions of British Columbia. The Company owns a 100% interest in each of these properties.

## f) **Artillery Peak project, Arizona, USA**

The Artillery Peak project includes 356 unpatented mineral claims covering approximately 7,120 acres, 80 patented mineral claims covering approximately 1,499 acres, and 8 fee simple parcels covering approximately 1,280 acres. The Company acquired 262 of the unpatented claims by staking. The remaining claims were acquired pursuant to the agreements described below.

### (i) **Purchase agreement with Primus Resources, L.C.**

Pursuant to the purchase agreement dated May 31, 2007, the Company purchased 90 unpatented lode claims from Primus Resources, L.C. for \$96,000 USD and 1,000,000 common shares of the Company. The purchase agreement also provides for a 2% NSR in favour of the vendors. The Company has the right to repurchase 1% of the NSR for \$2,000,000 USD.

### (ii) **Mining lease and option agreement with David Huffman**

Pursuant to a mining lease and option to purchase agreement dated June 15, 2008, the Company agreed to lease 7 unpatented claims from David Huffman for a term of 10 years. The agreement provides for annual payments of \$10,000 USD and the Company has an option to purchase the claims for an initial purchase price of \$1,000,000 USD, increasing by \$20,000 USD each year. The Company must exercise the option to purchase prior to commencing commercial mining operations on the property.

Pursuant to a further mining lease and option to purchase agreement dated July 15, 2008, the Company agreed to lease and additional 19 patented claims and 4 unpatented claims from David Huffman for a term of 10 years. The agreement provides for annual payments of \$20,000 USD, and the Company has an option to purchase the claims for an initial purchase price of \$2,225,000 USD, increasing by 2% each year. The Company must exercise the option to purchase prior to commencing commercial mining operations on the property.

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## **(iii) Lease agreement with James Lake, Barton Noone and Peter Noone**

Pursuant to the Artillery Peak agreement dated August 1, 2008, the Company acquired a lease over 5 fee simple parcels and 10 patented claims from James Lake, Barton Noone and Peter Noone. The lease has a 10 year initial term and provides for the following payments:

- a) \$60,000 USD upon execution of the lease agreement (paid);
- b) \$80,000 USD upon 1<sup>st</sup> anniversary of the lease agreement (paid);
- c) \$100,000 USD upon 2<sup>nd</sup> anniversary of the lease agreement (paid);
- d) \$120,000 USD upon 3<sup>rd</sup> anniversary of the lease agreement (paid);
- e) \$140,000 USD upon 4<sup>th</sup> anniversary of the lease agreement;
- f) \$160,000 USD upon 5<sup>th</sup> anniversary of the lease agreement;
- g) \$180,000 USD upon 6<sup>th</sup> anniversary of the lease agreement; and
- h) \$200,000 USD upon 7<sup>th</sup> and each subsequent anniversary of the lease agreement.

The leased properties are also subject to a royalty of \$0.04 USD per pound of manganese, and an NSR of 1.5% on all other minerals. The lease payments described above constitute and advance on any royalty payments due to the lessors. The lease is renewable for up to 8 additional 10 year terms provided that the royalty payments of at least \$500,000 USD are made during each preceding term.

## **(iv) Mining lease agreement with Arizona Manganese Corporation**

Pursuant to a mineral lease agreement dated September 29, 2009, the Company acquired a lease over 43 patented mining claims from Arizona Manganese Corporation. During the initial 20 year term, the mineral lease agreement provides for payments equal to the greater of a 2.25% NSR and the following annual amounts:

- a) \$50,000 USD in year 1 (paid);
- b) \$55,000 USD in each of years 2 through 4 (paid years 2 and 3);
- c) \$65,000 USD in each of years 5 through 10; and
- d) \$70,000 USD in year 11 and each year thereafter.

The lease can be renewed for two additional 20 year terms on payment of \$75,000 USD, adjusted for inflation, for each renewal term.

## **(v) Lease agreement with James Lake and Steven Lake**

Pursuant to a lease agreement dated March 15, 2010, the Company leased 3 fee simple parcels and one patented claim from James Lake and Steven Lake. The lease agreement provides for the following annual payments:

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- a) \$21,000 USD upon execution of the lease agreement (\$14,000 paid);
- b) \$27,000 USD upon the 1<sup>st</sup> anniversary (\$18,000 paid);
- c) \$33,000 USD upon the 2<sup>nd</sup> anniversary; (\$22,000 paid)
- d) \$39,900 USD upon the 3<sup>rd</sup> anniversary;
- e) \$46,500 USD upon the 4<sup>th</sup> anniversary;
- f) \$53,100 USD upon the 5<sup>th</sup> anniversary;
- g) \$59,700 USD upon the 6<sup>th</sup> anniversary; and
- h) \$66,300 USD upon the 7<sup>th</sup> and each subsequent anniversary.

The leased properties are also subject to a royalty of \$0.04 USD per pound of manganese, and an NSR of 1.5% on all other minerals. The lease payments described above constitute and advance on any royalty payments due to the lessors. The lease is renewable for additional 10 year terms provided that advance royalty payments as described above continue to be made.

The lease agreement for this property was signed by only two of the three property owners. As a result, the Company has paid only two thirds of the above payments. Should an agreement not be reached with the third property owner, one third of net profits relating to minerals extracted from this property would be payable to the third property owner.

## **(vi) Additional royalty obligations**

In addition to the royalties and other payments listed above, the Artillery Peak properties are subject to the following royalty interests, which arise under "area of interest" agreements with the vendors of certain of the properties.

- a) Primus Resources, L.C. is entitled to a 2% NSR on all of the Company's other unpatented claims, in addition to those acquired from Primus Resources, L.C.;
- b) James Lake, Barton Noone and Peter Noone are entitled to a royalty of \$0.04 USD per pound of manganese produced from all of the unpatented claims of the Company, apart from the four unpatented claims options from David Huffman; and
- c) James Lake is entitled to a royalty of \$0.01 USD per pound of manganese produced from all the Company's Artillery Peak properties as described above.

## **12. Share Capital, Share-Based Payments and Reserves**

### **a) Authorized capital**

The authorized share capital consists of an unlimited number of common voting shares without nominal or par value.

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## **b) Issued shares**

On June 8, 2011, the Company issued 200,000 shares for the acquisition of the SoCal property (Note 11d). The shares were valued at their trading price on the agreement date, for a total value of \$112,000.

In March 2011, the Company closed its bought-deal private placement, raising gross proceeds of \$5,040,000 which was comprised of 7,200,000 units at a price of \$0.70 per unit, with each unit comprised of one common share and one half purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.90 per share until September 8, 2012. If at any time after the period ending four months plus one day after the closing date, the 20-day volume weighted average trading price of the common shares on the TSX Venture Exchange is equal to or greater than \$1.10, the Company shall have the right, at its option, to accelerate the time of expiry of the warrants to a date not less than 30 days following the date of notice being given to each holder of warrants of such early expiry. The relative fair value of the warrants was estimated to be \$751,087 using the Black Scholes valuation model. The Company paid finders' fees of \$460,459 in cash and 576,000 warrants valued at \$238,579, with each warrant enabling the holder to purchase one common share for \$0.70 until March 8, 2013.

In February 2011, the Company completed its non-brokered private placement, raising gross proceeds of \$4,178,089 which was comprised of 13,926,961 units at a price of \$0.30 per unit, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.40 per share until February 9, 2013. The relative fair value of the warrants, using the Black Scholes valuation model, was estimated to be \$1,608,834. The Company paid finders' fees of \$301,377 in cash and 120,244 warrants with the same terms and conditions which were valued at \$43,665.

In August 2010, the Company closed its non-brokered private placement raising gross proceeds of \$412,231 which was comprised of 2,290,174 units at a price of \$0.18 per unit, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.25 per share until August 11, 2012. The Company paid finders' fees of \$15,293 in relation to this private placement.

In June 2010, the Company completed a short form prospectus offering raising gross proceeds of \$1,014,900 which was comprised of 4,613,184 units at a price of \$0.22 per unit, with each unit comprised of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.30 per share until June 16, 2012.

In February 2010, the Company closed its non-brokered private placement raising gross proceeds of \$1,193,919 comprised of 5,969,595 units at a price of \$0.20 per unit, with each unit comprised of one common share and one-half share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$0.30 per share until February 16, 2012.

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## c) Issued warrants

A summary of the changes in the Company's share purchase warrants during the period ended January 31, 2012 and the year ended July 31, 2011 are as follows:

	Number of warrants	Weighted average exercise price
Balance outstanding as at August 1, 2010	21,703,781	\$ 0.26
Granted – private placement	2,290,174	0.25
Granted – private placement	13,926,961	0.40
Granted – private placement	3,600,000	0.90
Exercised / released	(16,488,200)	0.20
Expired / cancelled	(755,000)	0.30
<b>Balance outstanding at July 31, 2011</b>	<b>24,277,716</b>	<b>\$ 0.47</b>
<b>Exercised / released</b>	<b>(873,454)</b>	<b>0.31</b>
<b>Balance outstanding as at January 31, 2012</b>	<b>23,434,262</b>	<b>\$ 0.44</b>

As at January 31, 2012, the following common share purchase warrants were outstanding:

Expiry date	Number of warrants	Exercise price	Weighted average remaining contractual life (years)
February 16, 2012	1,822,797	\$ 0.30	0.04
June 16, 2012	1,882,330	0.30	0.37
August 11, 2012	2,290,174	0.25	0.53
September 8, 2012	3,600,000	0.90	0.60
February 9, 2013	13,838,961	0.40	1.02
	23,404,262	\$ 0.44	0.78

The following assumptions were used in the Black Scholes valuation of warrants issued in conjunction with private placements during the year ended July 31, 2011:

Expected dividend yield	0%
Expected volatility	102.39% - 135.97%
Risk-free interest rate	1.34% - 1.88%
Expected life	1.5 – 2 years
Exercise price	\$0.22 - \$0.74

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## d) Broker warrants

Excluded from Note 12(c) is the following broker warrant activity for the six months ended January 31, 2012 and for the year ended July 31, 2011:

	Number of warrants	Weighted average exercise price
Balance outstanding as at August 1, 2010	858,108	\$ 0.25
Granted – private placement	120,224	0.40
Granted – private placement	576,000	0.70
Exercised	(270,000)	0.30
<b>Balance outstanding at July 31, 2011</b>	<b>1,284,332</b>	<b>\$ 0.47</b>
<b>Exercised</b>	<b>(36,896)</b>	<b>0.40</b>
<b>Balance outstanding as at January 31, 2012</b>	<b>1,247,436</b>	<b>\$ 0.45</b>

As at January 31, 2012, the following common share purchase broker warrants were outstanding:

Expiry date	Number of warrants	Exercise price	Weighted average remaining contractual life (years)
February 16, 2012	120,000	\$ 0.30	0.04
June 16, 2012	99,054	0.30	0.37
June 16, 2012	369,054	0.22	0.53
February 9, 2013	83,328	0.40	0.60
March 8, 2013	576,000	0.70	1.02
	1,247,436	\$ 0.47	0.51

The following assumptions were used in the Black Scholes valuation of broker warrants issued during the year ended July 31, 2011:

Expected dividend yield	0%
Expected volatility	103.7% - 104.1%
Risk-free interest rate	1.87% - 1.88%
Expected life	2 years
Exercise price	\$0.40 - \$0.70

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## e) Share-based payments

The Company has adopted an incentive stock option plan, as amended, under the rules of the TSX-V pursuant to which it is authorized to grant stock options to executive officers, directors, employees and consultants, enabling them to acquire up to 13,708,155 shares of the Company. Under the stock option plan, the option exercise price of any option granted shall not be less than the discounted market price of the Company's common shares. If options are granted within 90 days of a distribution by prospectus, the minimum exercise price per share is the greater of the discounted market price and the share price paid by investors pursuant to the distribution. For the purposes of the stock option plan, the discounted market price is calculated in accordance with the policies of the TSX-V at the time of the grant of the options. The options may be granted for a maximum term of 5 years and vest 25% on the date of grant and 25% every 6 months thereafter for 18 months. No individual may hold options to purchase common shares of the Company exceeding 5% of the total number of common shares outstanding. Pursuant to the policies of the TSX-V, shares issued upon the exercise of options are restricted from trading during the 4 month period subsequent to the exercise of options.



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Stock option transactions for the six months ended January 31, 2012 and for the year ended July 31, 2011 are as follow:

	Number of options	Weighted average exercise price
Balance outstanding as at August 1, 2010	7,971,500	\$ 0.16
Granted	533,333	0.26
Exercised	(1,484,766)	0.14
Cancelled / forfeited	(80,000)	0.15
<b>Balance outstanding at July 31, 2011</b>	<b>6,960,067</b>	<b>\$ 0.18</b>
<b>Granted</b>	<b>4,253,000</b>	<b>0.58</b>
<b>Exercised / forfeited</b>	<b>(35,000)</b>	<b>0.14</b>
<b>Balance outstanding as at January 31, 2012</b>	<b>11,158,067</b>	<b>\$ 0.33</b>

As at January 31, 2012, the following stock options were outstanding:

Expiry date	Number of warrants	Exercise price	Weighted average remaining contractual life (years)
September 4, 2012	1,391,500	\$ 0.200	0.59
October 27, 2013	2,371,234	0.120	1.73
August 19, 2014	1,799,000	0.200	2.54
March 8, 2015	810,000	0.210	3.09
November 1, 2015	533,333	0.255	3.75
August 1, 2016	4,253,000	0.580	4.55
	11,158,067	\$ 0.330	2.70

The following assumptions were used in the Black Scholes valuation of stock options issued during the year ended July 31, 2011:

Expected dividend yield	0%
Expected volatility	140.3%
Risk-free interest rate	2.0%
Expected life	5 years
Exercise price	\$0.255
Annual pre-vest forfeiture rate	1.92% - 2.11%

In August 2011, the Company announced that the board of directors had authorized a grant of 4,253,000 incentive stock options pursuant to its stock option plan to directors, officers, employees and consultants

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of the Company. These options are exercisable at a price of \$0.58 per share for a period of 5 years and are subject to vesting provisions in accordance with the Company's stock option plan.

In November 2010, the Company granted 533,333 incentive stock options to an investor relations firm, which will vest according to the Company's stock option plan. These options are exercisable at a price of \$0.255 per share for a period of 5 years.

No options were granted during the three months ended January 31, 2012.

The weighted average fair value of share purchase options granted during the year ended July 31, 2011 was \$0.26 per option and was estimated on the grant date using the Black-Scholes option pricing model.

## **f) Share-based payments reserve**

The share-based payments reserve is used to recognize the fair value of share options granted to employees, including key management personnel, as part of their remuneration. When options are subsequently exercised, the fair value of such options in share-based payments reserve is credited to share capital.

## **g) Warrants reserve**

The warrants reserve is used to recognize the fair value of warrants issued. When warrants are subsequently exercised, the fair value of such warrants in warrants reserve is credited to share capital.

## **h) Dilutive common shares**

For the three and six months ended January 31, 2012, potentially dilutive common shares (relating to share purchase options and warrants outstanding) totalling 11,158,167 and 24,681,698 (January 31, 2011 – 8,052,233 and 20,685,463) were not included in the computation of loss per share as the effect would be anti-dilutive.

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## 13. Expenses by Nature

General and administration expenses for three and six months ended January 31, 2012 and 2011 consist of the following:

	Six months ended January 31, 2012	Six months ended January 31, 2011	Three months ended January 31, 2012	Three months ended January 31, 2011
Consulting fees	\$ 27,790	\$ 50,002	\$ 128,921	\$ 27,566
Filing agent and transfer fees	28,030	22,328	25,042	17,350
Management fees	35,921	14,248	18,003	8,166
Office and miscellaneous	87,652	35,082	56,554	17,565
Professional fees	49,668	24,971	44,934	12,486
Shareholder communications	453,919	160,513	218,318	128,353
Stock based compensation	1,116,771	129,507	419,894	59,7787
Travel	45,803	23,200	32,207	12,968
Wages and benefits	421,615	223,081	216,830	122,559
<b>Total</b>	<b>\$ 2,267,169</b>	<b>\$ 682,932</b>	<b>\$ 1,160,703</b>	<b>\$ 406,791</b>

## 14. Loss Per Share

	Loss for the period	Weighted average number of shares	Per share amount
<b>Three months ended January 31, 2012</b>			
Loss attributable to ordinary shareholders	\$ 1,352,457	105,763,517	\$ (0.01)
Three months ended January 31, 2011			
Loss attributable to ordinary shareholders	\$ 568,799	68,043,424	\$ (0.01)
<b>Six months ended January 31, 2012</b>			
Loss attributable to ordinary shareholders	\$ 2,984,701	105,668,318	\$ (0.03)
Six months ended January 31, 2011			
Loss attributable to ordinary shareholders	\$ 929,049	68,103,678	\$ (0.01)

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## 15. Financial Instruments and Financial Risk Management

### a) Financial assets and liabilities by category

The Company has designated cash and short-term investment as fair value through profit or loss, measured at fair value. Changes in the fair values are recorded in net earnings. Marketable securities are designated as available-for-sale financial assets, which are initially measured at fair value with subsequent changes to other comprehensive income. Amounts receivable, prepaid deposits, project advances, reclamation deposits, and receivable from related parties are designated as loans and receivables, and are measured at amortized cost using the effective interest method. Accounts payable and accruals are designated as other financial liabilities and are measured initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement. The Company had no held-to-maturity financial instruments during the six months ended January 31, 2012 or during the year ended July 31, 2011.

### b) Fair value

The fair value of financial instruments is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted market prices, as appropriate, in the most advantageous market for that instrument to which the Company has immediate access. Where quoted market prices are not available, the Company uses the closing price of the most recent transaction for that instrument. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics. The fair value of current financial instruments approximates their carrying values as long as they are short term in nature or bear interest at market rates.

### c) Fair value hierarchy

Financial instruments that are held at fair value are categorized based on a valuation hierarchy which is determined by the valuation methodology utilized:

**Level 1** – quoted prices (unadjusted) in active markets for identical assets or liabilities.

Cash, short-term investment and marketable securities are valued using a market approach based upon unadjusted quoted prices for identical assets in an active market obtained from securities exchanges.

**Level 2** – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

**Level 3** – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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There were no transfers between levels 1 and 2 during the six months ended January 31, 2012, or for the year ended July 31, 2011.

## **d) Financial risk management**

The Company's Board of Directors has the overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the Company's activities. Management regularly monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

In the normal course of operations, the Company is exposed to various risks such interest rate, foreign exchange, credit and liquidity risks. To manage these risks, management determines what activities must be undertaken to minimize potential exposure to risks. The objectives of the Company in managing risks are as follows:

- Maintaining sound financial condition:
- Financing operations; and
- Ensuring liquidity to all operations.

In order to satisfy these objectives, the Company has adopted the following policies:

- Prepare budget documents at prevailing market rates to ensure clear, corporate alignment to performance management and achievement of targets;
- Recognize and observe the extent of operating risk within the business; and
- Identify the magnitude of the impact of market risk factors on the overall risk of the business and take advantage of natural risk reductions that arise from these relationships.

There have been no changes in risks that have arisen or how the Company manages those risks from the prior year or during any period in the six months ended January 31, 2012 or for the year ended July 31, 2011.

## **(i) Interest rate risk**

The Company's interest rate risk arises primarily from the interest received on cash and short-term investment, which is invested on a short term basis to enable adequate liquidity for payment of operational and capital expenditures.

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## **(ii) Foreign currency risk**

The Company is exposed to foreign currency risk on fluctuations related to cash, project advances, reclamation deposits and accounts payable and accruals that are denominated in US dollars. As at January 31, 2012, total net assets and liabilities denominated in US dollars amounted to a net asset of \$86,188 (\$84,506 USD). Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net loss and comprehensive loss by approximately \$8,619 with all other variables remaining constant.

## **(iii) Commodity price risk**

The value of the Company's exploration and evaluation assets are dependent on the price of manganese and the outlook for this mineral. Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside the Company's control, including but not limited to, levels of worldwide production short term changes in supply and demand, industrial and retail demand, as well as certain other factors related specifically to manganese. If manganese prices decline for a prolonged period below the cost of production, it may not be economically feasible to continue towards production.

## **(iv) Credit risk**

Credit risk is the risk of loss if counterparties do not fulfill their contractual obligations and arises principally from trade receivables. The Company's credit risk is primarily attributable to cash, short-term investment, and amounts receivable. The Company limits its exposure to credit risk on cash and short-term investment as these financial instruments are held with major Canadian and international banks, from which management believes the risk of loss to be remote. Amounts receivable consist primarily of harmonized sales tax due from the Federal Government of Canada. Management believes the credit risk concentration with respect to amounts receivable is remote. The carrying amount of financial assets recorded in the financial statements, net of any allowances, represents the Company's maximum exposure to credit risk.

## **(v) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk by maintaining cash and short-term investment balances. Liquidity requirements are managed based on expected cash flow to ensure there is capital to meet short term and long term obligations. As disclosed in Note 1, the ability of the Company to continue as a going concern is dependent on many factors. The Company's cash is primarily invested in bank accounts and guaranteed investment certificates which are cashable on demand. The Company expects that its cash on hand at January 31, 2012 provides sufficient financial resources to carry out its operations through the 2012 fiscal year, and also allows the Company to continue its exploration and evaluation program.

## **16. Capital Management**

The Company classifies its share capital, share-based payments reserve and warrants reserve as capital,

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which at January 31, 2012 totalled \$28,998,504 (July 31, 2011 - \$27,600,733). When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish qualitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate. There were no changes in the Company's approach to capital management during the six months ended January 31, 2012, or during the year ended July 31, 2011. The Company is not subject to any externally imposed capital requirements.

## 17. Contingent liability

A former lawyer for the Company had previously claimed past legal fees in the amount of \$358,742. While these fees were disputed by the Company, an accrual was made for the full amount of the fees in the year ended July 31, 2006. This accrual was reversed in the year ended July 31, 2010 as the Company does not anticipate any further action on this claim.

## 18. Segmented Information

The Company operates in one segment – the exploration for and development of mineral property interests. Geographic information for the Company is as follows:

	January 31, 2012		July 31, 2011	
	Canada	USA	Canada	USA
Current assets	\$ 4,630,666	\$ 32,805	\$ 7,993,517	\$ 117,455
Non-current assets	945,105	7,356,125	897,198	5,747,957
Total assets	\$ 5,575,771	\$ 7,388,930	\$ 8,890,715	\$ 5,865,412
Current liabilities	\$ 131,604	\$ 48,482	\$ 322,213	\$ 62,370
Total liabilities	\$ 131,604	\$ 48,482	\$ 322,213	\$ 62,370

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## 19. Events After the Reporting Date

Subsequent to January 31, 2012, the Company issued 1,796,047 common shares on pursuant to the exercise of warrants for proceeds of \$407,949.

## 20. Transition to IFRS

For all periods up to July 31, 2011, the Company prepared its consolidated financial statements in accordance with Canadian GAAP. These condensed consolidated interim financial statements for the three month periods ended January 31, 2012 are the first quarterly condensed consolidated interim financial statements that comply with IFRS as expected to be in effect as at July 31, 2012, as detailed in the accounting policies described in Note 3. In preparing these condensed consolidated interim financial statements, the Company's opening consolidated statement of financial position was prepared as at August 1, 2010, the Company's date of transition to IFRS.

This note explains the principal adjustments made by the Company in restating its Canadian GAAP consolidated statements of financial position as at August 1, 2010, its previously published Canadian GAAP consolidated financial statements for the year ended July 31, 2011, and the three month period ended January 31, 2011.

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company.

### a) Optional exemptions:

The Company has elected to apply the following optional exemptions from full retrospective application:

#### (i) Share-based payments

IFRS 1 allows that full retrospective application may be avoided for certain share-based payments, depending on the grant date, vesting terms and settlement of any real liabilities. A first-time adopter can elect to not apply IFRS 2 to share-based payments granted after November 7, 2002 that vested before the later of a) the date of transition to IFRS and b) January 1, 2005. The Company has elected this exemption and will apply IFRS 2 to only unvested stock options as at August 1, 2010.

#### (ii) Cumulative translation differences

IFRS 1 allows that a first-time adopter may elect to deem all cumulative translation differences to be zero at the date of transition. The Company has elected to utilize this exemption and as such the cumulative translation amount at August 1, 2010 previously included in other comprehensive loss has been reallocated to deficit.



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## **b) Adjustments on transition to IFRS:**

The following is a summary of the significant accounting differences considered as part of the transition to IFRS:

### **(i) Functional currency and foreign exchange translation**

Canadian GAAP requires an entity to determine whether a subsidiary is an integrated or self sustaining entity based on the functional currency of the parent company. This determination dictates the method of foreign exchange translation for the consolidated financial statements. Under IFRS an entity is required to assess its functional currency independently for each entity within a consolidated group. As a result, the Company's subsidiary was determined to have a functional currency in US dollars. The results of the change in translation methods have been recorded as IFRS adjustments.

### **(ii) Share-based payments**

Under Canadian GAAP, the Company treated awards with graded vesting provisions as a single award for both measurement and recognition purposes. IFRS 2 requires that such awards be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has a different vesting date. In addition, IFRS requires that forfeiture estimates are recognized in the period they are estimated and are revised for actual forfeitures in subsequent periods, whereas under the Company's Canadian GAAP policy, forfeitures of awards have been recognized as they occur. On application of the IFRS 1 exemption noted above, this change in accounting policy was applied only to unvested options as of the transition date.

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## 20.1 Reconciliation of consolidated statement of financial position as at August 1, 2010

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 129,004	\$ -	\$ 129,004
Amounts receivable		40,614	-	40,614
Receivable from related parties		8,717	-	8,717
Prepaid expenses		45,000	-	45,000
		223,335		223,335
Equipment		7,957	-	7,957
Reclamation deposits		35,021	-	35,021
Exploration and evaluation assets	20.1(b)	4,375,162	208,854	4,584,016
<b>Total assets</b>		<b>\$ 4,641,475</b>	<b>\$ -</b>	<b>\$ 4,850,330</b>
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 87,990	\$ -	\$ 87,990
Payable to related parties		35,962	-	35,962
		123,952		123,952
<b>Equity</b>				
Share capital		13,048,514	-	13,048,514
Share-based payments reserve		1,881,936		1,881,936
Deficit	20.1(a)	(10,412,927)	208,854	(10,204,073)
<b>Total equity</b>		<b>4,517,523</b>		<b>4,726,377</b>
<b>Total liabilities and equity</b>		<b>\$ 4,641,475</b>	<b>\$ -</b>	<b>\$ 4,850,330</b>

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## 20.1 Explanation of the Effect of the Transition to IFRS

The following explains the material adjustments to the statement of financial position of the Company as at August 1, 2010:

### a) Deficit

**Reclassification of cumulative translation adjustment** – In accordance with IAS 1, the Company has elected to reclassify its opening cumulative translation adjustment as at August 1, 2010 resulting from the translation of its US subsidiary to deficit. **Net decrease in deficit**

\$ 208,854

### b) Exploration and evaluation assets

**Translation of US subsidiary** – as explained in Note 20.1(b). **Net increase in exploration and evaluation assets of:**

\$ 208,854

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## 20.2 Reconciliation of consolidated statement of financial position as at January 31, 2011

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 3,135,769	\$ -	\$ 3,135,769
Amounts receivable		68,065	-	68,065
Receivable from related parties		6,547	-	6,547
Prepaid expenses		49,438	-	49,438
		3,259,819		3,259,819
Project advance		294,995	-	294,995
Equipment		6,514	-	6,514
Reclamation deposits		35,021	-	35,021
Exploration and evaluation assets	20.2(d)	4,602,270	43,484	4,645,754
<b>Total assets</b>		<b>\$ 8,198,619</b>		<b>\$ 8,242,104</b>
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 67,689	\$ -	\$ 67,689
<b>Equity</b>				
Share capital		16,348,861	-	16,348,861
Share-based payments reserve	20.2(a)	2,899,480	59,195	2,958,675
Accumulated other comprehensive loss	20.2(b)	-	(185,097)	(130,279)
Deficit	20.2(c)	(11,117,411)	169,386	(11,002,843)
<b>Total equity</b>		<b>8,130,930</b>		<b>8,174,415</b>
<b>Total liabilities and equity</b>		<b>\$ 8,198,619</b>		<b>\$ 8,242,104</b>

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## 20.2 Explanation of the Effect of the Transition to IFRS

The following explains the material adjustments to the statement of financial position of the Company as at January 31, 2011:

### a) Share-based payment reserve

**Graded vesting** – Under Canadian GAAP, the Company treated awards with graded vesting provisions as a single award for both measurement and recognition purposes. IFRS 2 requires that such awards be treated as a series of individual awards, with compensation measured and recognized separately for each tranche of options within a grant that has a different vesting date. **Net increase in share-based payment reserves:**

\$ 59,195

### b) Accumulated other comprehensive loss

Effect of change in functional currency of the US subsidiary from the Canadian dollar to the US dollar, resulting in a translation adjustment. **Net increase in accumulated other comprehensive loss**

\$ 185,097

### c) Deficit

Effect from transition of IFRS at August 1, 2010 as explained in Note 20.1(b). **Net decrease in deficit**

\$ 208,854

Effect from translation of US subsidiary as explained in Note 20.2(b). **Net decrease in deficit.**

\$ 19,727

Effect of graded vesting as explained in Note 20.2(a). **Net increase in deficit.**

\$ (59,195)

**Cumulative decrease in deficit**

\$ 169,386

### d) Exploration and evaluation assets

Effect from translation of US subsidiary as explained in Note 20.2(b). **Net increase in exploration and evaluation assets of:**

\$ 43,484

# AMERICAN MANGANESE INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 20.3 Reconciliation of consolidated statement of comprehensive loss for the six months ended January 31, 2011

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
Administration	20.3(a)	\$ 623,737	\$ 59,195	\$ 682,932
Research and development		57,546	-	57,546
<b>Loss from operations</b>				
Finance income		(135)	-	(135)
Loss on foreign exchange	20.3(a)	23,336	(19,727)	3,609
<b>Loss for the period</b>		<b>\$ 704,484</b>		<b>\$ 743,952</b>
<b>Other comprehensive loss</b>				
Foreign currency loss on translation of subsidiary	20.3(b)	\$ -	\$ 185,097	\$ 185,097
<b>Other comprehensive loss for the period</b>				<b>185,097</b>
<b>Total comprehensive loss for the period</b>		<b>\$ 704,484</b>		<b>\$ 929,049</b>

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## 20.3 Explanation of the Effect of the Transition to IFRS

The following explains the material adjustments to the statement of loss and comprehensive loss of the Company for the six months ended January 31, 2011:

### a) Loss for the period

Effect of graded vesting of stock options during the period as discussed in Note 20.1(a). <b>Net increase in general and administrative expenses</b>	\$ <u>59,195</u>
Effect from translation of US subsidiary as explained in Note 20.2(b). <b>Net decrease in loss on foreign exchange</b>	\$ <u>(19,727)</u>
<b>Cumulative increase in loss for the period</b>	<b>\$ <u>39,468</u></b>

### b) Other comprehensive loss

Effect of translation of US subsidiary as explained in Note 20.2(b) - <b>Net increase in other comprehensive loss</b>	<b>\$ <u>185,097</u></b>
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# AMERICAN MANGANESE INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 20.4 Reconciliation of consolidated statement of financial position as at July 31, 2011

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents		\$ 788,533	\$	\$ 788,533
Short-term investment		6,700,000		6,700,000
Amounts receivable		159,017		159,017
Receivable from related parties		16,563		16,563
Marketable securities		16,875		16,875
Prepaid expenses		94,988		94,988
Project advances		334,995		334,995
		8,110,971		8,110,971
Equipment		5,580		5,580
Reclamation deposits		35,021		35,021
Exploration and evaluation assets	20.3(d)	6,690,423	(85,869)	6,604,554
<b>Total assets</b>		<b>\$ 14,841,995</b>	<b>\$</b>	<b>\$ 14,756,126</b>
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 384,583	\$	\$ 384,583
<b>Equity</b>				
Share capital		\$ 22,958,206	\$	\$ 22,958,206
Share-based payments reserve	20.3(a)	1,850,873	5,301	1,845,571
Warrants reserve		2,796,955		2,796,955
Accumulated other comprehensive income	20.3(b)	(13,125)	(411,686)	(424,811)
Deficit	20.3(c)	(13,135,496)	331,119	(12,804,377)
<b>Total equity</b>		<b>14,457,412</b>		<b>14,371,544</b>
<b>Total liabilities and equity</b>		<b>\$ 14,841,995</b>	<b>\$</b>	<b>\$ 14,756,126</b>



# AMERICAN MANGANESE INC.

Notes to the Condensed Consolidated Interim Financial Statements  
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## 20.4 Explanation of the Effect of the Transition to IFRS

The following explains the material adjustments to the statement of financial position of the Company as at July 31, 2011:

**a) Share-based payment reserve**

Effect of graded vesting of stock options during the period as explained in Note 20.1(a). **Net decrease in share-based payment reserve** \$ 5,301

**b) Accumulated other comprehensive income**

Effect of change in functional currency of the US subsidiary from the Canadian dollar to the US dollar as explained in Note 20.2(b). **Net increase in accumulated other comprehensive loss** \$ (411,686)

**c) Deficit**

Effect from transition of IFRS at August 1, 2010 as explained in Note 20.1(b). **Net decrease in deficit** \$ 208,854

Effect from translation of US subsidiary as explained in Note 20.4(b). **Net decrease in deficit.** \$ 116,700

Effect of graded vesting as explained in Note 20.4(a). **Net decrease in deficit.** \$ 5,301

**Cumulative decrease in deficit** \$ 331,119

**d) Exploration and evaluation assets**

Effect from translation of US subsidiary – as explained in Note 20.2(b). **Net decrease in exploration and evaluation assets** \$ (85,869)

# AMERICAN MANGANESE INC.

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## 20.5 Reconciliation of consolidated statement of comprehensive loss for the year ended July 31, 2011

	Notes	Canadian GAAP	Effect of Transition to IFRS	IFRS
<b>Expenses</b>				
Administration	20.5(a)	\$ 2,320,128	\$ (5,301)	\$ 2,314,827
Research and development		373,496		373,496
<b>Loss from operations</b>		2,693,624		2,688,323
Finance income		(23,271)		(23,271)
Loss (gain) on foreign exchange	20.5(a)	52,216	(116,700)	(64,484)
<b>Loss for the period</b>		<b>\$ 2,722,569</b>	<b>\$</b>	<b>\$ 2,600,568</b>
<b>Other comprehensive loss</b>				
Foreign currency loss on translation of subsidiary	20.5(b)	\$ -	\$ 411,686	\$ 411,686
Unrealized loss on marketable securities		13,125		13,125
<b>Other comprehensive loss for the period</b>		13,125		424,811
<b>Total comprehensive loss for the period</b>		<b>\$ 2,735,694</b>	<b>\$</b>	<b>\$ 3,025,379</b>

# AMERICAN MANGANESE INC.

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## 20.5 Explanation of the Effect of the Transition to IFRS

The following explains the material adjustments to the statement of loss and comprehensive loss of the Company for the year ended July 31, 2011:

### a) Loss for the period

Effect of graded vesting of stock options during the period as discussed in Note 20.1(a). <b>Net decrease in general and administrative expenses</b>	<u>\$ (5,003)</u>
Effect from translation of US subsidiary as explained in Note 20.2(b). <b>Net decrease in loss on foreign exchange</b>	<u>\$ (116,700)</u>
<b>Cumulative decrease in loss for the period</b>	<u><u>\$ (122,003)</u></u>

### b) Other comprehensive loss

Effect of translation of US subsidiary as explained in Note 20.2(b) - <b>Net increase in other comprehensive loss</b>	<u>\$ 411,686</u>
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