

**LOMIKO METALS INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

July 31, 2010 and 2009

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
<b>Auditors' Report</b>	1
<b>Financial Statements</b>	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5



Porter Héту  
International  
Professional Services Group

## AUDITORS' REPORT

B.M. Galloway\*  
E.A. Botteselle\*  
B.R. Blamey\*  
D.P. Van Gruen\*  
R.E. Biedka  
S.N. Muller  
S.G. Nisbet  
*\*Professional Corporation*

### To the Shareholders of Lomiko Metals Inc.

We have audited the consolidated balance sheets of Lomiko Metals Inc. as at July 31, 2010 and 2009 and the consolidated statements of operations and deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2010 and 2009 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Certified General Accountants  
Vancouver, BC  
November 23, 2010

Maple Place  
Professional Centre  
300-2000 West 12th Avenue  
Vancouver, B.C. V6J 2G2  
Tel: 604-736-6581  
Fax: 604-736-0152  
support@porterhetu.com  
www.porterhetu.com

**LOMIKO METALS INC.**  
CONSOLIDATED BALANCE SHEETS  
July 31, 2010 and 2009

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 194,196	72,119
Accounts receivable and advances	16,382	6,976
Prepaid expenses	<u>24,008</u>	<u>5,250</u>
	<b>234,586</b>	<b>84,345</b>
<b>Interests in Mineral Properties</b> (Note 4)	<b>519,941</b>	<b>175,971</b>
	<b>\$ 754,527</b>	<b>260,316</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 39,675	11,190
	<b>39,675</b>	<b>11,190</b>
<b>SHAREHOLDERS' DEFICIENCY</b>		
<b>Capital Stock</b> (Note 5)	<b>16,288,868</b>	<b>15,192,309</b>
<b>Contributed Surplus</b> (Note 6)	<b>237,367</b>	<b>36,000</b>
<b>Deficit</b>	<b>(15,811,383)</b>	<b>(14,979,183)</b>
	<b>714,852</b>	<b>249,126</b>
	<b>\$ 754,527</b>	<b>260,316</b>

**Nature of Operations** (Note 1)  
**Subsequent Events** (Note 11)

Approved on behalf of the Board:

"Paul Gill"  
\_\_\_\_\_  
Paul Gill - President and Chief Executive Officer

"Jacqueline Michael"  
\_\_\_\_\_  
Jacqueline Michael - Chief Financial Officer

*The accompanying notes form an integral part of these financial statements.*

# LOMIKO METALS INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT For the Years Ended July 31, 2010 and 2009

	2010	2009
<b>Expenses</b>		
Consulting fees	\$ 124,793	\$ 103,930
Investor relations	170,989	78,558
Management fees	127,500	140,000
Office and miscellaneous	22,757	16,824
Professional fees	137,900	58,510
Regulatory and trust company fees	48,185	48,965
Stock-based compensation	201,367	-
Write-down of mineral property acquisition and exploration costs	-	738,412
	<u>833,491</u>	<u>1,185,199</u>
<b>Operating Loss</b>	<b>(833,491)</b>	<b>(1,185,199)</b>
<b>Other</b>		
Interest income	1,291	-
<b>Net Loss</b>	<b>(832,200)</b>	<b>(1,185,199)</b>
<b>Deficit, Beginning of Year</b>	<b>(14,997,143)</b>	<b>(13,793,984)</b>
<b>Prior Period Adjustment (Note 10)</b>	<b>17,960</b>	<b>-</b>
<b>As Restated</b>	<b>(14,979,183)</b>	<b>(13,793,984)</b>
<b>Deficit, End of Year</b>	<b>\$ (15,811,383)</b>	<b>(14,979,183)</b>
<b>Basic and Diluted Loss Per Common Share</b>	<b>\$ (0.021)</b>	<b>(0.039)</b>
<b>Weighted Average Number of Shares Outstanding</b>	<b>40,041,517</b>	<b>30,008,792</b>

*The accompanying notes form an integral part of these financial statements.*

# LOMIKO METALS INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended July 31, 2010 and 2009

	2010	2009
<b>Cash Flows from Operating Activities</b>		
Income (loss) for the year	\$ (832,200)	(1,185,199)
Items not involving cash:		
Mineral property costs written off	-	738,412
Stock-based compensation	<u>201,367</u>	<u>-</u>
	<b>(630,833)</b>	<b>(446,787)</b>
Changes in non-cash working capital items:		
Accounts receivable	(9,406)	44,310
Prepaid expenses	(18,758)	(5,250)
Accounts payable	28,485	(1,502)
	<b>(630,512)</b>	<b>(409,229)</b>
<b>Cash Flows from Financing Activities</b>		
Shares issued	1,017,559	445,240
	<b>1,017,559</b>	<b>445,240</b>
<b>Cash Flows from Investing Activities</b>		
Investment in mineral properties	(264,970)	(326,295)
	<b>(264,970)</b>	<b>(326,295)</b>
<b>Increase (decrease) in Cash</b>	<b>122,077</b>	<b>(290,284)</b>
<b>Cash, Beginning of Year</b>	<b>72,119</b>	<b>362,403</b>
<b>Cash, End of Year</b>	<b>\$ 194,196</b>	<b>72,119</b>
<b>Supplemental Information</b>		
Resource properties acquired by the issuance of shares	<u>\$ 79,000</u>	<u>99,500</u>

*The accompanying notes form an integral part of these financial statements.*

# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

---

### 1 Nature of Business and Going Concern

---

The Company is incorporated under the laws of the Province of British Columbia and is engaged in the acquisition, exploration and development of resource properties. The company is in the exploration stage and has not yet determined whether its properties contain enough mineral reserves such that their recovery would be economically viable. These consolidated financial statements of the Company have been prepared on the basis of accounting principles applicable to a going concern which assume the realization of assets and discharge of liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon successful completion of additional financing, continuing support of directors, the ability to continue to raise adequate financing or achieving profitable operations in the future, the outcome of which cannot be predicted at this time. These consolidated financial statements do not reflect any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

---

### 2 Significant Accounting Policies

---

#### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Conac Group Inc., incorporated in British Columbia, and Conac Software (USA) Inc., incorporated in Washington, USA., and Lomiko Metals LLC, which was incorporated on October 1, 2009 in Colorado, USA. All inter-company accounts and transactions have been eliminated.

#### **Use of Estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimate as additional information becomes available in the future.

#### **Financial Instruments**

The Company's cash is classified as held-for trading. Accounts receivables are classified as loans and receivables. Accounts payable are classified as other financial liabilities.

#### **Resource Properties**

Resource property acquisition costs are capitalized until the viability of the mineral interest is determined. Exploration costs are capitalized and tested annually for impairment.

# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

---

### 2 Significant Accounting Policies (Continued)

---

#### **Stock Based Compensation**

The Company follows the fair value method of accounting for the stock options awards granted to employees and directors. The fair value of stock options is determined by the widely used Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility of the expected market price of the Company's common shares and an expected life of the options. The fair value of direct awards of stock is determined by the quoted market price of the company's stock. Stock based compensation is amortized to earnings over the vesting period of the related option.

#### **Earnings or Loss Per Share**

Basic and fully diluted earnings or loss per share is calculated on the weighted average number of shares outstanding during the year.

The treasury stock method is used to determine the dilutive effect of stock options and warrants. Under the treasury stock method, only instruments with exercise amounts less than market prices impact the diluted calculations. In computing diluted loss per share, no shares were added to the weighted average number of common shares outstanding during the years ended July 31, 2010 and 2009 for dilutive effect of stock options and warrants as they were all anti-dilutive. No adjustments were required to reported loss from operations in computing diluted per share amounts.

#### **Translation of Foreign Currencies**

Foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Income and expense transactions denominated in foreign currencies are translated at exchange rates prevailing at the transaction dates. Gains or losses arising on foreign currency translation are recorded in the statement of loss and deficit.

#### **Income Taxes**

Future income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities, measured using substantively enacted tax rates and laws expected to apply in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in operations in the period that includes the substantive enactment date. A valuation allowance is recognized to the extent that it is more likely than not that future income tax assets will not be realized.

---

### 3 Accounting Changes

---

In February 2008, the CICA Accounting Standards Board ("CICA") confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in 2011 for public companies in Canada (i.e., IFRS will replace Canadian GAAP for public companies). The official changeover date will apply for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company is currently assessing the impact of the implementation of IFRS.



# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

### 4 Interests in Mineral Properties

	<u>2010</u>	<u>2009</u>
The carrying values of the company's resource properties are as follows:		
<b>Vines Lake Property - Liard Mining District</b>		
100% interest in 3 claims comprising 1,195 hectares	\$ 135,971	135,971
<b>Karolina Property - Chile</b>		
100% interest in 9 claims making up 1,900 hectares of Salar de Aguas Calientes.	172,647	40,000
<b>Alkali Lake Nevada Property - US</b>		
The company, in conjunction with its subsidiary Lomiko USA LLC, located and staked 552 lode claims in the Alkali Valley of Nevada at an initial cost of \$187,323 in October 2009 . Subsequent to year end, in August 2010, the company abandoned this property. (Note 11)	187,323	-
<b>Rose Lake 70 Mile House, BC - Canada</b>		
100% interest in EVA and PLAYA claims making up 222 hectares and 222 respectively of semi-evaporitic lakes known as Rose Lake and Cunningham Lake near 70 Mile House, B.C.	<u>24,000</u>	-
	<u>\$ 519,941</u>	<u>175,971</u>

# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

### 5 Capital Stock

#### Common Shares

The maximum number of common shares that the company is authorized to issue is unlimited.

	<u>2010</u>		<u>2009</u>	
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>
<b>Issued and fully paid</b>				
Balance beginning of year	30,480,112	\$ 15,192,309	6,362,028	\$ 14,747,069
<b>Issued for cash</b>				
on exercise of options	120,000	12,000	-	-
on exercise of warrants	1,135,000	141,875	500,000	160,000
private placements	8,333,333	1,000,000	758,000	303,200
<b>Issued for interests in properties</b>	1,200,000	79,000	-	-
<b>Less transaction costs 4 for 1 split</b>	-	(136,316)	-	(17,960)
	<u>-</u>	<u>-</u>	<u>22,860,084</u>	<u>-</u>
Balance, end of year	<u>41,268,445</u>	<u>\$ 16,288,868</u>	<u>30,480,112</u>	<u>\$ 15,192,309</u>

The company has issued options and warrants to purchase up to 8,756,667 shares at a weighted average exercise price of \$0.16 each. The options expire on various dates, from November 16, 2011 through February 17, 2015.

### Note 6 Contributed Surplus

	<u>2010</u>	<u>2009</u>
Balance, beginning	\$ 36,000	36,000
Stock-based compensation	201,367	-
Balance, ending	<u>\$ 237,367</u>	<u>36,000</u>

### 7 Related Party Transactions

During the year, in the normal course of operations, the company paid \$117,500 in management fees and \$13,653 in consulting fees to companies controlled by directors. The company also paid a \$10,000 bonus to one of its directors.

# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

---

### 8 Contingent Liabilities

---

A legal claim has been made against the Company for breach of contract, misrepresentation and negligence for \$78,624 plus general damages of \$100,000, punitive damages of \$50,000 plus interest and costs. The Company has filed a counter claim of \$78,195 plus interest and costs. The outcome of these claims is not determinable and no provision has been made in the financial statements.

---

### 9 Income Taxes

---

The Company has incurred losses for Canadian income tax purposes that may be carried forward to reduce income of future years that would otherwise be subject to income tax. The aggregate amount of the losses is \$2,198,488.

The losses expire as follows:

2014	\$	802,097
2015		12,827
2027		110,806
2028		130,858
2029		462,824
2030		<u>679,076</u>
	\$	<u>2,198,488</u>

The potential tax benefits of the losses have not been recognized in the financial statements as it is considered to be more likely than not that future tax assets will not be realized.

---

### 10 Prior Period Adjustment

---

During current fiscal year, the Company discovered that, in its 2009 fiscal year, \$17,960 of commission fees paid on a private placement share financing was expensed as finders fees and commissions, instead of being deducted from the proceeds of the share issue. The comparative figures for 2009 have been restated to record the effects of the adjustment. The net loss for the year ended July 31, 2009 was reduced by \$17,960 and the basic and diluted loss per share was reduced by \$0.001 per share as a result of the adjustment.

# LOMIKO METALS INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2010 and 2009

---

### 11 Subsequent Events

---

On August 23, 2010, the Company settled a legal dispute over the rights to a mineral property and abandoned its 552 lode claims in Alkali Valley, Nevada. At that time, the company made a \$53,017 payment to settle the dispute and wrote off costs related to the acquisition of the claims, amounting to \$187,323.

On October 22, the company closed a private placement, issuing 3,000,000 units, consisting of one common share and one half of one common share purchase warrant, for gross proceeds of \$0.05 per unit. Each full warrant is exercisable at a price of \$0.10 for a period of twelve months after the closing date.

On November 9, 2010, the Company announced it had retained Notre-Dame Capital Inc., an exempt market dealer registered with the Ontario Securities Commission for the primary purpose of establishing an Equity Line Financing.

---

### 12 Financial Instruments

---

#### **Fair Value**

The carrying value of cash, accounts receivable and accounts payable and accruals approximates their fair value because of the short-term nature of these instruments.

#### **Risk**

The Company is not subject to significant credit, interest rate or foreign currency exchange risk from its financial instruments.