

**TORO RESOURCES CORP.**

**INTERIM FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**

# **TORO RESOURCES CORP.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

### **NOTICE**

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

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

# TORO RESOURCES CORP.

## INTERIM CONSOLIDATED BALANCE SHEETS (Unaudited)

	DECEMBER 31 2010	JUNE 30 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 458,885	\$ 691,850
Amounts receivable	11,217	4,425
Prepaid expenses	9,480	10,000
	<u>479,582</u>	<u>706,275</u>
<b>Mineral Property And Deferred Exploration Expenditures (Note 6)</b>	<u>342,030</u>	<u>141,031</u>
	<u>\$ 821,612</u>	<u>\$ 847,306</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 24,657	\$ 32,664
<b>SHAREHOLDERS' EQUITY</b>		
Share Capital (Note 7)	1,594,766	1,480,576
Contributed Surplus	121,510	118,100
Deficit	(919,321)	(784,034)
	<u>796,955</u>	<u>814,642</u>
	<u>\$ 821,612</u>	<u>\$ 847,306</u>

Approved on behalf of the Board of Directors

“William C. Galine”

Director

“Ronald Atlas”

Director

The accompanying notes form an integral part of these financial statements

# TORO RESOURCES CORP.

## INTERIM STATEMENTS OF OPERATIONS (Unaudited)

	THREE MONTH PERIOD ENDED DECEMBER 31		SIX MONTH PERIOD ENDED DECEMBER 31	
	2010	2009	2010	2009
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Expenses</b>				
Consulting fees	15,000	-	30,000	-
Foreign exchange (gain) loss	793	1	793	88
Office and miscellaneous	10,315	476	18,279	976
Management fees	6,500	-	6,500	-
Professional fees	20,648	4,830	38,797	11,057
Regulatory fees	1,200	900	1,800	1,800
Rent	5,883	-	5,883	-
Shareholder communications	1,455	-	6,075	-
Stock based compensation	-	-	7,600	-
Transfer and filing fees	4,595	4,047	9,522	8,227
Travel	7,909	-	10,041	-
	<u>74,298</u>	<u>10,254</u>	<u>135,290</u>	<u>22,148</u>
<b>Loss Before The Following Items</b>	<b>(74,298)</b>	<b>(10,254)</b>	<b>(135,290)</b>	<b>(22,148)</b>
<b>Interest Income</b>	<b>-</b>	<b>6</b>	<b>3</b>	<b>15</b>
<b>Net Loss and Comprehensive Loss For The Period</b>	<b>\$ (74,298)</b>	<b>\$ (10,248)</b>	<b>\$ (135,287)</b>	<b>\$ (22,133)</b>
<b>Loss Per Common Share, Basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted Average Number Of Common Shares</b>	<b>17,929,071</b>	<b>6,332,938</b>	<b>17,457,332</b>	<b>6,332,938</b>

The accompanying notes form an integral part of these financial statements

# TORO RESOURCES CORP.

## INTERIM STATEMENTS OF CASH FLOWS (Unaudited)

	THREE MONTH PERIOD ENDED DECEMBER 31		SIX MONTH PERIOD ENDED DECEMBER 31	
	2010	2009	2010	2009
<b>Cash Provided By (Used In):</b>				
<b>Operating Activities</b>				
Net loss for the year	\$ (74,298)	\$ (10,248)	\$ (135,287)	\$ (22,133)
Items not affecting cash				
Stock based compensation	-	-	7,600	-
	(74,298)	(10,248)	(127,687)	(22,133)
Net changes in non-cash operating working capital items:				
Amounts receivable	(5,423)	(499)	(6,792)	1,767
Prepaid expenses	(9,480)		520	
Accounts payable and accrued liabilities	(6,449)	(9,519)	4,477	(13,509)
	(95,650)	(20,266)	(129,482)	(33,875)
<b>Cash Flows From Investing Activity</b>				
Mineral property and deferred development expenditures	(83,047)	(10,862)	(213,483)	(10,862)
	(83,047)	(10,862)	(213,483)	(10,862)
<b>Cash Flows From Financing Activities</b>				
Common Stock issued on exercise of warrants	5,000	-	105,000	-
Common Stock issued on exercise of options	-	-	5,000	-
	5,000	-	110,000	-
<b>Net (Decrease) In Cash and Cash Equivalents</b>	(173,697)	(31,128)	(232,965)	(44,737)
<b>Cash and Cash Equivalents, Beginning Of Period</b>	632,582	63,773	691,850	77,382
<b>Cash and Cash Equivalents, End Of Period</b>	\$ 458,885	\$ 32,645	\$ 458,885	\$ 32,645
<b>Supplemental Cash Flow Information</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income tax paid	\$ -	\$ -	\$ -	\$ -

(Continued)

The accompanying notes form an integral part of these financial statements

# TORO RESOURCES CORP.

## INTERIM STATEMENTS OF CASH FLOWS (Continued) (Unaudited)

	THREE MONTH PERIOD ENDED DECEMBER 31		SIX MONTH PERIOD ENDED DECEMBER 31	
	2010	2009	2010	2009
<b>Supplementary Disclosure For Non-Cash Investing And Financing Activities</b>				
Transfer of fair value from contributed surplus to share capital on exercise of options	\$ -	\$ -	\$ 4,190	\$ -

The accompanying notes form an integral part of these financial statements

## TORO RESOURCES CORP.

### INTERIM CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

**DECEMBER 31, 2010**  
(Unaudited)

	SHARE CAPITAL		CONTRIBUTED SURPLUS	ACCUMULATED DEFICIT	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT			
Balance June 30, 2009	6,332,938	\$ 603,876	\$ -	\$ (543,674)	\$ 60,202
Shares issued for cash at \$0.05	6,000,000	300,000	-	-	300,000
Shares issued for cash at \$0.15	3,669,998	550,500	-	-	550,500
Shares issued as finders fees pursuant to private placements	493,700	73,925	-	-	73,925
Share issue costs	-	(82,925)	-	-	(82,925)
Shares issued for mineral property	250,000	25,000	-	-	25,000
Shares issued as finders fees pursuant to mineral property acquisition agreement	102,000	10,200	-	-	10,200
Fair value of stock options vesting in period	-	-	118,100	-	118,100
Net loss for the year	-	-	-	(240,360)	(240,360)
Balance June 30, 2010	16,848,636	1,480,576	118,100	(784,034)	814,642
Shares issued on exercise of stock options	50,000	9,190	(4,190)	-	5,000
Shares issued on exercise of share purchase warrants	1,050,000	105,000	-	-	105,000
Fair value of stock options vesting in period	-	-	7,600	-	7,600
Net loss for the year	-	-	-	(135,287)	(135,287)
<b>Balance December 31, 2010</b>	<b>17,898,636</b>	<b>\$ 1,594,766</b>	<b>\$ 121,510</b>	<b>\$ (919,321)</b>	<b>\$ 796,955</b>

The accompanying notes form an integral part of these financial statements

# **TORO RESOURCES CORP.**

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**  
**(Unaudited)**

### **1. BASIS OF PRESENTATION**

The interim consolidated financial statements of Toro Resources Corp. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended June 30, 2010, except as described below. The disclosures included below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's annual report for the year ended June 30, 2010.

### **2. NATURE OF BUSINESS AND GOING CONCERN**

#### **a) Nature of Business**

The Company is incorporated under the Business Corporations Act of British Columbia and is listed on the Canadian National Stock Exchange ("CNSQ"). The Company is in the process of acquiring mineral properties for exploration to determine whether these properties contain economically recoverable ore reserves. The recoverability of any amounts shown for mineral properties and related deferred costs is dependent upon the existence of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, and the ability of the Company to obtain necessary financing to complete the development of the properties, and upon future profitable production.

#### **b) Going Concern**

The Company's consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern and 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 contingent on its ability to obtain additional financing. The current financial equity market conditions, the challenging funding environment and the low price of the Company's common shares make it difficult to raise funds by private placements of shares. The junior resource industry has been severely impacted by the world economic situation, as it is considered to be a high-risk investment. There is no assurance that the Company will be successful with any financing ventures. It is dependent upon the continuing financial support of shareholders and obtaining financing to continue exploration of its mineral property interests. While the Company is expending its best efforts to achieve its plans by examining various financing alternatives, there is no assurance that any such activity will generate funds that will be available for operations. These financial statements do not give effect to any adjustments that would be necessary should the Company not be able to continue as a going concern.



# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of Consolidation

The consolidated financial statements include the results of the Company, Toro Resources Corp. ("TRC") and its wholly owned subsidiary company Toro Resources Inc. ("TRI"), a company incorporated in Nevada USA on March 9, 2010.

All significant intercompany balances and transactions have been eliminated in the consolidation.

#### b) Cash and Cash Equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash which are subject to insignificant risk of change, with maturities within three months, held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. At December 31, 2010 and June 31, 2010 the Company held no cash equivalents.

#### c) Mineral Properties and Deferred Exploration Expenditures

The cost of mineral property interests and their related direct exploration expenditures are deferred until the properties are placed into production, sold or abandoned. These deferred exploration expenditures will be amortized on a unit of production basis over the estimated useful life of the properties following the commencement of production, or written off if the properties are sold, allowed to lapse or abandoned.

Costs include the cash consideration and the fair market value of common shares issued on the acquisition of mineral property interests. The recorded costs of mineral property interests and deferred exploration expenditures represent costs incurred, and are not intended to reflect present or future values. The Company does not accrue the estimated future costs of maintaining its mineral property interests in good standing.

On an annual basis or when impairment indicators arise, the Company evaluates the future recoverability of its mineral property costs. Impairment losses or write downs are recorded in the event the net book value of such assets exceeds the estimated indicated future cash flows attributable to such assets.

#### d) Financial Instruments – Recognition and Measurement

CICA Handbook section 3855 "Financial Instruments – Recognition and Measurement" sets out criteria for the recognition and measurement of financial instruments for fiscal years beginning on or after October 1, 2006. This standard requires all financial instruments within its scope, including derivatives, to be included on the balance sheet and measured either at fair value or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Changes in fair value are to be recognized in the Statement of Loss and Comprehensive Loss.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### d) Financial Instruments – Recognition and Measurement, (Continued)

All financial assets and liabilities are recognized when the Company becomes a party to the contract creating the item. As such, any of the Company's outstanding financial assets and liabilities at the effective date of adoption are recognized and measured in accordance with the new requirements as if these requirements had always been in effect.

All financial instruments are classified into one of the following five categories: held-for-trading, held to maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

Held to maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method.

Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income (loss) until the asset is realized, at which time they will be recorded in net earnings (losses).

Held for trading financial instruments are measured at fair value. All gains and losses resulting from changes in their fair value are included in the Statements of Loss in the period in which they arise.

All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses resulting from changes in their fair value are included in the Statement of Loss in the period in which they arise.

In accordance with this new standard, the Company has classified its financial instruments as follows:

Cash as held for trading which is measured at fair value initially and in subsequent periods;

Amounts receivable are classified as loans and receivables. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Accounts payable and accrued liabilities are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### e) Financial Instruments - Disclosure

Handbook Section 3862 – “Financial Instruments – Disclosure” requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

- i) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- ii) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
- iii) Level 3 – Applies to assets or liabilities for which there are unobservable market data.

The Company’s financial instruments consist principally of cash amounts receivable and accounts payable and accrued liabilities. Pursuant to CICA Handbook 3862, fair value of assets and liabilities measured on a recurring basis include cash which is determined based on Level 1 inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

#### f) Loss Per Share

Loss per common share has been calculated using the weighted average number of common shares.

The Company follows the “treasury stock method” in the calculation of diluted net loss per share.

Diluted loss per share is computed by dividing the net loss for the year by the weighted average number of shares of common stock and potential common stock outstanding during the year, if dilutive.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent 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 estimates and would impact future results of operations and cash flows.

#### h) Stock Based Compensation

The Company's Stock Option Plan provides for granting of stock options to directors, officers and employees. The Company uses the fair value method for valuing stock option grants. Compensation costs attributable to share options granted are measured at fair value at the grant date and are expensed over vesting periods with a corresponding increase to contributed surplus. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

#### i) Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Transactions in foreign currency are translated into Canadian dollars as follows:

- (i) monetary items at the rate prevailing at the balance sheet date;
- (ii) non-monetary items at the historical exchange rate;
- (iii) revenue and expense at the average rate in effect during the applicable accounting period.

Exchange gains or losses are recorded in the Statement of Loss and Comprehensive Loss.

#### j) Asset Retirement Obligations

The Company follows the recommendations in CICA Handbook Section 3110 – "Asset Retirement Obligations" with respect to asset retirement obligations. Under Section 3110, legal obligations associated with the retirement of tangible long-lived assets are recorded as liabilities. The liabilities are calculated using the net present value of the cash flows required to settle the obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depreciation, depletion and amortization of the underlying asset. The liabilities are subject to accretion over time for changes in the fair value of the liability through charges to accretion which is included in cost of sales and operating expenses.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### j) Asset Retirement Obligations (Continued)

It is possible that the Company's estimates of its ultimate asset retirement obligations could change as a result of changes in regulations, the extent of environmental remediation required, the means of reclamation or cost estimates. Changes in estimates are accounted for prospectively from the period the estimate is revised.

#### k) Impairment of Long-Lived Assets

The Company follows the recommendations in CICA Handbook Section 3063 – "Impairment of Long-Lived Assets". Section 3063 requires that the Company review for impairment of long-lived assets, including mineral properties and related deferred costs, development costs, and capital assets, to be held and used whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If such conditions exist, assets are considered impaired if the sum of the undiscounted expected future cash flows expected to result from the use and eventual disposition of an asset is less than its carrying amount. An impairment loss is measured at the amount by which the carrying amount of the asset exceeds its fair value. When quoted market value prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

#### l) Regulatory Matters

The Company and its mineral property interests are subject to a variety of government regulations governing land use, health, safety and environmental matters. The Company's management believes it has been in substantial compliance with all such regulations, and is unaware of any pending action or proceeding relating to regulatory matters that would affect the financial position of the Company.

#### m) Variable Interest Entities

The Canadian Institute of Chartered Accountants (CICA) issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", to provide accounting guidance related to variable interest entities ("VIE"). A VIE exists when the entity's equity investment is at risk. When a VIE is determined to exist the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it does not have a primary beneficiary interest in VIEs.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Recently Issued Accounting Pronouncements

i) Section 1582, Business Combinations

Section 1582 applies prospectively to the Company's business combinations on or after January 1, 2011. Early adoption of this recommendation is permitted. This section replaces Section 1581, "Business Combination", and harmonizes the Canadian accounting standards with International Financial Reporting Standards ("IFRS"). Under the new guidance, the purchase price used in a business combination will be the new fair value of the shares exchanged at their market price on the date of the exchange.

Currently, when shares are issued, they are valued based on the market price for a reasonable period before and after the date the acquisition is agreed upon and announced. Under the new guidelines, all acquisition costs are expensed where currently they are capitalized as part of the acquisition costs. There are also a number of other differences between the new guidelines and current GAAP. The Company does not expect the adoption of this pronouncement to impact the financial statements.

ii) Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests

Section 1601 and 1602 change the accounting and reporting of ownership in interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position (balance sheet) within equity, but separately from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of income or loss. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interest of the non-controlling owners. The Company does not expect the adoption of these pronouncements to impact its financial statements in fiscal 2011.

iii) International financial reporting standards ("IFRS")

In 2006, AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Recently Issued Accounting Pronouncements (Continued)

iii) International financial reporting standards ("IFRS") (Continued)

The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of July 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the fiscal year ended on or before June 30, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

### 4. CAPITAL DISCLOSURES

The Company was formed for the purpose of acquiring exploration and development stage natural resource properties. The Board determines the Company's capital structure and makes adjustments to it based on funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Directors have not established quantitative return on capital criteria for capital management.

The Company currently owns 129 unpatented mining claims and leases an additional 34 claims, located in Gila County, Arizona and does not generate any revenue, and accordingly the Company will be dependent in the future upon external financing to fund future exploration programs and its administrative costs. The Company will spend existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential provided it has adequate financial resources to do so.

The Directors review their capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company is reasonable.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the statement of shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments issued by the Company are treated as equity only to the extent that they do not meet the definition of a financial liability. The Company's common shares are classified as equity instruments.

#### a) Financial Assets and Liabilities

The fair values of cash, amounts receivable and accounts payable and accrued liabilities approximate their carrying values because of the short term nature of these instruments. There are no differences between the carrying values and the fair values of any financial assets or liabilities.

#### b) Financial Instrument Risk Exposure and Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management process. The overall objectives of the Board are to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. The types of risk exposure and the way in which such exposure is managed are provided as follows:

##### i) Credit Risk

The Company is primarily exposed to credit risk on its bank accounts. Credit risk exposure is limited through maintaining its cash with high-credit quality financial institutions.

##### ii) Liquidity Risk

The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account the Company's holdings of cash. The Company believes that its sources of financing will be sufficient to cover the expected short and long term cash requirements.

##### iii) Market Risk

The significant market risk exposures to which the Company is exposed are foreign exchange risk, interest rate risk, and commodity price risk.

##### iv) Foreign Currency Risk

The Company's functional currency and the reporting currency is the Canadian dollar ("CDN\$"). Periodically the Company incurs charges on its operations for settlement in currencies other than its functional currency and any gain or loss arising on such transactions is recorded in operations for the year.



# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### b) Financial Instrument Risk Exposure and Risk Management (Continued)

##### iv) Foreign Currency Risk (Continued)

The Company holds a 100% interest in its subsidiary Toro Resources Inc. ("TRI") which operates in the United States of America. TRI has transactions which are recorded in the US Dollar ("USD\$"). As a result, the Company is subject to foreign currency and exchange risk on the translation of these transactions and year end balances to the reporting currency. Any gains or losses arising in the period are included in operations for the year.

As at December 31, 2010 and June 30, 2009, a 1% strengthening in the USD relative to the CDN\$ does not have a significant impact on the net loss for the year.

Any unrealized translation adjustments arising at period end are included in operating loss for the period.

The Mineral property contract (Note 6(b)) is denominated in US Dollars, and accordingly, changes in the exchange rate will affect the Company's future cash outflows pursuant to this agreement. As at December 31, 2010, a 1% strengthening in the USD\$ relative to the CDN\$ would result in future cash outflows increasing by approximately CDN\$59,000

The Company does not participate in any hedging activities to mitigate any gains or losses which may arise as a result of exchange rate changes.

Financial assets and liabilities denominated in currencies other than the Canadian dollar are as follows:

	<b>FINANCIAL ASSETS</b>	<b>FINANCIAL LIABILITIES</b>
US dollars	<u>\$ 15,335</u>	<u>\$ 1,930</u>

##### v) Interest Rate Risk

In respect of financial assets, the Company's policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash in order to maintain liquidity. Fluctuations in interest rates affect the value of cash.

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 2010**  
**(Unaudited)**

### 5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

#### c) Hedging

This standard specifies the circumstances under which hedge accounting is permissible and how hedge accounting may be performed. The Company currently does not hold any financial instruments designated for hedge accounting.

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Mineral properties and deferred exploration expenditures comprise:

	<b>DECEMBER 31 2010</b>	<b>JUNE 30 2010</b>
Deer Creek, Idaho, USA	\$ -	\$ -
Morgan Peak, Arizona, USA	<b>342,030</b>	141,031
Total	<b>\$ 342,030</b>	<b>\$ 141,031</b>

#### a) Deer Creek, Idaho, USA

	<b>DECEMBER 31 2010</b>	<b>JUNE 30 2010</b>
<b>Acquisition Costs</b>		
Balance, Beginning of Period	\$ -	\$ 1
Additions	-	-
Write offs and impairment provisions during the year	-	(1)
Balance, End of Period	-	-
<b>Exploration Costs</b>		
Balance, Beginning of Period	-	-
Property taxes and assessments	-	-
Write offs and impairment provisions during the year	-	-
Balance, End of Period	-	-
Total	<b>\$ -</b>	<b>\$ -</b>

On July 30, 2005, as amended August 5, 2009, the Company entered into an agreement to acquire a mineral lease, for an area of interest containing 4 mining claims located in Lemhi County, Idaho, U.S.A. The lease expires on July 30, 2025. In order for the lease to remain in good standing the Company is required to pay the annual government property maintenance and rental fees, and make annual payments to the optionor in accordance with the following schedule:

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 2010**  
(Unaudited)

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

a) Deer Creek, Idaho, USA (Continued)

	<b>CASH COMPENSATION (US \$)</b>	<b>SHARE CONSIDERATION (NUMBER OF SHARES)</b>
Upon stock exchange approval	\$ 5,000 (paid)	200,000 (issued)
On or before July 30, 2006	\$ 5,000 (paid)	40,000 (issued)
On or before July 30, 2007	\$ 5,000 (paid)	75,000 (issued)
On or before July 30, 2008	\$ 1,000 (paid)	-

The lease entitles the Company to explore, develop and mine the property for gold, silver and other valuable minerals. The Company is entitled to purchase the property outright at any time up to within 60 days of a bankable feasibility study or when ore production commences for the sum of US\$2,000,000 and 500,000 common shares of the Company, less any royalty payments made to the date of acquisition.

The agreement is subject to a 2.5% net smelter returns royalty. During the year ended June 30, 2006 the company acquired an additional 61 lode mineral claims, which are subject to the terms of the mineral lease agreement.

During the year ended June 30, 2009, the Company abandoned these additional claims, and wrote off \$22,437 of mineral property acquisition costs and \$27,175 of deferred development expenditures which had been incurred in relation the claims. On June 30, 2009, the Company performed its annual review of its property holdings and recorded a mineral property impairment provision of \$80,488, and a deferred exploration impairment provision of \$13,757 resulting in the carrying cost of the property being \$1. On June 30, 2010, the Company abandoned the property and recorded a further mineral property impairment of \$1.

b) Morgan Peak, Arizona, USA

	<b>DECEMBER 31 2010</b>	<b>JUNE 30 2010</b>
<b>Acquisition Costs</b>		
Balance, Beginning of Period	\$ 70,448	\$ -
Additions	10,127	70,448
Balance, End of Period	<b>80,575</b>	<b>\$ 70,448</b>

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

b) Morgan Peak, Arizona, USA

	DECEMBER 31 2010	JUNE 30 2010
<b>Acquisition Costs</b>	<b>80,575</b>	\$ 70,448
<b>Exploration Costs</b>		
Balance, Beginning of Period	70,583	-
Assessments and fees	28,601	18,664
Consulting and engineering	142,440	39,032
Field and Travel	10,969	604
Office	3,451	2,607
Reports and Maps	4,361	8,274
Storage	1,050	1,402
Balance , End of Period	<b>261,455</b>	70,583
Total	<b>\$ 342,030</b>	\$ 141,031

On December 10, 2009, the Company entered into a letter of intent with MinQuest Inc. ("MinQuest") to acquire a 100% undivided interest in the Morgan Peak Property in Arizona, USA, comprising 101 unpatented mineral claims covering a total of 2020 acres. As part of this agreement, MinQuest has assigned its previous agreement with another party for claims in the property to the Company.

Upon execution of the letter of intent, the Company paid to MinQuest a \$10,862 (US\$10,000) non-refundable deposit

On February 1, 2010, the Company entered into a definitive mineral property agreement (denominated in US\$) with MinQuest respecting the option to acquire a 100% interest in the property subject to a 3% Net Smelter Royalty. At this time the non-refundable deposit became part of the amount due upon signing the agreement. Subsequent to the finalization of the agreement, MinQuest became a related party as its President was appointed as a director of TRI.

On March 10, 2010, the Company assigned all its rights and obligations pursuant to the mineral contract to its wholly owned subsidiary, TRI, a Company incorporated in Nevada.

In order to earn the interest, TRC is required to issue an aggregate of 3,000,000 shares of common stock and TRI is required to make cash payments to MinQuest totalling US\$1,000,000, and incur an aggregate of US\$4,300,000 in exploration expenditures as follows:

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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(Unaudited)

### 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

b) Morgan Peak, Arizona, USA (Continued)

	<b>CASH COMPENSATION (US \$)</b>	<b>SHARE CONSIDERATION (NUMBER OF SHARES)</b>	<b>EXPLORATION EXPENDITURES</b>
Upon signing the agreement	\$ 20,000	250,000	\$ -
On or before February 1, 2011	20,000	250,000	250,000
On or before February 1, 2012	25,000	300,000	350,000
On or before February 1, 2013	30,000	350,000	450,000
On or before February 1, 2014	40,000	400,000	500,000
On or before February 1, 2015	50,000	450,000	750,000
On or before February 1, 2016	50,000	500,000	1,000,000
On or before February 1, 2017	50,000	500,000	1,000,000
On or before February 1, 2018	715,000	-	-
	<b>\$ 1,000,000</b>	<b>3,000,000</b>	<b>\$ 4,300,000</b>

Also, TRI is required to make cash payments totalling US\$665,000 to another party as follows:

	<b>CASH COMPENSATION (US \$)</b>
Upon signing the agreement	\$ 10,000
December 5, 2010	10,000
December 5, 2011	25,000
December 5, 2012	30,000
December 5, 2013	40,000
December 5, 2014	50,000
December 5, 2015	50,000
December 5, 2016	50,000
December 5, 2017	400,000
	<b>\$ 665,000</b>

As at December 31, 2010, the Company has paid \$42,159 (US\$40,000) and issued 250,000 common shares with a fair value of \$25,000 pursuant to the agreement. The Company also issued 102,000 common shares with a fair value of \$10,200 as finders' fees in respect of the transaction.

During the year ended June 30, 2010, the Company staked a further 28 claims in the surrounding area to the main property, and subsequent to September 30, 2010, the Company staked an additional 56 claims in the surrounding area to the main property

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 2010**  
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### 7. SHARE CAPITAL

a) Authorized:

Unlimited voting common shares without par value

Unlimited non-voting preferred shares with a par value of \$1 each (none issued)

b) Issued and Outstanding - Common Shares:

During the six month period ended December 31, 2010, the Company issued:

a) 1,050,000 common shares pursuant to the exercise of share purchase warrants for aggregate proceeds of \$105,000.

b) 50,000 common shares pursuant to the exercise of stock options for gross proceeds of \$5,000

c) Share Purchase Warrants

As at December 31, 2010, share purchase warrants outstanding for the purchase of common shares are as follows:

NUMBER OF WARRANTS	EXERCISE PRICE PER WARRANT	EXPIRY DATE
4,950,000	\$ 0.10	February 3, 2011
1,835,001	\$ 0.30	April 28, 2012
6,785,001		

A summary of changes in share purchase warrants for the six month period ended December 31, 2010 and the year ended June 30, 2010 is presented below:

	SIX MONTHS ENDED DECEMBER 31, 2010		YEAR ENDED JUNE 30, 2010	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of period	7,835,001	\$ 0.15	-	\$ -
Granted	-		7,835,001	0.15
Exercised	(1,050,000)	0.10	-	-
Balance, end of period	6,785,001	\$ 0.15	7,835,001	\$ 0.15

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
(Unaudited)

### 7. SHARE CAPITAL (Continued)

#### d) Escrow Shares

As at December 31, 2010 no common shares were held in escrow. (June 30, 2010 – 510,002)

### 8. STOCK BASED COMPENSATION

The Company has a stock option plan that provides for the issuance of stock options to its officers, directors, employees and consultants. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual.

The exercise price of stock options is determined by the board of directors of the Company at the time of grant and may not be less than the closing market price of the Company's shares on the day immediately prior to the award date, less any discount which may be permitted by the exchange on which the Company is listed. Options have a maximum term of five years.

As at December 31, 2010, Stock options were outstanding for the purchase of common shares as follows:

NUMBER OF OPTIONS	EXERCISE PRICE PER SHARE	NUMBER EXERCISABLE AT DECEMBER 31 2010	EXPIRY DATE
1,000,000	\$ 0.10	1,000,000	March 4, 2015
200,000	\$ 0.18	200,000	June 3, 2015
50,000	\$ 0.18	50,000	August 31, 2015
<u>1,250,000</u>		<u>1,250,000</u>	

# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

**DECEMBER 31, 2010**  
**(Unaudited)**

### 8. STOCK BASED COMPENSATION (Continued)

A summary of changes in stock options for the six month period ended December 31, 2010 and the year ended June 30, 2009 is presented below:

	SIX MONTHS ENDED DECEMBER 31, 2010		YEAR ENDED JUNE 30, 2009	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of period	1,250,000	\$ 0.11	-	\$ -
Granted	50,000	0.18	1,250,000	0.11
Exercised	(50,000)	0.10	-	-
	<b>1,250,000</b>	<b>\$ 0.11</b>	<b>1,250,000</b>	<b>\$ 0.11</b>

Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. During the six month period ended December 31, 2010, the Company recorded \$7,600 (six month period ended December 31, 2009 - \$Nil) in stock based compensation for options granted.

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	SIX MONTHS ENDED DECEMBER 31	
	2010	2009
Risk free interest rate	2.4%	-
Expected life	5 years	-
Expected volatility	122%	-
Expected dividend yield	-	-
Weighted average of fair value of options granted	<b>\$0.15</b>	-

### 9. RELATED PARTY TRANSACTIONS

The following related party transactions were in the normal course of operations and measured at the exchange amount, which is the amount established and agreed to by the related parties. Amounts due to and from related parties were non-interest bearing, unsecured and had not fixed terms of repayment.

In addition to those related party transactions disclosed elsewhere in the financial statements the Company incurred the following transactions and balances:



# TORO RESOURCES CORP.

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010  
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### 9. RELATED PARTY TRANSACTIONS (Continued)

- a) Included in accounts payable is \$892 (June 30, 2009 - \$352) due to a director for expense reimbursement, \$nil (June 30, 2009 - \$4,609) due to a related individual for consulting services and amounts aggregating \$1,238 (June 30, 2009 - \$8,375) due to Companies with a common director.
- b) Included in prepaid expenses is \$4,480 (June 30, 2010 - \$nil) relating to prepaid management fees to a director.
- c) During the six month periods ended year ended December 31, 2010 and 2009, the Company accrued or was charged the following amounts by directors, and companies with a common director or officer:

	SIX MONTHS ENDED DECEMBER 31	
	2010	2009
<b>Income Statement Items</b>		
Office expenses	\$ 4,024	\$ -
Rent	2,490	-
	<u>\$ 6,514</u>	<u>-</u>
<b>Balance Sheet Items</b>		
Deferred exploration expenditures	<u>\$ 66,421</u>	<u>\$ -</u>

### 10. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

On March 4, 2010 the Company entered into a consulting agreement with Opus 3 Inc., which expired on September 4, 2010. The agreement was extended for a further six months subsequent to the year end. The consultants have been retained to identify potential mineral property targets and to assist with strategic marketing and with general corporate development. Remuneration to the consultant consists of 200,000 stock options exercisable at \$0.10 until March 4, 2015, and \$5,000 payable monthly over the term of the agreement.

The Company has no other significant contractual obligations or commitments with any parties respecting executive compensation, consulting arrangements, rental premises or other matters, except as disclosed elsewhere in these notes.

# **TORO RESOURCES CORP.**

## **NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010**  
**(Unaudited)**

### **11. SUBSEQUENT EVENTS**

Subsequent to the period end, the Company:

- a) issued 4,950,000 shares for the exercise of share purchase warrants for aggregate proceeds of \$495,000.
- b) issued 250,000 common shares and paid \$20,000 cash pursuant to the Morgan Peak mineral property agreement.