

**NASS VALLEY GATEWAY LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED**  
**June 30, 2011 and 2010**

# NASS VALLEY GATEWAY LTD.

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**NOTICE OF NO AUDITORS' REVIEW OF  
INTERIM FINANCIAL STATEMENTS**

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Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited interim 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.

**Nass Valley Gateway Ltd.**  
**Interim consolidated statements of financial position**

	June 30 2011	December 31 2010	January 1 2010
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and equivalents	41,046	9,148	176,950
Amounts receivable	6,433	10,506	321
Amounts receivable from related parties (Note 7)	-	15,000	15,000
Prepaid expenses	2,750	5,461	6,337
	<b>50,229</b>	40,115	198,608
<b>Non current assets</b>			
Reclamation bond	3,000	3,000	3,000
Equipment (Note 5)	-	2,071	2,583
Mineral properties (Note 4)	142,000	95,500	-
Deferred exploration costs (Note 4)	746,973	721,836	687,389
	<b>942,202</b>	862,522	891,580
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	40,156	23,194	1,612
Due to related parties (Note 7)	24,779	35,507	77,841
	<b>64,935</b>	58,701	79,453
<b>Non current liabilities</b>			
Loan repayable to related party	253,889	61,563	97,234
	<b>253,889</b>	61,563	97,234
<b>Shareholders' equity</b>			
Share capital (Note 6)	2,162,665	2,137,415	1,869,915
Contributed surplus	198,180	187,593	160,529
Warrants	21,391	21,391	21,391
Deficit	(1,758,858)	(1,604,141)	(1,336,942)
	<b>623,378</b>	742,258	714,893
	<b>942,202</b>	862,522	891,580

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on August 25, 2011 and were signed on its behalf:

*"Dieter Peter"*  
 Dieter Peter, Director

*"Jayram Hosanee"*  
 Jayram Hosanee, Director

**Nass Valley Gateway Ltd.**  
**Interim consolidated statements of comprehensive loss**  
**For the six months ended June 30, 2011 and 2010**

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Revenue</b>	\$ -	\$ -	\$ -	\$ -
<b>Expenses</b>				
General and administrative expenses	47,138	50,710	101,472	93,577
Amortization	-	128	2,556	256
Stock-based compensation (Note 6)	8,223	35,035	10,587	36,120
Interest and expenses related to loans	4,211	310	26,095	1,274
Write off of receivables	-	-	14,007	-
<b>Total comprehensive loss for the period</b>	<b>(59,572)</b>	<b>(86,183)</b>	<b>(154,717)</b>	<b>(131,227)</b>
Net loss per share, basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

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

**Nass Valley Gateway Ltd.**  
**Interim consolidated statements of cash flows**  
**For the six months ended June 30, 2011 and 2010**

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
<b>Cash flows from operating activities</b>				
Net loss for the period	\$ (59,572)	\$ (86,183)	\$ (154,717)	\$ (131,227)
<i>Items not affecting cash:</i>				
Amortization	-	128	2,556	256
Stock-based compensation	8,223	35,035	10,587	36,120
Bonus on loans	-	-	18,750	-
Write off of receivables from related parties	-	-	14,007	-
Accrued interest	4,193	-	-	-
<i>Changes in non-cash working capital items:</i>				
(Increase)/decrease in amounts receivable	(1,514)	121	4,073	(441)
Decrease (increase) in prepaid expenses and deposit	(272)	(4,600)	2,711	(3,696)
Increase (decrease) in accounts payable and accrued liabilities	23,950	21,447	16,962	35,600
Increase in accounts payable to related parties	2,748	-	(9,735)	-
	(22,244)	(34,052)	(87,480)	(63,388)
<b>Cash flows from financing activities</b>				
Proceeds from issuance of share capital (Note 5(b))	-	170,000	-	170,000
Proceeds of loan from related parties (Note 6(g))	65,000	-	185,000	-
Refund of related party loan (Note 6(g))	-	(48,199)	-	(97,234)
	65,000	121,804	185,000	72,766
<b>Cash flows from investing activities</b>				
Acquisition of equipment	-	-	(485)	-
Mineral property payments	-	-	(40,000)	(60,000)
Deferred exploration costs (Note 3)	(12,092)	(9,515)	(25,137)	(9,515)
	(9,515)	(9,515)	(65,622)	(69,515)
<b>Increase/(decrease) in cash and equivalents</b>	<b>30,664</b>	<b>78,234</b>	<b>31,898</b>	<b>(60,137)</b>
<b>Cash and equivalents, beginning of the period</b>	<b>10,382</b>	<b>38,579</b>	<b>9,148</b>	<b>176,950</b>
<b>Cash and equivalents, end of the period</b>	<b>\$ 41,046</b>	<b>\$ 116,813</b>	<b>\$ 41,046</b>	<b>\$ 116,813</b>

*Supplemental disclosures:*

During the period ended June 30, 2011, the Company issued 100,000 common shares (2010: nil), valued at \$6,500 (2010: \$Nil) with respect to obligations under property option agreements and 375,000 common shares (2010: Nil), valued at \$18,750 (2010: \$Nil) pursuant to loan agreements.

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

**Nass Valley Gateway Ltd.**  
**Consolidated statements of changes**  
**For the six months ended June 30, 2011 and 2010**

	Share Capital		Reserves			Total
	Number of shares	Amount	Contributed Surplus	Warrants	Deficit	
		\$	\$	\$	\$	\$
<b>Balance, January 1, 2010</b>	<b>31,276,303</b>	<b>1,869,915</b>	<b>160,529</b>	<b>21,391</b>	<b>(1,336,942)</b>	<b>714,893</b>
Private placement	3,400,000	170,000	-	-	-	170,000
Share based payment	-	-	36,120	-	-	36,120
Comprehensive loss for the period	-	-	-	-	(131,227)	(131,227)
<b>Balance, June 30, 2010</b>	<b>34,676,303</b>	<b>2,039,915</b>	<b>196,649</b>	<b>21,391</b>	<b>(1,468,169)</b>	<b>789,786</b>
<b>Balance, December 31, 2010</b>	<b>36,526,303</b>	<b>2,137,415</b>	<b>187,593</b>	<b>21,391</b>	<b>(1,604,141)</b>	<b>742,258</b>
Property option	100,000	6,500	-	-	-	6,500
Bonus shares on loans	375,000	18,750	-	-	-	18,750
Share based payment	-	-	10,587	-	-	10,587
Comprehensive loss for the period	-	-	-	-	(154,717)	(154,717)
<b>Balance, June 30, 2011</b>	<b>37,001,303</b>	<b>2,162,665</b>	<b>198,180</b>	<b>21,391</b>	<b>(1,758,858)</b>	<b>623,378</b>

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

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the acquisition and exploration of mineral properties in Ontario and British Columbia, Canada. The Company is also committed to expand its activities in the Renewable Energy sector, through its wholly owned subsidiary Global Environmental Systems Ltd. The Company's shares are listed on the Canadian Stock Exchange ("CNSX") trading under the symbol "NVG". The registered office of the Company is 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, V6C 2T5, British Columbia.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether those properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure the continuation of the Company's operations and exploration programs. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company

**Basis of preparation**

These interim consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and applicable for the reporting period, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

Since these financial statements represent the Company's presentation of its results and financial position for the first six months under IFRS, they were prepared in accordance and compliance with IAS 34 – *Interim Financial Reporting* and IFRS 1 – *First time Adoption of International Financial Reporting Standards*.

The Company's consolidated financial statements were previously prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, Management has amended some accounting and measurement methods previously applied in Canadian GAAP in order to comply with IFRS. A description of the effects of the differences on equity, loss and comprehensive loss are discussed in Note 16 of the consolidated financial statements along with a line by line reconciliation of the statements of financial positions as at December 31, 2010 and January 1, 2010 and the statement of comprehensive loss for the year ended December 31, 2010 and for the three and six months ended June 30, 2010.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

**Functional currency**

The presentation and functional currency of the Company and each of its subsidiaries is the Canadian dollar.



**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Global Environmental Systems Ltd., Kirkland Precious Metals Corp. and Nass Energy Ltd. All significant inter-company balances and transactions have been eliminated upon full consolidation.

**b) Estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from those reported.

Significant accounts that require estimates as the basis for determining the stated amounts include mineral properties, investments and loans, due from related parties, equipment, valuation allowances for future income tax assets, stock-based compensation, the fair value of warrants issued as part of private placements and the fair value of shares issued for mineral properties.

**c) Cash and equivalents**

Cash is comprised of cash on hand. Cash equivalents include short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

**d) Refundable tax credits and mining duties**

The Company is entitled to apply for government grants in the form of refundable tax credits and mining duties in respect of qualifying mining exploration expenses incurred. These recoveries are accounted for using the cost reduction approach whereby amounts received or receivable are applied against the cost of related assets or expenditures.

**e) Foreign currency**

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items are measured in terms of historical cost in a currency other than the functional currency are not translated.

**f) Patented technology**

All costs related to the acquisition of the patented technology are expensed, until such time as final feasibility decisions with respect to the technology project is made or until circumstances indicate that the criteria for deferral of such costs are met. If a decision is made as to the feasibility of the technology project, all the acquisition and development costs incurred after that time will be capitalized and classified as intangible assets. Initially, the intangible asset will be capitalized at cost. Subsequently, the intangible asset will be tested for impairment annually or whenever there is an indication for impairment.

**g) Flow-through shares**

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The premium, if any, paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is credited to other liabilities and recognized in income at the time the qualifying expenditures are made. The recognition of the future income tax liability upon renunciation of the flow through expenditures is recorded as income tax expense in the period of renunciation.

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**h) Equipment**

These assets are recorded at cost less accumulated amortization and impairment. Amortization is calculated using the straight line method to allocate their costs to their residual values over their estimated useful lives as follows:

Furniture and equipment	20%
Computer software	100%
Leasehold Improvements	20%

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of income.

**i) Mineral properties and deferred exploration costs**

All costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property.

Exploration and evaluation expenditures comprise costs that are directly attributable to:

- researching and analysing existing data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its disposal or through farm-out arrangements.

Once commercial production commences, these costs will be reclassified to Mineral properties within Property, plant and equipment and charged to operations on a unit-of-production method based on proven and probable reserves.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income, costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

**j) Asset retirement obligations**

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

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

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**k) Impairment of long-lived assets**

At each reporting date, all capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

**l) Stock-based compensation**

The fair value of stock options granted is measured at grant date using the Black-Scholes option pricing model. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and Management's best estimate of the awards that expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of income with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in contributed surplus are credited to share capital.

**m) Income taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**n) Loss per share**

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to purchase the Company's common shares at their average market price during the period, a reduction to the weighted average number of common shares outstanding. If this computation is anti-dilutive, diluted loss per share is the same as basic loss per share. For the periods presented, this calculation proved to be anti-dilutive.

**o) Financial instruments**

**Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loan and receivables, available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

- *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets and include cash and cash equivalents which are initially recognized at fair value.

- *Loans and receivables*

Loans and receivables are non derivative financial assets which fixed or determinable payments that are not quoted in an active market. They are classified as current or non current assets based on their maturity date. Assets in this category include amounts receivable from related parties, are measured at amortized cost less impairment.

- *Available-for-sale financial assets*

Available-for-sale financial assets are either designated as available for sale or not classified in any other categories. They are initially recognized at fair value plus transaction costs and are subsequently carried at fair value, with unrealized gains and losses recorded in other comprehensive income until disposition or other-than-temporary impairment at which time the gain or loss is recorded in earnings. The Company does not have any available-for-sale financial assets.

**Financial liabilities**

Financial liabilities include accounts payable and accrued liabilities and amounts or loans payable to related parties, are initially recognized at fair value and subsequently stated at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position.

**Impairment of financial assets**

The Company assesses at each reporting date, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortization: the loss is the difference between the amortized cost and its value of estimated future cash flows, discounted using the instrument's original effective interest rate;
- Available-for-sale financial asset: The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment previously recognized in the income statement. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**o) Financial instruments** (continued)

**Impairment of financial assets** (continued)

Reversals of impairment losses on financial assets carried at amortized cost are recorded through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss had been recognized. Impairment on available-for-sale instruments is not reversed.

**3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

*International Financial Reporting Standard 9 ("IFRS 9")*

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently assessing the impact on its consolidated financial statements.

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

	Nass Bay Project	Kirkland Lake	Total
	\$	\$	\$
Balance, 1 January 2010			
Acquisition costs	-	-	-
Deferred Exploration costs	687,389	-	687,389
	687,389	-	687,389
<i>Changes during 2010</i>			
Acquisition costs	-	95,500	95,500
Deferred Exploration costs	2,697	31,750	34,447
	2,697	127,250	129,947
<b>Balance, December 31, 2010</b>			
Acquisition costs	-	95,500	95,500
Deferred Exploration costs	690,086	31,750	721,836
	690,086	127,250	817,336
<i>Changes during 2011</i>			
Acquisition costs	-	46,500	46,500
Deferred Exploration costs	-	25,137	25,137
	-	71,637	71,637
<b>Balance, June 30, 2011</b>			
Acquisition costs	-	142,000	142,000
Deferred Exploration costs	690,086	56,887	746,973
	690,086	198,887	888,973

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

**4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS (Continued)**

**(i) Nass Bay Project, British Columbia**

The Nass Bay project is a construction aggregate project and is comprised of staked Crown owned mineral claims consisting of approximately 680 hectares along the south-easterly shore of Observatory Inlet. These staked claims are on crown lands and adjoin the boundary of the Nisga'a Lands. The claims are conventional mineral tenures which are 100% owned by the Company.

Cumulative exploration costs on the Nass Bay project are as follows:

	June 30 2011	December 31 2010	January 1 2010
Consulting	\$ 78,470	\$ 78,470	\$ 78,470
Contracted services	37,325	37,325	37,325
Geologist	41,399	41,399	41,399
Surveying	9,730	9,730	9,730
Aircraft charter	116,317	116,317	116,317
Travel and lodging	67,134	67,134	67,134
Exploration supplies	49,370	49,370	49,370
Reports, drafting and maps	9,898	9,898	9,898
Drilling	429,245	429,245	429,245
Lab tests and analysis	7,354	7,354	7,354
Others	12,911	12,911	9,396
Total expenditures incurred	859,153	859,153	855,638
Mineral tax credit	(818)	(818)	-
Expensed as generative exploration costs	(168,249)	(168,249)	(168,249)
Capitalized as deferred exploration costs	\$ 690,086	\$ 690,086	687,389

**(ii) Kirkland Lake Project, Ontario**

On February 1, 2010, the Company entered into an acquisition agreement with Golden Dawn Minerals Inc. which gives the Company an option to acquire 80% Joint Venture interest in the three gold prospects within the Larder Lake Mining Division of the Province of Ontario, namely the Central Catharine, 80 Ft Fall and the Terry Link properties.

Under the agreement, the Company is required to make the following payments in addition to a work commitment of \$1,000,000 to be expended on or before the fourth anniversary of the effective date:

(i) \$120,000 in cash and the issuance of 150,000 common shares to the original Optionors: and

(ii) to Golden Dawn Minerals Inc.

	<b>Common shares</b>
Within 10 days of approval by the authorities (effective date) (already issued)	200,000
On or before the second anniversary of the effective date	150,000
On or before the third anniversary of the effective date	100,000
	<u>450,000</u>

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**4. MINERAL PROPERTY AND DEFERRED EXPLORATION COSTS (Continued)**

**(ii) Kirkland Lake Project, Ontario (Continued)**

During the six months ended June 30, 2011, the Company made the remaining cash payments of \$40,000, bringing the total cash paid to \$118,000 (December 31, 2010: \$78,000). A \$2,000 discount was received by the Company in 2010 for making an early payment. The Company also issued 100,000 common shares pursuant to the acquisition agreement (year ended December 31, 2010: 250,000 common shares) for a total value of \$6,500 (year ended December 31, 2010: \$17,500). The Company also capitalized \$25,137 (year ended December 31, 2010: \$31,750) in exploration expenditures on the properties, bringing the total amount of capitalized exploration expenditures to \$71,637.

**5. EQUIPMENT**

	<b>Furniture &amp; Equipment</b>	<b>Leasehold Improvements</b>	<b>TOTAL</b>
	\$	\$	\$
<b>Balance - January 1, 2010</b>			
Cost	3,830	2,260	6,090
Accumulated amortization	(2,114)	(1,393)	(3,507)
	1,716	867	2,583
<b>Movements- year ended December 31, 2010</b>			
Amortization	(343)	(169)	(512)
	(343)	(169)	(512)
<b>Balance - December 31, 2010</b>			
Cost	3,830	2,260	6,090
Accumulated amortization	(2,457)	(1,562)	(4,019)
	1,373	698	2,071
<b>Movements during 2011</b>			
Additions	484	-	484
Amortization	(1,857)	(698)	(2,555)
	(1,373)	(698)	(2,071)
<b>Balance - June 30, 2011</b>			
Cost	4,314	2,260	6,574
Accumulated amortization	(4,314)	(2,260)	(6,574)
	-	-	-

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
**For the six months ended June 30, 2011 and 2010**

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**5. PATENTED TECHNOLOGY**

On November 8, 2010, the Company's wholly-owned subsidiary, Global Environomic Systems Corp. (GSC) entered into a Technology Acquisition Agreement (the "Agreement") with the inventor and owner of a Patented Pyrolysis System ("Patented Technology") in order to acquire a license to manufacture and distribute Energy Conversion Machines ("Machines") worldwide, with the exception of China and Taiwan. Under the Agreement, GSC is required to incorporate a Taiwanese Manufacturing Plant (the "Manufacturing Plant") where the Manufacturing Plant will be owned by GSC and the inventor on a 60%/40% basis respectively. The Manufacturing Plant will be one of the licensees of the Patented Technology for the purpose of manufacturing the Machines. Under the Agreement, GSC is also required to make the following cash and share payments:

- (a) invest US\$ 2,000,000 before April 30, 2011 in tranches as follows:
  - (i) US\$ 50,000 to the inventor on closing (paid)
  - (ii) US\$ 350,000 on approval by the Exchange
  - (iii) US\$ 500,000 on or before February 25, 2011
  - (iv) US\$ 500,000 on or before March 31, 2011
  - (v) US\$ 600,000 on or before April 30, 2011
- (b) issue 960,000 common shares of GSC when the final payment in (a) above is made;
- (c) issue, subject to the approval of the Exchange, 2,000,000 common shares of the Company to the inventor over 36 months from the date of the final payment in (a) above:

The sale of the Machines will be subject to a royalty fee payable to the inventor.

During the year ended December 31, 2010, the Company made the required cash payment of \$50,960 (US\$ 50,000) and had expensed this amount, consistent with the Company's accounting policy in Note 2(h).

During the six months ended June 30, 2011, GSC failed to make the remaining cash payments noted above. As a result, the Agreement expired.

**6. CAPITAL AND RESERVES**

**a) Authorized share capital**

At June 30, 2011, the authorized share capital of the Company comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

**b) Issue of common shares**

During the six months ended June 30, 2011, the Company issued common shares with respect to the Kirkland Lake properties as described in Note 4(ii).

The Company also issued 375,000 common shares to Merfin Management as a bonus, pursuant to the loan agreements between Merfin Management and the Company as described in Note 7.

*Year ended December 31, 2011*

On June 7, 2010, the Company closed a private placement of 3,400,000 units at \$0.05 per unit for total proceeds of \$170,000. Each unit comprised of one common share and one common share purchase warrant, exercisable for one common share at \$0.075 on or before June 7, 2013. The Company has elected not to bifurcate the proceeds on the basis that the warrants have no intrinsic value. Accordingly, all of the proceeds have been allocated to share capital.

In October and November 2010, a total of 1,600,000 warrants were exercised at a price of \$0.05 each for total proceeds of \$80,000.



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**6. SHARE CAPITAL** (continued)

**c) Stock options**

The Company grants stock options to employees, directors, officers, and consultants as compensation for services pursuant to its Stock Option Plan (the "Plan"). Options issued pursuant to the Plan must have an exercise price greater than or equal to the "Market Price" of the Company's stock on the grant date less applicable discounts. Options have a maximum expiry period of up to five years from the grant date and are subject to the minimum vesting requirements, as determined by the Board of Directors.

The number of options that may be issued under the Plan is limited to no more than 10% of the Company's issued and outstanding shares on the grant date. Stock options granted to directors vest at a rate of 50% on the grant date and the balance on the first anniversary of the grant date. Stock options granted to employees vest at a rate of 50% on the first anniversary of the grant date and the balance on the second anniversary of the grant date.

The following tables summarize the continuity of the Company's stock options:

<b>Expiry Date</b>	<b>Exercise Price</b> \$	<b>December 31 2010</b>	<b>Issued</b>	<b>Expired/ Cancelled</b>	<b>June 30 2011</b>
January 31, 2012	0.15	646,000	-	(90,000)	556,000
May 4, 2012	0.31	30,000	-	(30,000)	-
June 25, 2011	0.18	170,600	-	(170,600)	-
June 25, 2012	0.05	228,000	-	(17,000)	211,000
June 15, 2013	0.05	1,426,000	-	(70,000)	1,356,000
March 29, 2014	0.07	-	35,000	-	35,000
March 1, 2012	0.10	-	50,000	-	50,000
		2,500,600	85,000	(377,600)	2,208,000
<b>Weighted average exercise price(\$)</b>		<b>0.09</b>	<b>0.10</b>	<b>0.15</b>	<b>0.08</b>

<b>Expiry Date</b>	<b>Exercise Price</b> \$	<b>December 31 2009</b>	<b>Issued</b>	<b>Expired/ Forfeited</b>	<b>December 31 2010</b>
January 31, 2012	0.15	646,000	-	-	646,000
May 4, 2012	0.31	30,000	-	-	30,000
August 15, 2010	0.32	179,600	-	(179,600)	-
June 25, 2011	0.18	170,600	-	-	170,600
June 25, 2012	0.05	228,000	-	-	228,000
June 15, 2013	0.05	-	1,681,000	(255,000)	1,426,000
		1,254,200	1,681,000	(434,600)	2,500,600
<b>Weighted average exercise price(\$)</b>		<b>0.16</b>	<b>0.05</b>	<b>0.16</b>	<b>0.09</b>

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
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**6. SHARE CAPITAL** (continued)

**c) Stock options** (continued)

Details regarding the options outstanding as at June 30, 2011 are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable
\$ 0.15	556,000	0.59	556,000
\$ 0.05	211,000	0.99	211,000
\$ 0.05	1,356,000	1.96	1,098,000
\$ 0.07	35,000	2.74	17,500
\$ 0.10	50,000	0.67	25,000
	<b>2,208,000</b>	<b>1.51</b>	<b>1,907,500</b>

Details regarding the options outstanding as at December 31, 2010 are as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Number of Options Exercisable
\$ 0.15	646,000	1.08	646,000
\$ 0.31	30,000	1.34	30,000
\$ 0.18	170,600	0.48	170,600
\$ 0.05	228,000	1.51	190,000
\$ 0.05	1,426,000	2.46	517,500
	<b>2,500,600</b>	<b>1.87</b>	<b>1,554,100</b>

The Company recognizes compensation expense for all stock options granted using the fair value based method of accounting. The fair value of stock options granted is recognized in income on a graded vesting basis.

The following weighted average assumptions were used for applying the Black-Scholes method to value the stock options granted during the periods ended June 30, 2011 and 2010:

	2011	2010
Risk-free interest	2.00%	2.00%
Expected dividend yield	\$ -	\$ -
Expected stock price volatility	161%	161%
Expected option life in years	3	3

Option pricing models require the input of highly subjective input assumptions, which can materially affect the fair value estimate and therefore the existing models do not necessarily provide reliable a single measure of the fair value of the Company's stock options.

**d) Share Purchase Warrants**

The continuity of share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price	Expiry date	Remaining life (years)
<b>Balance, December 31, 2009</b>	<b>8,500,000</b>	<b>\$0.050</b>	December 23, 2012	<b>1.48</b>
Private placement (Note 6(a))	3,400,000	\$0.075	June 7, 2013	1.94
Exercised	(1,600,000)	\$0.050	-	
<b>Balance, December 31, 2010 and June 30, 2011</b>	<b>10,300,000</b>	<b>\$0.058</b>	-	<b>1.63</b>

**Nass Valley Gateway Ltd.**  
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**7. RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2011, the Company entered into the following transactions with related parties. These transactions were in the normal course of operations and were priced on an arm's length basis.

**Key Management personnel compensation**

No remuneration was paid during the six months ended June 30, 2011 to any key management personnel (2010: \$Nil). Instead, the Company pays a management fee to Mineral Hill Industries Ltd, a company listed on the TSX Venture, which has common directors and officers, with respect to administrative charges, including the services of its key management personnel.

During the six months ended June 30, 2011, the Company paid or accrued \$53,164 (2010: \$48,734) with respect the foregoing.

**Other related party transactions**

- a) An advance in 2007 amounting to \$10,000 provided to Gixtat'in Mhind World Link Ltd. (GMWL) and an amount of \$5,000 due from GMM Admin Corp. both private companies with common directors and officers, were written off during the six months ended June 30, 2011. Also an amount of \$994 due to another private company with common directors and officers was cancelled during the six months ended June 30, 2011.
- b) At June 30, 2011, an amount of \$6,804 (December 31, 2010: \$6,804) was outstanding and payable to Krypt-LogX Network Corp., a private company controlled by some common directors for the provision of information technology services.

**Advances from related party**

- a) During the year ended December 31, 2010, the Company entered into loan agreements with Merfin Management Ltd., a private company with a common director for loan totalling \$60,000, which will become due in 2013. Under the terms of agreements, the amount is unsecured and bears interest at 8% and 8.5% per annum. At June 30, 2011, these amounts remained outstanding.
- b) During the six months ended June 30, 2011, further advances were received from Merfin Management Ltd. totalling \$185,000, under the same terms as the previous loans.
- c) Subsequent to June 30, 2011, a further advance of \$10,000 was received from Merfin Management, under the same terms as the previous loans.

During the six months ended June 30, 2011, an amount of \$7,326 (2010: \$1,274) was accrued as interest, bringing the total amount due to Merfin Management Ltd. at that date to \$253,889 (December 31, 2010: \$61,562).

During the six months ended June 30, 2011, the Company issued 375,000 common shares, valued at \$18,750, as a bonus pursuant to the terms of the above loan agreements.

**Amounts payable to other related parties**

	<b>June 30</b>	December 31	
	<b>2011</b>	2010	January 1 2010
Gixtat'in Mhind World Link Ltd.*	\$ -	994	994
Krypt-Logx Network Corp.*	<b>6,804</b>	6,804	6,804
Mineral Hill Industries Ltd.*	<b>787</b>	27,709	70,043
Dieter Peter (CEO)	<b>12,163</b>	-	-
Golden Dawn Minerals Inc.*	<b>5,025</b>	-	-
	<b>\$ 24,779</b>	35,507	77,841

\* Related by common directors and officers

**Nass Valley Gateway Ltd.**  
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**8. INCOME TAXES**

In assessing future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment and providing a valuation allowance.

	2010	2009
Canadian statutory income tax rate	28.50%	30.00%
	<b>\$</b>	<b>\$</b>
Income tax recovery at statutory rate	(76,151)	(153,081)
Effect on income taxes of:		
Permanent differences	7,713	3,268
Change in tax rate	8,405	34,056
Change in valuation allowance	60,033	115,757
Income taxes recoverable	-	-

The nature and effect of the Company's future income tax assets (liabilities) is as follows:

	2010	2009
	<b>\$</b>	<b>\$</b>
Non capital losses carried forward	337,637	267,606
Capitalized costs in excess of mineral cost pools	(76,005)	(76,005)
Property and equipment	316	188
Share issuance costs	3,896	14,022
	265,844	205,811
Less: Valuation allowance	(265,844)	(205,811)
Net future tax asset	-	-

As at December 31, 2010, the Company had non-capital losses carried forward of approximately (2009: \$1,070,424) which may be applied to reduce future years' taxable income, expiring as follows:

2015	\$	17,821
2026		246,823
2027		331,504
2028		268,312
2029		205,964
2030		280,124
	<b>\$</b>	<b>1,350,548</b>

**Nass Valley Gateway Ltd.**  
**Notes to the consolidated financial statements**  
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**9. FINANCIAL INSTRUMENTS AND RISKS**

The Company's financial instruments consist of cash, amounts receivables, amounts receivable from related parties, amounts payable and accrued liabilities and amounts payable to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

*Credit risk*

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents and marketable securities with high-credit quality financial institutions.

Amounts due to and from related parties are discussed in Note 7.

*Currency risk*

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

*Interest rate risk*

The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

**Fair value measurements of financial assets and liabilities**

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and

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

The fair values of cash and cash equivalents and marketable securities are 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 receivables, due to and from related parties and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

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**9. FINANCIAL INSTRUMENTS (continued)**

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of June 30, 2011 as follows:

	Fair Value Measurements Using			June 30 2011
	Level 1	Level 2	Level 3	
Assets:				
Cash and equivalents	\$ 41,046	–	–	\$ 41,046
	\$ 41,046	–	–	\$ 41,046

**10. CAPITAL MANAGEMENT**

The Company's capital structure consists of cash and shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period ended June 30, 2011. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

**11. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

As set out in Note 1, the Company has adopted IFRS for the year ending December 31, 2011. The significant accounting policies adopted are set out in Note 2. In preparing these interim consolidated financial statements, the Company has converted from Canadian GAAP to IFRS as at Transition Date and prepared an opening balance sheet under IFRS at that date. Changes in accounting policies and other restatements were required under IFRS 1 – *First Time Adoption of International Financial Reporting Standards* (IFRS 1) were made effective from that date. Accordingly, the Company restated its financial position as at January 1, 2010 and December 31, 2010 and its financial statements for the three and six months ended June 30, 2010, previously reported under Canadian GAAP. IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements. The adjusted policies have been consistently applied on a full retrospective basis unless alternative treatment is permitted or required by an IFRS election or exception. These are discussed below.

**Nass Valley Gateway Ltd.**  
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**11. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

IFRS 1 allows exemption from the application of certain IFRS requirements to assist companies with the transition process.

**Elections upon first-time adoption of IFRS**

The IFRS 1 exemptions applied by the Company in the conversion from Canadian GAAP to IFRS are as follows:

**(i) Business combinations**

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 (2008) *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 (2008) to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

**(ii) Share-based payment transactions**

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

**Mandatory Exceptions under IFRS**

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

**(iii) Estimates**

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

**Reconciliations of Canadian GAAP to IFRS**

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRS as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follows represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

# Nass Valley Gateway Ltd.

## Notes to the consolidated financial statements

For the six months ended June 30, 2011 and 2010

### 16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliations of statements of financial position

	December 31, 2010			June 30, 2010			January 1, 2010		
	GAAP	Adjustment	IFRS	GAAP	Adjustment	IFRS	GAAP	Adjustment	IFRS
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>ASSETS</b>									
<b>Current assets</b>									
Cash	9,148	-	9,148	116,813	-	116,813	176,950	-	176,950
Amounts receivable	10,506	-	10,506	762	-	762	321	-	321
Amounts receivable from related parties	15,000	-	15,000	15,000	-	15,000	15,000	-	15,000
Prepaid expenses	5,461	-	5,461	10,033	-	10,033	6,337	-	6,337
	40,115	-	40,115	142,608	-	142,608	198,608	-	198,608
<b>Non current assets</b>									
Reclamation bond	3,000	-	3,000	3,000	-	3,000	3,000	-	3,000
Equipment	2,071	-	2,071	2,327	-	2,327	2,583	-	2,583
Mineral properties	95,500	-	95,500	60,000	-	60,000	-	-	-
Deferred exploration costs	721,836	-	721,836	696,904	-	696,904	687,389	-	687,389
	862,522	-	862,522	904,839	-	904,839	891,580	-	891,580
<b>Current liabilities</b>									
Amounts payable and accrued liabilities	23,194	-	23,194	37,212	-	37,212	1,612	-	1,612
Amounts payable to related parties	35,507	-	35,507	77,841	-	77,841	77,841	-	77,841
	58,701	-	58,701	115,053	-	115,053	79,453	-	79,453
<b>Non current liabilities</b>									
Amounts payable to related parties	61,563	-	61,563	-	-	-	97,234	-	97,234
	61,563	-	61,563	-	-	-	176,687	-	176,687
<b>Shareholders' equity</b>									
Share capital	2,137,415	-	2,137,415	2,039,915	-	2,039,915	1,869,915	-	1,869,915
Contributed surplus *	208,984	(21,391)	187,593	218,040	(21,391)	196,649	181,920	(21,391)	160,529
Warrants*	-	21,391	21,391	-	21,391	21,391	-	21,391	21,391
Deficit	(1,604,141)	-	(1,604,141)	(1,468,169)	-	(1,468,169)	(1,336,942)	-	(1,336,942)
	742,258	-	742,258	789,786	-	789,786	714,893	-	714,893
	862,522	-	862,522	904,839	-	904,839	891,580	-	891,580

\* See Explanatory note 1 below



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**16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)**

	Three months ended June 30, 2010			Six months ended June 30, 2010		
	GAAP*	Adjustment	IFRS	GAAP*	Adjustment	IFRS
	\$	\$	\$	\$	\$	\$
<b>Expenses</b>						
General and administrative expenses	50,710	-	50,710	93,577	-	93,577
Amortization	128	-	128	256	-	256
Stock-based compensation	35,035	-	35,035	36,120	-	36,120
Interest and expenses related to loans	310	-	310	1,274	-	1,274
		-			-	
<b>Total comprehensive loss for the period</b>	<b>(86,183)</b>	<b>-</b>	<b>(86,183)</b>	<b>(131,227)</b>	<b>-</b>	<b>(131,227)</b>
<b>Loss per share:</b>						
<b>Basic and diluted</b>	<b>(0.01)</b>		<b>(0.01)</b>	<b>(0.00)</b>		<b>(0.00)</b>

\* Certain GAAP figures have been reclassified to conform to the Company's IFRS financial statement presentation

	Year ended December 31, 2010		
	GAAP*	Adjustment	IFRS
	\$	\$	\$
<b>Expenses</b>			
General and administrative expenses	188,663	-	188,663
Amortization	512	-	512
Stock-based compensation	27,064	-	27,064
Patented technology	50,960	-	50,960
		-	
<b>Total comprehensive loss for the period</b>	<b>(267,199)</b>	<b>-</b>	<b>(267,199)</b>
<b>Loss per share:</b>			
<b>Basic and diluted</b>	<b>(0.01)</b>		<b>(0.01)</b>

**Explanatory note**

**1. Reclassification within Equity section**

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of warrants and equity-settled employee benefits. Upon adoption of IFRS, the balances in these accounts have been reclassified to "Reserves – Contributed Surplus" for Equity-settled employee benefit and "Reserves – Warrants".

**Adjustment to statement of cash flows**

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flow.