

Condensed Interim Financial Statements of
MAINSTREAM MINERALS CORPORATION
(An Exploration Company)

(Unaudited - Prepared by Management)

For the six months ended May 31, 2012

Expressed in Canadian dollars

These condensed interim financial statements have not been audited or reviewed by the company's independent external auditors, Magnus Chartered Accountants LLP.

MAINSTREAM MINERALS CORPORATION

Condensed Interim Statements of Financial Position

As at May 31, 2012 (unaudited), November 30, 2011 (audited) and December 1, 2010 (unaudited)

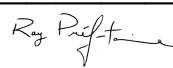
(Expressed in Canadian dollars)

	May 31 2012	November 30 2011 (Note 17)	December 1 2010 (Note 17)
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	\$ 2,117	\$ 106,710	\$ 254,435
Other receivables (Note 5)	11,139	12,320	224,145
Prepaid expenses	775	4,528	775
Total current assets	14,031	123,558	479,355
Non-current assets:			
Machinery and equipment (Note 6)	3,277	334	478
Exploration and evaluation assets (Note 7)	3,877,258	3,852,837	3,502,272
Total non-current assets	3,880,535	3,853,171	3,502,750
Total assets	\$ 3,894,566	\$ 3,976,729	\$ 3,982,105
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	\$ 102,068	\$ 10,550	\$ 127,130
Other payables (Note 8)	36,000	31,000	55,964
Total current liabilities	138,068	41,550	183,094
Non-current liability:			
Deferred income taxes	963,000	963,000	1,046,000
Total liabilities	1,101,068	1,004,550	1,229,094
Equity:			
Share capital (Note 9)	6,829,574	6,703,214	5,854,932
Share-based payments reserve	350,349	350,349	350,349
(Deficit)	(4,386,425)	(4,081,384)	(3,452,270)
Total equity	2,793,498	2,972,179	2,753,011
Going concern of operations (Note 2(b))			
Commitments (Note 12)			
Subsequent events (Note 16)			
Total liabilities and equity	\$ 3,894,566	\$ 3,976,729	\$ 3,982,105

See accompanying notes to condensed interim financial statements.

Approved on behalf of the Board on July 13, 2012:

Director 

Chief Financial Officer 

MAINSTREAM MINERALS CORPORATION

Condensed Interim Statements of Operations and Comprehensive Loss

Three months ended May 31, 2012 and 2011 (unaudited) and six months ended May 31, 2012 and 2011 (unaudited)

(Expressed in Canadian dollars)

	Q2 2012	Q2 2011	YTD 2012	YTD 2011
Expenses:				
Advertising	\$ 500	\$ 16,266	\$ 3,150	\$ 28,486
Consulting fees	117,464	52,800	215,264	110,600
Depreciation	147	36	293	72
General meeting	-	1,166	-	1,166
Insurance	-	(234)	11,194	10,266
Interest and bank charges	416	327	683	615
Meals and entertainment	-	1,753	1,587	3,083
Office	3,349	9,187	27,341	15,019
Professional fees	2,385	7,006	22,208	14,652
Regulatory filings	7,716	19,864	22,721	33,618
Travel	7	5,459	1,380	5,459
	131,984	113,630	305,821	223,036
(Loss) from operations	(131,984)	(113,630)	(305,821)	(223,036)
Other income:				
Interest income	-	232	3	274
Gain on sale of machinery and equipment	-	-	-	2,500
Unrealized (loss) gain on marketable securities	(2,223)	-	777	-
	(2,223)	232	780	2,774
Net (loss) and comprehensive (loss) for the period	\$ (134,207)	\$ (113,398)	\$ (305,041)	\$ (220,262)
Basic and diluted loss per share (Note 9 (c))	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)

See accompanying notes to condensed interim financial statements.

MAINSTREAM MINERALS CORPORATION

Condensed Interim Statements of Changes in Equity
Six months ending May 31, 2012 and 2011 (unaudited)
(Expressed in Canadian dollars)

	2012	2011
Share capital		
Balance, beginning of period	\$ 6,703,214	\$ 5,854,932
Shares issued under land option agreements	38,000	89,500
Private placement of shares	88,360	661,682
Shares issued under property interests exchange agreement	-	15,000
Exercise of warrants	-	39,100
Balance, end of period	\$ 6,829,574	\$ 6,660,214
Share-based payments reserve		
Balance, beginning and end of period	\$ 350,349	\$ 350,349
(Deficit)		
Balance, beginning of period	\$ (4,081,384)	\$ (3,452,270)
Net (loss) and comprehensive (loss) for the period	(305,041)	(220,262)
Balance, end of period	\$ (4,386,425)	\$ (3,672,532)
Total equity, end of period	\$ 2,793,498	\$ 3,338,031

See accompanying notes to condensed interim financial statements.

MAINSTREAM MINERALS CORPORATION

Condensed Interim Statements of Cash Flows

Three months ended May 31, 2012 and 2011 (unaudited) and six months ended May 31, 2012 and 2011 (unaudited)

(Expressed in Canadian dollars)

	Q2 2012	Q2 2011	YTD 2012	YTD 2011
Operating activities:				
Cash paid to suppliers	\$ (105,517)	\$ (180,041)	\$ (199,257)	\$ (353,889)
Interest received	-	232	3	274
Interest and bank charges paid	(416)	(327)	(683)	(615)
	(105,933)	(180,136)	(199,937)	(354,230)
Investing activities:				
Purchase of machinery and equipment	-	-	(3,235)	-
Proceeds on disposal of machinery and equipment	-	-	(13,421)	-
Investment in exploration and evaluation assets	(12,000)	(62,847)	(12,000)	(282,106)
Proceeds on exploration and evaluation asset option agreements	-	-	20,000	-
Change in marketable securities	10,000	-	10,000	-
	(2,000)	(62,847)	1,344	(282,106)
Financing activity:				
Proceeds from issuance of common shares, net of share issue costs	94,000	700,782	94,000	907,782
Change in cash	(13,933)	457,799	(104,593)	271,446
Cash and cash equivalents, beginning of period	16,050	68,082	106,710	254,435
Cash and cash equivalents, end of period	\$ 2,117	\$ 525,881	\$ 2,117	\$ 525,881

Supplementary information:

The company did not pay any income taxes during the above reporting periods.

See accompanying notes to condensed interim financial statements.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

Nature of operations

Mainstream Minerals Corporation is a publicly listed company incorporated in Canada pursuant to the Canada Business Corporations Act on July 19, 2006. The mailing and office address of its executive office is: 139 - 99 Scurfield Boulevard, Winnipeg MB, R3Y 1Y1.

The company is a mineral resource company in the development stage that is engaged in the acquisition of interests in, and in the exploration of, mineral resource properties. The company's shares are traded on the TSX Venture Exchange Inc.

1. Statement of compliance

These condensed interim financial statements are unaudited and have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") and with interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the company's second financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Reporting Standards* has been applied. Previously, the company prepared its annual and interim financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

These condensed interim financial statements should be read in conjunction with the company's 2011 annual financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the company provided in Note 17.

These condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on July 13, 2012. Any subsequent changes to IFRS that are given effect in the company's annual financial statements for the year ended November 30, 2012 could result in restatement of these unaudited condensed interim financial statements, including the transition adjustments recognized on changeover to IFRS.

2. Significant accounting policies

(a) Basis of measurement

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

The accounting policies set out below have been applied consistently in the financial statements and in preparing the opening IFRS statement of financial position at December 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(b) Going concern of operations

The going concern assumption implies that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. There is doubt about the appropriateness of the use of the going concern assumption because the company has experienced significant losses, has experienced negative cash flows from operations over a number of years, has a working capital deficiency (Note 14(a)(iv)) and has current exploration expenditure commitments in excess of its liquid assets on hand.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(b) Going concern of operations (continued)

The ability of the company to continue as a going concern and to be able to realize on its assets and discharge its liabilities is dependent upon the company's ability to obtain sufficient funding for its operations and its current exploration expenditure commitments and is ultimately dependant on the recoverability of the amounts capitalized to exploration and evaluation assets. The company has not yet determined whether its mineral properties contain reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. If the company's exploration and development programs are successful, additional funds may be required, and the company may not have sufficient funds to conduct the mineral exploration required. The primary source of future funds available to the company is through the sale of additional equity capital, which may dilute the interests of existing shareholders. There is no assurance that the company will be successful in raising sufficient funds to meet its obligations. In the event where it cannot meet its obligations, it may lose its properties and incur other liabilities relating to flow-through share issuance commitments, if any.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities and the reported amounts of revenues and expenses.

(c) Machinery and equipment

Recognition and measurement

Machinery and equipment are recorded at historical cost less accumulated depreciation and impairment losses. Residual values, depreciation methods and useful economic lives are reviewed and adjusted as necessary at the end of the reporting period.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of machinery and equipment have different useful lives, they are accounted for as a separate item of machinery and equipment.

Subsequent costs

The cost of replacing a component of an item of machinery and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the company, and its costs can be reliably measured. The carrying amount of the replaced component is derecognized. The costs of servicing machinery and equipment are recognized in profit or loss as incurred.

Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation methods and rates are applied consistently within each asset except where significant individual assets have been identified which have different depreciation patterns. Depreciation is recognized in profit or loss. The following rate and method is used:

	<u>Rate</u>	<u>Method</u>
Computer equipment	30%	Declining balance

In the year of acquisition, depreciation is provided at one-half the declining balance rate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

An item of machinery and equipment is de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statements of profit or loss.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(d) Exploration and evaluation expenditures

Costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are expensed as incurred.

Exploration and evaluation expenditures are defined as costs incurred after having obtained the legal right to explore the mineral property and before the technical and commercial viability of extracting resources are demonstrated. These expenditures are capitalized when it is probable that future economic benefits will flow to the company and when the amounts can be reliably measured. For properties which do not yet have proven reserves, the amounts shown represent costs to date and are not intended to represent present or future values. The recoverability of the costs is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interests in the underlying mineral claims, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties. Subsequent to initial recognition, rights and licenses are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed the recoverable amount. When a project is deemed to no longer have commercially viable prospects to the company, exploration and evaluation assets expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation assets expenditures, in excess of estimated recovery, are written off to the statement of comprehensive loss or income.

As part of certain joint venture agreements, in the event the company is not reimbursed by the other venturers, the company will, within certain thresholds, obtain an increased interest in the property. When the company has recourse by way of an increased interest in a joint operation, recoveries that management is unsure will be collected are categorized with mineral exploration properties. In the event that such amounts are subsequently collected, the company will record the cash receipt as a reduction in the amount categorized with the related property. If the property had been written-down due to impairment, the amount in excess of the carrying amount is recorded as a gain in the period the funds are recovered. In addition, the company may elect to incur recoverable expenditures on properties subject to a joint venture agreement where there is no recourse and management has determined that recovery is uncertain at the time the expenditure is made. Such amounts are capitalized as mineral exploration properties. If the company incurs recoverable expenditures for joint ventures without recourse and expects recovery, the amounts are recorded as accounts receivable. If management determines that recoverability is uncertain subsequent to incurring the expenditure, the unrecoverable receivable is expensed.

(e) Borrowing costs

The company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when it is probable that they will result in future economic benefits and when they can be reliably measured. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are expensed as incurred.

(f) Provisions

General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The expense relating to any provision is presented in profit or loss net of any reimbursement.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(f) Provisions (continued)

Environmental rehabilitation provision

The company recognizes the fair value of a liability for environmental rehabilitation in the period in which the company is legally or constructively required to remediate, if a reasonable estimate of fair value can be made, based on an estimated future cash settlement of the environmental rehabilitation obligation, discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The environmental rehabilitation obligation is capitalized as part of the carrying amount of the associated long-lived asset and a liability is recorded. The environmental rehabilitation cost is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectation of the amounts and timing of environmental rehabilitation cash flows. The company has assessed each of its exploration and evaluation assets and determined that no material environmental rehabilitations exist as the disturbance to date is minimal.

(g) Flow-through shares

Under Canadian income tax legislation, a company is permitted to issue shares whereby the company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors. To account for flow-through shares, the company allocates total proceeds from the issuance of flow-through shares between the offering of shares and the sale of tax benefits.

The total amount allocated to the offering of shares is based on the quoted price of the underlying shares. The remaining amount, which is allocated to the sale of tax benefits, is recorded as a liability and is reversed proportionately and recognized as after-tax income when the tax benefits are renounced. In situations where there is an absence of compelling evidence supporting a comparable value of the underlying shares, the company allocates management's estimate of the prevailing flow-through premium in market conditions at the time of issuance to the sale of tax benefits. The tax effect of the renunciation is recorded at the time the company makes the renunciation, which may differ from the effective date of renunciation and on renunciation the value of the tax assets renounced is recorded as a deferred tax expense.

(h) Jointly controlled operations

A portion of the company's exploration activities is conducted jointly with others whereby the company enters into agreements that provide for a specified percentage interest in mineral exploration properties. The company accounts for its investment in joint ventures using the proportionate consolidation method.

(i) Loss per share

Diluted loss per share is calculated using the treasury stock method which assumes all common share equivalents, such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained thereby were used to purchase common shares of the company at the estimated average trading price of the common shares during the year.

(j) Revenue recognition

Revenue from sales of precious metals will be recognized when title passes to the buyer, which will generally coincide with the delivery and acceptance of goods, and collectibility is reasonably assured.

Interest income is recognized as accrued.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(k) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable or receivable in respect of previous years.

(ii) Deferred income tax

Deferred tax is recognized in respect of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax is measured at the enacted or substantively enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(l) Share-based payments

The company has implemented a stock option plan to allow the company to grant options to directors, officers, employees and service providers. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the company. The maximum number of common shares which may be issued pursuant to those granted under the stock option plan are limited to 10% of the issued and outstanding common shares. In addition, the number of common shares which may be reserved for issuance to any one individual may not exceed 5% of the issued common shares on a yearly basis.

The company uses the fair value-based approach to account for share-based payments under their stock option plan. Compensation expense is recognized for these stock options over their vesting period based on their estimated fair values on the date of grant as determined by using the Black-Scholes option-pricing model.

The fair values of the options issued, if any, are credited to share-based payments reserve in the period they vest. Upon exercise of the share purchase options, consideration paid together with the amount previously recognized in share-based payments reserve is recorded as an increase in share capital. Charges to share purchase options that are forfeited before vesting are reversed from share-based payments reserve. For those share purchase options that expire or are forfeited after vesting, the amount previously recorded in share-based payments reserve is transferred to deficit.

Share-based payments granted to non-employees are measured at the fair value of the goods or services received. In the event the company cannot reasonably estimate the fair value of goods or services received, the transaction is recorded at the estimated value of the share-based payment.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(m) Financial instruments

(i) Non-derivative financial assets

All financial assets are recognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified at fair value through profit or loss which are initially measured at fair value. Financial assets are classified into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity

A financial asset is classified as held-to-maturity if the asset has fixed or determinable payments and fixed maturities that the company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. Any changes to the carrying amount of the asset, including impairment losses, are recognized in other comprehensive income or loss.

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables, held-to-maturity or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income or loss and presented within equity in the fair value reserve. Equity instruments that do not have an active market are recorded at cost. When an investment is derecognized, the cumulative gain or loss in other comprehensive income or loss is transferred to profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effect of discounting on these financial instruments is not considered to be material.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(m) Financial instruments (continued)

De-recognition of financial assets

A financial asset is de-recognized when the contractual right to the asset's cash flows expires or if the company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

(ii) Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Other financial liabilities

Other financial liabilities including borrowings are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

De-recognition of financial liabilities

The company de-recognizes financial liabilities when, and only when, the company's obligations are discharged, cancelled or they expire.

(iii) The company's financial instruments consist of the following:

Financial instrument	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value
Other receivables	Loans and receivables	Amortized cost
Trade payables	Other financial liabilities	Amortized cost
Other payables	Other financial liabilities	Amortized cost

(n) Impairment of long-lived assets

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on estimated future cash flows.

Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Financial assets carried at cost

An impairment loss of a financial asset carried at cost, where its fair value cannot be reliably measured, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of similar financial assets. Such impairment losses are not reversed.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(n) Impairment of long-lived assets (continued)

Available-for-sale securities

An impairment loss of an available-for-sale investment security is recognized by transferring the cumulative loss that has been recognized in other comprehensive income or loss, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income or loss and recognized in profit or loss is the difference between acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. If, however, the fair value of an impaired available-for-sale equity security increases, the amount of reversal is recognized in other comprehensive income or loss.

(ii) Non-financial assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the assets belong.

Exploration and evaluation assets, however, are reviewed for impairment only when facts and circumstances suggest that the carrying amount may exceed the recoverable amount.

The recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

(o) Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make accounting estimates and assumptions requiring judgment in applying the company's accounting policies. These estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation of exploration and evaluation assets, determination of valuation allowances for deferred income tax liabilities and assumptions used in determining the fair value of non-cash share-based payments. Actual amounts may differ from such estimates.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(p) Recent accounting announcements

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of the standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company does not expect the impact of such changes on the financial statements to be material.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the International Accounting Standards Board's ("IASB's") work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1, 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the company's financial assets.

IFRS 10 Consolidated Financial Statements

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12 Consolidation - *Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 13 Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. The standard is effective for annual periods beginning on or after January 1, 2013.

IAS 1 Presentation of Financial Statements (Amended)

The amendments retain the option to present profit or loss and other comprehensive income or loss either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income or loss are required to be grouped into those that will and will not be subsequently classified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income or loss are not affected by the amendments. The amendment is effective for annual periods beginning on or after July 1, 2012.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(p) Recent accounting announcements (continued)

IAS 19 *Employee Benefits* (Amended)

The amendments require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. The amendment is effective for annual periods beginning on or after January 1, 2013.

IAS 27 *Separate Financial Statements* (Amended)

IAS 27 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements as the consolidation guidance will now be included in IFRS 10. The amendment is effective for annual periods beginning on or after January 1, 2013.

IAS 28 *Investment in Associates and Joint Ventures* (Amended)

IAS 28 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amendment is effective for annual periods beginning on or after January 1, 2013.

3. Evaluation and exploration expenses

During the period ending May 31, 2012, the company has directly expensed evaluation and exploration costs in the amount of \$Nil (2011 - \$Nil).

4. Cash and cash equivalents

	May 31 2012	November 30 2011	December 1 2010
Cash	\$ 2,117	\$ 106,710	\$ 75,392
Restricted cash	-	-	179,043
Total cash and cash equivalents	\$ 2,117	\$ 106,710	\$ 254,435

Cash is deposited at an established Canadian financial institution.

Restricted cash represents unexpended proceeds from the issuance of flow-through shares.

5. Other receivables

The company's other receivables is comprised of the following:

	May 31 2012	November 30 2011	December 1 2010
Goods and services tax recoverable	\$ 11,139	\$ 12,320	\$ 17,145
Share subscription receivable	-	-	207,000
Total other receivables	\$ 11,139	\$ 12,320	\$ 224,145

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

6. Machinery and equipment

The company's machinery and equipment consists of the following:

	Computer equipment
Cost	
Balance, December 1, 2010 and November 30, 2011	\$ 1,428
Additions	3,235
Balance, May 31, 2012	\$ 4,663
Accumulated depreciation	
Balance, December 1, 2010	\$ 950
Depreciation for the period	144
Balance, November 30, 2011	1,094
Depreciation for the period	292
Balance, May 31, 2012	\$ 1,386
Carrying value	
At, December 1, 2010	\$ 478
At, November 30, 2011	\$ 334
At, May 31, 2012	\$ 3,277

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

7. Exploration and evaluation assets

(a) The company has capitalized the following amounts:

	May 31 2012	November 30 2011	December 1 2010
Acquisition, exploration and development costs			
Bobjo Mine	\$ 2,930,829	\$ 2,924,828	\$ 2,852,200
Hazard Lake	59,855	59,855	33,355
West Keefer Claims	161,840	161,810	161,810
Price Claims	-	-	272,536
Slate Lake	164,554	154,554	17,875
Casa Berardi Claims	170,530	170,530	118,676
Hudson-Patricia Claims	154,901	129,913	6,944
Fly Lake Claims	61,135	50,732	4,418
Rowan Lake Claims	135,246	162,246	34,458
Birch Lake Claims	38,368	38,369	-
	\$ 3,877,258	\$ 3,852,837	\$ 3,502,272

(b) A summary of the exploration and evaluation asset activity for the period is as follows:

Balance, December 1, 2010,	\$ 3,502,272
Development costs incurred during the period including share-based payments	623,102
Impairment as a result of abandoning certain mineral properties	(272,537)
Balance, November 30, 2011	\$ 3,852,837
Development costs incurred during the period including share-based payments	51,421
Proceeds on exploration and evaluation asset option agreements including share-based payments	(27,000)
Balance, May 31, 2012	\$ 3,877,258

8. Other payables

The company's other payables are as follows:

	May 31 2012	November 30 2011	December 1 2010
Part XII.6 taxes payable	\$ -	\$ -	\$ 10,964
Accrued liabilities	36,000	31,000	30,000
Advance on share issuance from treasury	-	-	15,000
Total other payables	\$ 36,000	\$ 31,000	\$ 55,964

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

9. Capital stock

(a) Authorized

Authorized share capital consists of an unlimited number of common shares.

(b) Changes in issued common shares are summarized below:

Period ended May 31, 2012	Number of common shares	Amount
Balance, November 30, 2011	54,122,130	\$ 6,703,214
Shares issued for land options (i)	100,000	9,000
Shares issued for land options (ii)	100,000	9,000
Shares issued for land options (iii)	100,000	10,000
Shares issued for land options (iv)	100,000	10,000
Private placement of shares (v)	1,880,000	88,360
Balance, May 31, 2012	56,402,130	\$ 6,829,574

Period ended November 30, 2011	Number of common shares	Amount
Balance, December 1, 2010	43,701,021	\$ 5,854,932
Shares issued for land options (vi)	100,000	9,000
Shares issued for land options (vii)	100,000	9,000
Shares issued for land options (viii)	100,000	9,000
Shares issued for land options (ix)	50,000	4,500
Shares issued for land options (x)	200,000	18,000
Shares issued for land options (xi)	100,000	10,000
Shares issued for land options (xii)	100,000	10,000
Private placement of shares (xiii)	8,086,109	661,682
Shares issued for land options (xiv)	200,000	20,000
Shares issued under property interests exchange agreement (xv)	250,000	15,000
Exercise of warrants (xvi)	385,000	39,100
Shares issued for land options (xvii)	500,000	25,000
Shares issued for land options (xviii)	100,000	8,000
Shares issued for land options (xix)	50,000	6,000
Shares issued for land options (xx)	100,000	4,000
Balance, November 30, 2011	54,122,130	\$ 6,703,214

- (i) On January 12, 2012 the company issued 100,000 common shares under a land option agreement relating to the Hudson-Patricia claims. Based on the estimated fair value of the land options, the shares were valued at \$9,000.
- (ii) On January 12, 2012 the company issued 100,000 common shares under land option agreements relating to the Hudson-Patricia mining lease. Based on the estimated fair value of the land options, the shares were valued at \$9,000.
- (iii) On February 3, 2012 the company issued 100,000 common shares under a land option agreement relating to the Fly Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$10,000.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

9. Capital stock (continued)

- (iv) On February 3, 2012 the company issued 100,000 common shares under a land option agreement relating to the Slate Lake mining lease. Based on the estimated fair value of the land options, the shares were valued at \$10,000.
 - (v) On March 27, 2012, the company closed the first tranche of a non-brokered private placement initially announced on February 6, 2012. A total of 1,880,000 units were issued at a price of \$0.05 per unit for gross proceeds of \$94,000. Each Class A unit consists of one non-flow-through common share and one half of one non-flow-through common share purchase warrant. Each whole non-flow-through common share purchase warrant entitles the holder to purchase an additional common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance. A cash finder's fee equal to 6% of the subscription proceeds totaling \$5,640 was paid to registered dealers for services rendered in introducing certain subscribers to the offering. In addition, 112,800 brokers warrants equivalent to 6% of the number of units subscribed for in this non-brokered private placement were issued to finders. Each broker warrant can be exercised to purchase one non-flow-through common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance. The amount recorded to share capital in the amount of \$88,360 represents gross proceeds of \$94,000 less share issue costs of \$5,640.
 - (vi) On December 7, 2010 the company issued 100,000 common shares under a land option agreement relating to the Rowan Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$9,000.
 - (vii) On December 9, 2010 the company issued 100,000 common shares under land option agreements relating to the Slate Lake property. Based on the estimated fair value of the land options, the shares were valued at \$9,000.
 - (viii) On December 9, 2010 the company issued 100,000 common shares under a land option agreement relating to the Bobjo Mine water claims. Based on the estimated fair value of the land options, the shares were valued at \$9,000.
 - (ix) On December 13, 2010 the company issued 50,000 common shares under a land option agreement relating to the Hazard Lake property. Based on the estimated fair value of the land options, the shares were valued at \$4,500.
 - (x) On February 1, 2011 the company issued 200,000 common shares under land option agreements relating to the Hudson-Patricia claims. Based on the estimated fair value of the land options, the shares were valued at \$18,000.
 - (xi) On April 1, 2011 the company issued 100,000 common shares under land option agreements relating to the Slate Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$10,000.
 - (xii) On April 1, 2011 the company issued 100,000 common shares under land option agreements relating to the Fly Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$10,000.
 - (xiii) On April 15, 2011 8,086,109 units were issued through a private placement at a price of \$0.09 per unit. Each unit consisted of one non-flow-through common share and one half of one non-flow-through common share purchase warrant. Each non-flow-through common share purchase warrant entitles the holder to purchase an additional common share of the company at a price of \$0.15 expiring April 14, 2012. The amount recorded to share capital in the amount of \$661,682 represents gross proceeds of \$727,750 less share issue costs of \$66,068.
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MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

9. Capital stock (continued)

- (xiv) On May 2, 2011 the company issued 200,000 common shares under land option agreements relating to the Birch Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$20,000.
- (xv) On May 3, 2011 the company issued 250,000 common shares under a property interests exchange agreement relating to the Bobjo Mine claims. Based on the estimated fair value of the claims, the shares were valued at \$15,000.
- (xvi) On May 4, 2011 30,000 Series H warrants were exercised for \$0.12 per warrant, 305,000 Series J warrants were exercised for \$0.10 per warrant and 50,000 Series K warrants were exercised for \$0.10 per warrant for gross proceeds in the amount of \$39,100.
- (xvii) On August 10, 2011 the company issued 500,000 common shares under land option agreements relating to the Casa Berardi claims. Based on the estimated fair value of the land options, the shares were valued at \$25,000.
- (xviii) On October 12, 2011 the company issued 100,000 common shares under land option agreements relating to the Slate Lake property. Based on the estimated fair value of the land options, the shares were valued at \$8,000.
- (xix) On October 12, 2011 the company issued 50,000 common shares under land option agreements relating to the Hazard Lake property. Based on the estimated fair value of the land options, the shares were valued at \$6,000.
- (xx) On November 16, 2011 the company issued 100,000 common shares under land option agreements relating to the Rowan Lake claims. Based on the estimated fair value of the land options, the shares were valued at \$4,000.

(c) Loss per share

The calculation of basic and diluted loss per share, for the three months ended May 31, 2012 and May 31, 2011 and six month period ended May 31, 2012 and May 31, 2011 is based on the following losses and number of shares:

	Q2 2012	Q2 2011	YTD 2012	YTD 2011
(Loss) for the period	\$ (134,207)	\$ (113,398)	\$ (305,041)	\$ (220,262)
Weighted average number of shares	55,870,828	48,775,774	55,085,411	46,454,743

All of the outstanding stock options and warrants were anti-dilutive for the relevant period.

10. Share purchase warrants

(a) The following table summarizes the 5,095,855 outstanding warrants as at May 31, 2012:

	Number outstanding	Exercise price	Expiry date
Series N Warrants	4,043,055	\$0.15	April 14, 2013 (i)
Series O Warrants	940,000	\$0.10	March 26, 2013
Finders warrants	112,800	\$0.10	March 26, 2013

(i) On March 12, 2012 the Series N Warrants expiry date was extended from April 14, 2012 to April 14, 2013.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

10. Share purchase warrants (continued)

- (b) A summary of the warrant activity for the six month periods ended May 31, 2012 and 2011 is as follows:

	2012	2011
Outstanding at beginning of period	8,952,143	15,083,374
Granted	1,052,800	4,043,055
Exercised	-	(385,000)
Expired	(4,909,088)	(1,351,786)
Outstanding at end of period	5,095,855	17,389,643

11. Share-based payments

- (a) Outstanding options

The following table summarizes the 3,035,000 outstanding options as at May 31, 2012:

	Number outstanding	Exercise price	Expiry date
Directors' options	940,000	\$0.36	December 3, 2012
Directors' options	195,000	\$0.10	February 18, 2014
Directors' options	100,000	\$0.10	September 2, 2014
Directors' options	1,800,000	\$0.10	June 29, 2015

- (b) Changes in stock options

A summary of the changes in stock option activity for the six month periods ended May 31, 2012 and 2011 is as follows:

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at beginning of period	\$ 0.19	3,215,000	\$ 0.19	3,215,000
Expired	0.27	(180,000)	-	-
Outstanding and exercisable, end of period	\$ 0.18	3,035,000	\$ 0.19	3,215,000

The options outstanding at the end of the period have an exercise price in the range of \$0.10 to \$0.36 per share and a weighted average remaining contractual life of 2.17 years.

- (c) Effects on profit or loss

The total estimated fair value of the options granted and recognized as an expense for the period ending May 31, 2012 is \$Nil (2011 - \$Nil).

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments

The company has entered into land option agreements and jointly controlled operations. The joint operations have no liabilities or revenues and the assets are limited to mineral exploration properties. Expenditures are limited to exploration activities which are deferred in the accounts of the company. The cash flows of the joint operations are limited to the expenditures on exploration activity and are equal to the amounts of these expenditures. The joint operations are subject to certain commitments relating to net smelter rights.

A summary and description of the company's current ownership interest in its mineral properties are as follows:

Name	Ownership interest
Bobjo Mine property (a)	100%
Hazard Lake property (b)	100%
West Keefer property (c)	100%
Casa Berardi property (d)	100%
Slate Lake property (e)	100%
Rowan Lake property (f)	100%
Hudson-Patricia property (g)	100%
Fly Lake property (h)	100%
Birch Lake property (i)	100%

(a) Bobjo Mine property

The company entered into an agreement to acquire an option for the nine patented claims identified as Bobjo Mine. The vendor has retained a 2% production royalty in the property of which the company has the right to purchase 50% of the production royalty for \$1,000,000 at any time.

The company then entered into a joint venture agreement with King's Bay Gold Corporation. Both companies had two directors in common at that time. King's Bay Gold Corporation has earned a 50% interest related to nine patented claim units of the property after funding earn-in expenditures in the amount of \$125,000.

On June 14, 2010, the company entered into a Property Interests Exchange Agreement with King's Bay Gold Corporation whereby King's Bay Gold Corporation has sold its remaining interests in the Bobjo Mine project to the company. King's Bay Gold Corporation further agreed to cancel the advance receivable related to the project in the amount of \$141,572 from the company. In consideration for the Property Interests Exchange Agreement the company agreed to assign to King's Bay Gold Corporation its 100% interest in the Raleigh Lake Property, grant 250,000 common shares to King's Bay Gold Corporation valued at \$15,000 and transfer title and ownership on various pieces of equipment valued at approximately \$16,000. The company issued the 250,000 common shares to King's Bay Gold Corporation on May 3, 2011 (Note 9 (xv)).

On September 23, 2010, the company entered into an option agreement to acquire a 100% interest in 28 mineral claims adjacent to and included with the Bobjo Mine Claims. Upon signing of the agreement the company paid \$10,000 and was required to issue 100,000 common shares. The company issued the 100,000 common shares on December 9, 2010 (Note 9 (viii)).

The vendor has retained a 2.0% Net Smelter Return (the "NSR") interest in the properties. The company can buy back 1.0% of the NSR for \$1,000,000 at any time.

On February 11, 2011 the company entered into an option agreement with Premier Gold Mines Limited ("Premier") with respect to the Bobjo Mine property. On May 16, 2011, Premier provided notice to the company of their decision to terminate its option on the Bobjo Mine property.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments (continued)

(b) Hazard Lake land option agreement

The company has entered into an agreement to acquire an option for twenty four claim units in a gold property identified as Hazard Lake. Upon signing of the agreement the company paid \$8,000 and issued 100,000 common shares and during fiscal 2010 the company paid \$12,000 and was required to issue 50,000 common shares. These 50,000 common shares were issued on December 13, 2010 (Note 9 (ix)). The company then paid \$16,000 and issued 50,000 common shares on October 12, 2011 (Note 9 (xix)). The company has agreed to pay additional consideration for these options as follows:

2012	\$25,000
2013	\$35,000

The vendor has retained a 1.5% production royalty in the property of which one half (0.75%) can be purchased back by the company for a one time payment of \$750,000 at any time.

(c) West Keefer claims land option agreement

On January 5, 2010, the company entered into an option agreement to acquire a 100% interest in properties consisting of three claims totaling thirty four mineral claim units commonly known as the West Keefer claims located in the Keefer township of the Porcupine Mining District of Ontario.

Under the terms of the option agreement, the company can earn a 100% interest in the properties by issuing 900,000 common shares of the company to the vendors. These shares were issued on March 9, 2010.

The vendors will retain a 2.0% NSR interest in the properties. The company can buy back 1.0% of the NSR for both properties for \$1,000,000 at any time.

(d) Casa Berardi claims land option agreement

On August 12, 2010, the company entered into an option agreement to acquire a 100% interest in properties consisting of sixty two mineral claim units known as Casa Berardi located in the Casa Berardi area of the Province of Quebec.

Upon signing the agreement the company paid \$15,000 and issued 500,000 common shares on October 20, 2010. On August 10, 2011, the company paid an additional \$15,000 and issued 500,000 common shares of the company (Note 9 (xvii)).

In addition to the cash payments and the issuance of common shares as outlined immediately above, the company agreed to a \$30,000 work commitment to be completed in the fall of 2010. This obligation was met in September 2010.

The vendor will retain a 2.0% NSR interest in the properties. The company can buy back 1.0% of the NSR for \$1,000,000 at any time.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments (continued)

(e) Slate Lake land option agreement and mining lease

- (i) On October 10, 2010, the company entered into an agreement to acquire a 100% interest in properties consisting of one hundred and seven mineral claim units known as Slate Lake in the Township of Slate Lake in the District of Red Lake in the Province of Ontario.

Upon signing the agreement the company paid \$10,000 and was required to issue 100,000 common shares. The 100,000 common shares were issued on December 9, 2010 (Note 9 (vii)). On October 12, 2011, the company paid \$10,000 and issued 100,000 common shares (Note 9 (xviii)). The company has agreed to pay additional consideration for these options as follows:

2012	\$15,000
2013	\$20,000
2014	\$25,000

The vendor has retained a 2.0% production royalty in the property of which one half (1.0%) can be purchased back by the company for \$1,000,000 at any time.

- (ii) On February 7, 2011 the company entered into an agreement to acquire a 100% interest in a mining lease located in the middle of the company's property known as Slate Lake in the Township of Slate Lake in the District of Red Lake in the Province of Ontario.

Upon signing the agreement the company paid \$15,000 and agreed to issue 100,000 common shares. On April 1, 2011 the company issued the 100,000 common shares (Note 9 (xi)). On February 3, 2012 the company issued another 100,000 common shares (Note 9 (iv)). In February 2012 the company did not make a required \$5,000 payment under the option agreement, however the company obtained an extension from the optionor and as a result this cash payment is postponed to June 7, 2012. In addition to the \$5,000 unpaid amount that was payable in February 2012, the company has agreed to pay additional consideration for these options as follows:

2013	\$10,000
2014	\$10,000
2015	\$35,000

The vendor acquired the property rights to the Slate Lake mining lease from a third party, who retains an original NSR of 1.5%. Under the terms of the agreement, there will be two NSR royalties with the original third party retaining 1.5% and the vendor retaining 1.5% creating a total NSR of 3.0%. The company can purchase half of either or both of the NSRs for a one time payment of \$1,000,000 for each NSR.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments (continued)

(f) Rowan Lake land option agreement

- (i) On November 24, 2010, the company entered into an agreement to acquire a 100% interest in properties consisting of three hundred and twenty three mineral claim units known as Rowan Lake in the Township of Rowan Lake and Brooks Lake area in the District of Kenora in the Province of Ontario.

Upon signing the agreement the company paid \$32,300 for the reimbursement of staking costs incurred by the optionor and was required to issue 100,000 common shares. These 100,000 common shares were issued on December 7, 2010 (Note 9 (vi)). During fiscal 2011 the company paid \$12,000 and issued 100,000 common shares (Note 9 (xx)). The company has agreed to pay additional consideration for these options as follows:

2012	\$16,000
2013	\$25,000
2014	\$35,000

The vendor has retained a 2.0% production royalty in the property of which one half (1.0%) can be purchased back by the company for \$1,000,000 at any time.

- (ii) On October 14, 2011 the company entered into an option agreement with Alita Resources Ltd. ("Alita") with respect to the Rowan Lake property. Alita will earn up to a 60% interest in the property by performing the following:

Alita can earn a 60% interest in the property by making a cash payment of \$20,000 and issuing 100,000 shares upon signing the agreement, making a cash payment of \$20,000 and issuing 100,000 shares prior to the first anniversary of the agreement, making a cash payment of \$20,000 and issuing 100,000 common shares prior to the second anniversary of the agreement. In addition, Alita must expend \$900,000 for exploration work on the claims within the first three years after signing with a minimum of \$200,000 expended prior to the first anniversary of the agreement and a minimum of \$550,000 expended prior to the second anniversary of the agreement.

On February 2, 2012 the company received the \$20,000 cash payment required under the Rowan Lake option agreement with Alita and on February 7, 2012 the company received the 100,000 common shares of Alita under the Rowan Lake option agreement.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments (continued)

(g) Hudson-Patricia Claims

On January 10, 2011 the company entered into two option agreements relating to seventy two mineral claim units known as the Hudson-Patricia Mine in the Township of Dent area in the District of Red Lake in the Province of Ontario. Under the first option agreement, the company can earn a 100% interest in the mineral claim units by paying \$8,000 and issuing 100,000 common shares upon signing the agreement. Upon signing the agreement the company paid \$8,000 and on February 1, 2011 the company issued the 100,000 common shares (Note 9 (x)).

On January 6, 2012, the company entered into an agreement to amend the terms of the option agreement relating to the Hudson-Patricia mineral claims. An 11 month extension of the first anniversary cash payment has been granted resulting in a due date of December 10, 2012 rather than January 10, 2012 and the cash payment has been increased from \$12,000 to \$16,000. On January 12, 2012 the company issued 100,000 common shares under this land option agreement (Note 9 (i)). The new terms results in additional consideration to be paid for these options as follows:

2012 (December 10)	\$16,000
2014	\$16,000
2015	\$25,000
2016	\$30,000

The vendor has retained a 2.0% production royalty in the property of which one half (1.0%) can be purchased back by the company for \$1,000,000 at any time.

Under the second option agreement, the company can earn a 100% interest in the mining lease by paying \$50,000 and issuing 100,000 common shares upon signing the agreement. Upon signing the agreement the company paid \$50,000 and on February 1, 2011 the company issued the 100,000 common shares (Note 9 (x)).

On January 6, 2012, the company entered into an agreement to amend the terms of the option agreement relating to the Hudson-Patricia mining lease. An 11 month extension of the first anniversary cash payment has been granted resulting in a due date of December 10, 2012 rather than January 10, 2012 and the cash payment has been increased from \$25,000 to \$30,000. On January 12, 2012 the company issued 100,000 common shares under this land option agreement (Note 9 (ii)). The new terms results in additional consideration to be paid for these options as follows:

2012 (December 10)	\$30,000 and 100,000 common shares
2014	\$25,000 and 100,000 common shares
2015	\$25,000
2016	\$35,000

The vendor acquired the property rights to the Hudson-Patricia Mine mining lease from a third party, who retains an original NSR of 1.5%. Under the terms of the agreement, there will be two NSR royalties with the original third party retaining 1.5% and the vendor retaining 1.5% creating a total NSR of 3.0%. The company can purchase one half of either or both of the NSRs for a one time payment of \$1,000,000 for each NSR.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

12. Joint venture operations, land option agreements and commitments (continued)

(h) Fly Lake Claims

On February 7, 2011, the company entered into an agreement to acquire a 100% interest in one leased and six mineral claim units known as Fly Lake in Mitchell Township in the District of Red Lake in the Province of Ontario.

Upon signing the agreement the company paid \$15,000 and was required to issue 100,000 common shares. On April 1, 2011 the company issued the 100,000 common shares (Note 9 (xii)). On February 3, 2012 the company issued another 100,000 common shares (Note 9 (iii)). In February 2012, the company did not make a required \$5,000 payment under the option agreement, however the company obtained an extension from the optionor and as a result this cash payment is postponed to June 7, 2012. In addition to the \$5,000 unpaid amount that was payable in February 2012, the company has agreed to pay additional consideration for these options as follows:

2013	\$10,000
2014	\$10,000
2015	\$35,000

The vendor acquired the property rights to the Fly Lake mining lease and mineral claims from a third party, who retains an original NSR of 1.5%. Under the terms of the agreement, there will be two NSR royalties with the original third party retaining 1.5% and the vendor retaining 2.0% creating a total NSR of 3.5%. The company can purchase one half of either or both of the NSRs for a one time payment of \$1,000,000 for each NSR.

(i) Birch Lake property

On April 17, 2011 the company entered into an agreement to acquire a 100% interest in properties consisting of 10 mineral claims known as Birch Lake in the townships of Keigat Lake and Casummit Lake in the District of Red Lake in the Province of Ontario.

Upon signing the agreement the company paid \$12,500 and was required to issue 200,000 common shares. On May 2, 2011 the company issued the 200,000 common shares (Note 9 (xiv)). In April 2012 the company did not make a required \$12,000 payment under the option agreement, however the company obtained an extension from the optionor and as a result this cash payment is postponed to June 7, 2012. In addition to the \$12,000 unpaid amount that was payable in April 2012, the company has agreed to pay additional consideration for these options as follows:

2013	\$16,000
2014	\$25,000
2015	\$35,000

The vendor has retained a 2.0% NSR interest in the property of which one half (1.0%) can be purchased back by the company for \$1,000,000 at any time.

13. Related party transactions

(a) Key management personnel compensation

The company did not pay employment based remuneration to directors, officers and other members of key management for the three month periods ended May 31, 2012 and May 31, 2011. However, the company did pay contract based remuneration to directors, officers and other members of key management as disclosed in Note 13 (b).

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

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(Expressed in Canadian dollars)

13. Related party transactions (continued)

(b) Other related party transactions

In addition to those otherwise disclosed, in these financial statements are the following related party transactions, which have been determined by negotiation amongst the parties. These transactions are in the normal course of operations and are measured at the same value as if the transactions had occurred with non-related parties.

	2012	2011
Verenex Capital Corporation, a company owned by a director for consulting services related to a position of office for the company	\$ -	\$ 22,500
Raymond L. Préfontaine Advisory Services, a business owned by an officer for consulting services relating to a position of office for the company	22,500	22,500
Kyle Picard Advisory Services, a business owned by a director for consulting services relating to a position of office for the company	7,800	7,800

14. Financial instruments

(a) Risk management and hedging activities

In the normal course of operations the company is exposed to various financial risks. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The company does not meaningfully participate in the use of financial instruments to control these risks. The company has no designated hedging transactions. The financial risks and management's risk management objectives and policies are as follows:

(i) Currency risk

The company does not hold any assets or liabilities denominated in a foreign currency.

(ii) Price risk

The company is exposed to price risk with respect to commodity prices. As the company is not a producing entity, this risk does not currently affect earnings; however, the risk could affect the completion of future equity transactions. The company monitors commodity prices of precious metals and the stock market to determine the timing, nature and extent of equity transactions.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the entity. The company is exposed to credit risk on cash and other receivables. Cash is held with an established Canadian bank and the company's other receivables are from Canadian government entities, from which management believes the risk of loss to be remote. The company does not have any derivatives or similar instruments that mitigate the maximum exposure to credit risk.

The carrying amount of financial assets recorded in the financial statements in the amount of \$13,256 represents the maximum exposure to credit risk at the reporting date.

MAINSTREAM MINERALS CORPORATION

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(Expressed in Canadian dollars)

14. Financial instruments (continued)

(iv) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. Management monitors the company's liquidity by assessing forecast and actual cash flows and by maintaining adequate cash on hand. It is management's opinion that it is unlikely that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. As at May 31, 2012 the company has a working capital deficiency in the amount of \$124,037.

The contractual maturities of financial liabilities at May 31, 2012, based on the earliest date on which payment can be required, were as follows:

	Total amount	Six month or less	More than six months
Trade payables	\$ 102,068	\$ 102,068	\$ -
Accrued liabilities	36,000	36,000	-
	\$ 138,068	\$ 138,068	\$ -

(v) Interest rate risk

The company is not exposed to any meaningful interest rate risk due to the short term nature of its interest generating asset.

(b) Sensitivity analysis

The company has cash and cash equivalents subject to interest rate risk of approximately \$2,117. A 1% change in the primary interest rate would affect the reported net income, on an annualized basis, by \$21.

(c) Fair values, carrying amounts and changes in fair value

The fair values of the company's financial instruments approximate their carrying value due to their short-term nature. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the statement of financial position, have been prioritized into the following three levels:

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level two includes inputs that are observable other than quoted prices included in level one.

Level three includes inputs that are not based on observable market data.

The company's financial instruments within the fair value hierarchy as at May 31, 2012 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,117	\$ -	\$ -

The company's financial instruments within the fair value hierarchy as at November 30, 2011 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 106,710	\$ -	\$ -

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

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14. Financial instruments (continued)

The company's financial instruments within the fair value hierarchy as at December 1, 2010 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 254,435	\$ -	\$ -

(d) Collateral

The carrying value of financial assets the company has pledged as collateral is \$Nil (2011 - \$Nil).

15. Capital management

As the company is in the exploration stage, its principal source of capital is from the issuance of common shares. The company's capital management objective is to obtain sufficient capital to maintain its exploration programs for the benefit of its stakeholders. To meet the objectives, management monitors the company's ongoing capital requirements against unrestricted net working capital and assesses additional capital requirements on specific exploration properties on a case by case basis. The company is not subject to externally imposed capital requirements. Management is of the opinion that the amounts and changes in the company's capital is readily determinable in these financial statements.

16. Subsequent events

- (a) On June 8, 2012, the company closed the first tranche of a non-brokered private placement initially announced on May 22, 2012. A total of 5,900,000 units were issued at a price of \$0.05 per unit for gross proceeds of \$295,000. Each unit consists of one non-flow-through common share and one half of one non-flow-through common share purchase warrant. Each whole non-flow-through common share purchase warrant entitles the holder to purchase an additional common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance. A cash finder's fee equal to 6% of the subscription proceeds totaling \$4,500 was paid to registered dealers for services rendered in introducing certain subscribers to the offering. In addition, 90,000 brokers warrants equivalent to 6% of the number of units subscribed for in this non-brokered private placement were issued to finders. Each broker warrant can be exercised to purchase one non-flow-through common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance.
 - (b) On June 26, 2012, the company terminated contractor agreements dated December 1, 2011 with both BJP Consulting and Rory Ritchie Geological Consulting with an effective date of May 31, 2012. In accordance with the agreements, the company paid each party a sum of \$23,560 representing the balance of remuneration due, including an additional 30 days of contract fees. Furthermore, in consideration of the mutual release, the company has agreed to assign and transfer to the parties all right, title and interest in equipment located at Unit 211-850 West Hastings Street, Vancouver, British Columbia, as well as all rights and obligations under the lease of the premises, subject to the consent and approval of the lessor.
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MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

16. Subsequent events (continued)

- (c) On June 29, 2012, the company closed the second and final tranche of a non-brokered private placement initially announced on May 22, 2012. A total of 8,700,000 units were issued at a price of \$0.05 per unit for gross proceeds of \$435,000. Each unit consists of one non-flow-through common share and one half of one non-flow-through common share purchase warrant. Each whole non-flow-through common share purchase warrant entitles the holder to purchase an additional common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance. A cash finder's fee equal to 6% of the subscription proceeds was paid to registered dealers for services rendered in introducing certain subscribers to the offering. In addition, broker warrants equivalent to 6% of the number of units subscribed for in this non-brokered private placement were issued to finders. Each broker warrant can be exercised to purchase one non-flow-through common share of the company at a price of \$0.10 for a period of 12 months following the date of issuance.

17. Explanation of transition to IFRS

The company has adopted IFRS on December 1, 2011 with a transition date of December 1, 2010. Under IFRS 1 *First-time Adoption of International Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under Canadian GAAP recorded to retained earnings or deficit, unless certain exemptions apply.

Exemptions applied

The company has applied the optional exemption under 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 December 1, 2010, which have been accounted for in accordance with Canadian GAAP.

The transition from Canadian GAAP to IFRS has resulted in reclassifications on the company's statements of financial position and operations and comprehensive loss as outlined below.

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

(a) Reconciliation of Canadian GAAP to IFRS

The December 1, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	December 1, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash and cash equivalents	\$ 254,435	-	\$ 254,435
Other receivables	224,145	-	224,145
Prepaid expenses	775	-	775
Total current assets	479,355	-	479,355
Non-current assets:			
Machinery and equipment	478	-	478
Exploration and evaluation assets	3,502,272	-	3,502,272
Total non-current assets	3,502,750	-	3,502,750
Total assets	\$ 3,982,105	-	\$ 3,982,105
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	\$ 127,130	-	\$ 127,130
Other payables	40,964	-	40,964
Advance on share issuance from treasury	15,000	-	15,000
Total current liabilities	183,094	-	183,094
Non-current liability:			
Deferred income taxes	1,046,000	-	1,046,000
Total liabilities	1,229,094	-	1,229,094
Equity:			
Share capital (Note 17 (b))	5,241,406	613,526	5,854,932
Share-based payments reserve	350,349	-	350,349
(Deficit)	(2,838,744)	(613,526)	(3,452,270)
Total equity	2,753,011	-	2,753,011
Total liabilities and equity	\$ 3,982,105	-	\$ 3,982,105

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

The May 31, 2011 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	May 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash and cash equivalents	\$ 525,881	-	\$ 525,881
Other receivables	18,264	-	18,264
Total current assets	544,145	-	544,145
Non-current assets:			
Machinery and equipment	406	-	406
Exploration and evaluation assets	3,873,878	-	3,873,878
Total non-current assets	3,874,284	-	3,874,284
Total assets	\$ 4,418,429	-	\$ 4,418,429
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	\$ 28,498	-	\$ 28,498
Other payables	5,900	-	5,900
Total current liabilities	34,398	-	34,398
Non-current liability:			
Deferred income taxes	1,046,000	-	1,046,000
Total liabilities	1,080,398	-	1,080,398
Equity:			
Share capital (Note 17 (b))	6,046,688	613,526	6,660,214
Share-based payments reserve	350,349	-	350,349
(Deficit) (Note 17 (b))	(3,059,006)	(613,526)	(3,672,532)
Total equity	3,338,031	-	3,338,031
Total liabilities and equity	\$ 4,418,429	-	\$ 4,418,429

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

The November 30, 2011 Canadian GAAP balance sheet has been reconciled to IFRS as follows::

	November 30, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash and cash equivalents	\$ 106,710	-	\$ 106,710
Other receivables	12,320	-	12,320
Prepaid expenses	4,528	-	4,528
Total current assets	123,558	-	123,558
Non-current assets:			
Machinery and equipment	334	-	334
Exploration and evaluation assets	3,852,837	-	3,852,837
Total non-current assets	3,853,171	-	3,853,171
Total assets	\$ 3,976,729	-	\$ 3,976,729
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	\$ 10,550	-	\$ 10,550
Other payables	31,000	-	31,000
Total current liabilities	41,550	-	41,550
Non-current liability:			
Deferred income taxes	963,000	-	963,000
Total liabilities	1,004,550	-	1,004,550
Equity:			
Share capital (Note 17 (b))	6,089,688	613,526	6,703,214
Share-based payments reserve	350,349	-	350,349
(Deficit) ((Note 17 (b))	(3,467,858)	(613,526)	(4,081,384)
Total equity	2,972,179	-	2,972,179
Total liabilities and equity	\$ 3,976,729	-	\$ 3,976,729

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

The statement of operations and comprehensive loss for the three month period ended May 31, 2011 under Canadian GAAP has been reconciled to IFRS as follows:

	May 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses:			
Advertising	\$ 16,266	-	\$ 16,266
Consulting fees	52,800	-	52,800
Depreciation	36	-	36
General meeting	1,166	-	1,166
Insurance	(234)	-	(234)
Interest and bank charges	327	-	327
Meals and entertainment	1,753	-	1,753
Office	9,187	-	9,187
Professional fees	7,006	-	7,006
Regulatory filings	19,864	-	19,864
Travel	5,459	-	5,459
	113,630	-	113,630
(Loss) from operations	(113,630)	-	(113,630)
Other income and (expenses):			
Interest income	232	-	232
	232	-	232
Net (loss) and comprehensive (loss) for the period	\$ (113,398)	-	\$ (113,398)

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

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

	November 30, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Expenses:			
Advertising	\$ 37,586	-	\$ 37,586
Consulting fees	248,533	-	248,533
Depreciation	143	-	143
General meeting	4,650	-	4,650
Insurance	10,266	-	10,266
Interest and bank charges	415	-	415
Meals and entertainment	4,380	-	4,380
Office	18,495	-	18,495
Professional fees	63,616	-	63,616
Regulatory filings	43,060	-	43,060
Travel	11,506	-	11,506
	442,650	-	442,650
(Loss) from operations	(442,650)	-	(442,650)
Other income and (expenses):			
Interest income	573	-	573
Gain on sale of machinery and equipment	2,500	-	2,500
Exploration and evaluation asset write-down	(272,537)	-	(272,537)
	(269,464)	-	(269,464)
(Loss) before income taxes	(712,114)	-	(712,114)
Future income tax recovery	83,000	-	83,000
Net (loss) and comprehensive (loss) for the period	\$ (629,114)	-	\$ (629,114)

MAINSTREAM MINERALS CORPORATION

Notes to Condensed Interim Financial Statements

For the period ended May 31, 2012 (unaudited)

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

(b) Flow-through share accounting

Under Canadian GAAP, the company recorded the gross proceeds relating to flow-through shares to share capital at the time of issuance. The company would then record a charge (reduction) to share capital at the time the tax benefits of the flow-through shares were renounced to the subscribers. The charges were calculated by multiplying the amount of the renounced tax benefits (which are equal to the gross proceeds of the flow-through share issuance) by the effective tax rate at the time. The offset should be recorded as a deferred tax liability to reflect the fact that the company could no longer use the tax attributes for its benefit.

Following the company's selected accounting policy, under IFRS, the proceeds from issuing flow-through shares are allocated between the offering of shares and the sale of tax benefits. The allocation is based on the difference ("premium") between the quoted or estimated price of the company's existing shares, at the date of closing, and the amount the investor pays for the actual flow-through shares. A liability is recognized for the premium and is extinguished when the tax effect of the temporary differences resulting from the renunciation is recorded. The difference between the liability and the value of the tax assets renounced is recorded as a deferred tax expense. There is no subsequent reduction in share capital. If the flow-through shares are not issued at a premium, a liability is not established and on renunciation the full value of the tax assets renounced is recorded as a deferred tax expense.

On transition to IFRS, the company recognized in the December 1, 2010, May 31, 2011 and November 30, 2011 statements of financial position an increase to share capital of \$613,526 and an increase to the deficit of \$613,526.

(c) Exploration and evaluation assets

The company has elected to adopt the provision of IFRS 6 which allows the company to continue with their previous accounting policies regarding the accounting for exploration and evaluation expenditures. Under Canadian GAAP, the company capitalized amounts spent on exploration to the carrying value of its exploration and evaluation assets.

(d) Financial statement presentation changes

The transition to IFRS has resulted in the contributed surplus account on the statement of financial position to be renamed to share-based payments reserve to specifically reflect the transactions that gave rise to its existence.

(e) Statements of cash flows

The adoption of IFRS has had no impact on the net cash flows of the company. The changes made to the statements of financial position and statements of operations and comprehensive loss have resulted in minor reclassifications of various amounts on the statement of cash flow; however, as there have been no changes to the net cash flows, no reconciliations have been presented.
