BOLERO RESOURCES CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(EXPRESSED IN CANADIAN DOLLARS)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed interim financial statements of Bolero Resources Corp. for the three and six months ended June 30, 2012 have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors. 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 condensed consolidated 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 the interim financial statements by an entity's auditor

BOLERO RESOURCES CORP.
UNAUDITED CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

		June 30, 2012		December 31, 2011
ASSETS				
Current				
Cash and cash equivalents (Note 7)	$	376,685	$	856,723
Receivables (Note 8)		23,948		270,246
Prepaid expenses (Note 9)		17,429		11,245
Total current assets		418,062		1,138,214
Investments (Note 10)		121,400		115,000
Equipment (Note 11)		1,847		2,133
Exploration and evaluation expenditures (Note 12)		5,226,384		4,898,671
Drilling and reclamation deposits (Note 13)		20,542		20,546
Total assets	$	5,788,235	$	6,174,564
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities (Note 15)	$	133,199	$	354,710
Restoration, rehabilitation and environmental obligations (Note 14)		21,016		29,000
Total current liabilities		154,215		383,710
Restoration, rehabilitation and environmental obligations (Note 14)		-		5,986
Total liabilities		154,215		389,696
Shareholders' equity				
Shares to be issued (Note 12)		-		8,000
Capital stock (Note 16)		22,089,917		21,941,917
Reserves		3,017,531		3,714,565
Deficit		(19,473,428)		(19,879,614)
Total shareholders’ equity		5,634,020		5,784,868
Total liabilities and shareholders’ equity	$	5,788,235	$	6,174,564

Nature and continuance of operations (Note 1)
Commitments and contingencies (Note 19)
Subsequent events (Note 20)

On behalf of the Board:

“R. B. Duncan”, Director   “ Roger Steininger”, Director

See accompanying notes to the unaudited condensed interim financial statements.

BOLERO RESOURCES CORP.
UNAUDITED CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
EXPENSES				
Amortization	$ 143	$ 198	$ 286	$ 397
Management fees (Note 15)	80,000	30,000	110,000	60,000
Consulting fees	16,000	12,000	30,500	20,000
Sales and marketing costs	2,500	-	2,500	-
Professional fees (Notes 15)	50,350	29,771	65,350	56,087
Office, rent and miscellaneous	15,178	20,476	23,157	37,377
Shareholder communications and promotion	21,299	34,502	29,009	88,114
Share based compensation (Note 16)	100,955	105,446	146,451	302,129
Property investigation costs	19,466	-	19,466	-
Transfer agent and filing fees	4,743	7,389	11,895	16,159
Travel and accommodation	-	8,586	-	16,025
Loss before other items	310,634	248,368	438,614	596,288
OTHER ITEMS				
Foreign exchange loss (gain)	(662)	(335)	(188)	2,769
Investment income	(3,866)	(13,500)	(7,897)	(23,858)
Write off of exploration and evaluation expenditures	14,100	14,100	14,100	14,100
Gain on disposal of equipment	(930)	-	(930)	(2,744)
Loss for the period	$ 319,276	$ 248,633	$ 443,699	$ 586,555
Income tax recovery (Note 16)	(22,272)	-	(35,772)	-
Net loss for the period	297,004	248,633	407,927	586,555
Other comprehensive loss				
Unrealized loss (gain) on marketable securities (Note 10)	27,400	1,200	(6,400)	(2,800)
Total comprehensive loss	$ 324,404	$ 249,833	$ 401,527	$ 583,755
Basic and diluted net loss per common share	$ 0.01	$ 0.01	$ 0.01	$ 0.02
Weighted average number of common shares outstanding	39,197,965	35,319,558	38,888,812	35,275,414

See accompanying notes to the unaudited condensed interim financial statements.

BOLERO RESOURCES CORP.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE SIX MONTHS ENDED JUNE 30

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) for the year	$ (407,927)	$ (586,555)
Items not affecting cash:		
Income tax (recovery)	(35,772)	-
Amortization	286	397
(Gain) loss on disposal of equipment	(930)	(2,744)
Share based compensation	146,451	302,129
Write off of exploration and evaluation expenditures	14,100	14,100
Unrealized foreign exchange loss	(63)	2,648
	(283,855)	(270,025)
Change in non-cash working capital items:		
(Increase) Decrease in receivables	246,298	(2,797)
(Increase) Decrease in prepaid expenses	(6,184)	(10,372)
Decrease in accounts payable and accrued liabilities	(187,333)	(45,361)
Net cash flows from operating activities	(231,074)	(328,555)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of options and warrants	-	50,600
Share issue costs	(6,167)	-
Net cash flows from financing activities	(6,167)	50,600
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(229,824)	(311,330)
Asset retirement obligation payments	(14,000)	-
Proceeds from sale of equipment	930	2,744
Net cash flows from investing activities	(242,894)	(308,586)
Effect of foreign exchange rate changes on cash and cash equivalents	97	(2,679)
(Decrease) increase in cash and cash equivalents	(480,038)	(589,220)
Cash and cash equivalents, beginning of period	856,723	3,417,442
Cash and cash equivalents, end of period	$ 376,685	$ 2,828,222
Comprised of:		
Cash	$ 201,036	$ 318,464
Money market instruments	175,649	2,509,758
	$ 376,685	$ 2,828,222

Supplemental disclosure with respect to cash flows (Note 17)

See accompanying notes to the unaudited condensed interim financial statements.

BOLERO RESOURCES CORP.
UNAUDITED CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

				Reserves				
	Number of Shares	Capital Stock	Shares to be issued	Equity settled share-based payments reserve	Warrant reserve	Available-for-sale revaluation reserve	Deficit	Total
Balance, December 31, 2010	34,999,558	$ 21,313,658	$	$ 1,688,754	$ 1,822,656	$ (51,589)	$ (18,772,643)	$ 6,000,836
Acquisition of exploration properties	150,000	61,500	-	-	-	-	-	61,500
Share based compensation	-	-	-	302,129	-	-	-	302,129
Exercise of warrants	150,000	45,000	-	-	-	-	-	45,000
Value of warrants exercised	-	7,755	-	-	(7,755)	-	-	-
Expiry of warrants	-	-	-	-	(26,670)		26,670	-
Expiry of options	-	-	-	(88,237)	-	-	88,237	-
Exercise of options	20,000	5,600	-	-	-	-	-	5,600
Value of options exercised	-	6,570	-	(6,570)	-	-	-	-
Net loss and comprehensive loss for the three month period	-	-	-	-	-	2,800	(586,555)	(583,755)
Balance, June 30, 2011	35,319,558	21,440,083	-	1,896,076	1,788,231	(48,789)	(19,244,291)	5,831,310
Issued pursuant to private placement	2,560,000	269,632	-	-	50,368	-	-	320,000
Acquisition of exploration properties	-	-	8,000	-	-	-	-	8,000
Share based compensation	-	-	-	187,929	-	-	-	187,929
Extension of warrant expiry date	-	-	-	-	710,861	-	-	710,861
Exercise of warrants	675,000	202,500	-	-	-	-	-	202,500
Value of warrants exercised	-	34,898	-	-	(34,898)	-	-	-
Expiry of warrants	-	-	-	-	(328,880)	-	328,880	-
Tax effect of warrant expiry	-	-	-	-	-	-	(50,000)	(50,000)
Expiry of options	-	-	-	(467,792)	-	-	467,792	-
Issue costs-cash	-	(5,196)	-	-	(971)	-	-	(6,167)
Net loss and comprehensive loss for the nine month period	-	-	-	-	-	(37,570)	(1,381,995)	(1,419,565)
Balance, December 31, 2011	38,554,558	$ 21,941,917	$ 8,000	$ 1,616,213	$ 2,184,711	$ (86,359)	$ (19,879,614)	$ 5,784,868
Acquisition of exploration properties	1,050,000	148,000	(8,000)	-	-	-	-	140,000
Share based compensation	-	-	-	146,451	-	-	-	146,451
Expiry of warrants	-	-	-	-	(269,976)	-	269,976	-
Tax effect of warrant expiry	-	-	-	-	-	-	(35,772)	(35,772)
Expiry of options	-	-	-	(579,909)	-	-	579,909	-
Net loss and comprehensive loss for the three month period	-	-	-	-	-	6,400	(407,927)	(401,527)
Balance, June 30, 2012	39,604,558	$ 22,089,917	$ -	$ 1,182,755	$ 1,914,735	$ (79,959)	$ (19,473,428)	$ 5,634,020

1. NATURE AND CONTINUANCE OF OPERATIONS

Bolero Resources Corp. (hereafter the "Company") was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business is the acquisition and exploration of mineral exploration properties. The Company is at the early stages of development on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 1166 Alberni Street, Suite 605, Vancouver, British Columbia, V6E 3Z3

The financial statements were approved by the Board of Directors on August 17, 2012.

The Company is in the process of exploring its mineral exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation expenditures are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

These financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. As at June 30, 2012, the Company had working capital of $263,847 and an accumulated deficit of $19,473,428 compared to working capital of $754,504 and an accumulated deficit of $19,879,614 as at December 31, 2011. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

3. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale or held-for-trading, which are stated at their fair value. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements.

Principles of consolidation

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

The Company had a wholly-owned subsidiary, Montana Molybdenum Corporation (“MT Moly”), a company incorporated under the laws of Montana, U.S.A. The subsidiary was inactive for a number of years and was dissolved in the first quarter of fiscal 2012. These condensed interim financial statements include the accounts of the wholly owned subsidiary up until the date of dissolution.

Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and guaranteed investment certificates that are available on demand by the Company.

Financial instruments

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss and comprehensive loss. Currently, the Company's cash equivalents are classified as held-for-trading.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss and comprehensive loss. The Company’s cash and receivables are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments (Continued)

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. The Company's investments are classified as available-for-sale assets. Regular way purchases and sales of financial assets are accounted for at the trade date.

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss and comprehensive loss. The Company has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) 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) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). At June 30, 2012 and December 31, 2011, the Company's financial instruments that were carried at fair value, consisted of investments which have been classified as Level 1 within the fair value hierarchy and cash equivalents which have been classified as Level 2.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss and comprehensive loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in the statement of loss and comprehensive loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss and comprehensive loss.

Impairment of non financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

Equipment is stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is charged to income based on cost less estimated residual value of the asset using the declining balance method of amortization at the following rates:

Office equipment	20%
Machinery and other equipment	20%
Vehicles	30%
Computer equipment	30%

An item of equipment is derecognized upon disposal, when held for sale 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 statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

Foreign currency translation

The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the statement of financial position date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss and comprehensive loss.

Exploration and evaluation expenditures

All of the Company's mineral exploration property interests are in the exploration and evaluation phase. The Company records its interests in mineral properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the reserves available on the related property following commencement of production. The Company classifies the costs between intangibles and property, plant and equipment based on the nature of the costs incurred.

The cost of mineral exploration property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral exploration properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restoration, rehabilitation and environmental obligations

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate. Discounting has not been performed on the obligations as at June 30, 2012 and December 31, 2011 as the effect of the time value of money was not material.

Provisions

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 amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contacts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company has no material provisions at June 30, 2012 and December 31, 2011.

Share based payment transactions

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. 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 of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investor.

The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation.

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 provided using the 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 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 financial position reporting 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 utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not set up.

Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The “treasury stock method” is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the three and six months ended June 30, 2012 and 2011, all the outstanding stock options and warrants were anti-dilutive.

Comprehensive loss

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the statement of changes in Equity. The Company has classified its investments as financial instruments available for sale, and accordingly, reports other comprehensive gain or loss related to the changes in fair value on the investment at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates is pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, valuation of restoration, rehabilitation and environmental obligations, inputs used for share based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Assets' carrying values and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of exploration and evaluation assets

While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based Payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

Future accounting changes

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2012 or later periods.

IFRS 9, Financial Instruments: Classification and Measurement, ("IFRS 9") effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10 Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements ("IFRS 11") replaces the guidance in IAS 31 Interests in Joint Ventures. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance
is tested for impairment in accordance with IAS 28 Investments in Associates and IAS 36 Impairment of Assets. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and effective for years beginning on or after January 1, 2013, replaces the disclosure requirements currently found in IAS 28 Investments in Associates ("IAS 28"). The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. The Company is currently evaluating the impact the introduction of IFRS 12 will have on its financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not yet determined the impact of the amendment on its financial statements.

5. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended June 30, 2012. The Company is not subject to externally imposed capital requirements.

6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures from the previous year. The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
The Company's credit risk is primarily attributable to receivables. The receivables primarily relate to sales tax due from the Federal Government of Canada. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company requires additional equity funding to fund its operations. Management believes it will be successful in raising the necessary funding; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

Market risk
(a) Interest rate risk
The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk
The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. As at June 30, 2012, the Company had drilling and reclamation deposits of US$7,542 (Cdn$7,338), a bank balance of US$19,068 (Cdn$19,541), and restoration, rehabilitation and environmental obligations of US$5,870 (Cdn$,016). A 1% change in foreign exchange rates between the Canadian and US dollar at June 30, 2012 would not have a material impact on the Company's financial statements.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(d) Title risk
Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Sensitivity analysis
Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

(EXPRESSED IN CANADIAN DOLLARS)

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of the following items:

	June 30, 2012	December 31, 2011
Cash balances	$ 201,036	$ 157,876
Private placement proceeds in trust	-	300,000
Short term money market instruments	175,649	398,847
Total	$ 376,685	$ 856,723

The Company's short term money market instruments accrue interest between 0.95% and 1.05% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	June 30, 2012	December 31, 2011
Sales tax due from Federal Government	$ 23,926	$ 270,246
Other	22	-
Total	$ 23,948	$ 270,246

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	June 30, 2012	December 31, 2011
Rent and security deposit	$ -	$ 5,024
Insurance	9,583	4,167
Consultants	7,500	-
Investor relations and communications	-	1,710
Other	346	344
Total	$ 17,429	$ 11,245

10. INVESTMENTS

In May 2010, the Company purchased 20,000 shares of Superior Plus Corp. for $273,189. The Company holds the investment for its investment income potential and as such classifies the investment as available-for-sale. At September 30, 2011, management believed the drop in the value of the investment reflected a permanent impairment of approximately $71,830 and reflected this decline in the statement of loss and comprehensive loss. The fair value of the investment at June 30, 2012 and December 31, 2011 was $121,400 and $115,000 respectively.

(EXPRESSED IN CANADIAN DOLLARS)

11. EQUIPMENT

	Office Equipment	Computer equipment	Total
Cost			
Balance, December 31, 2010, December 31, 2011 and March 31, 2012	$ 1,946	$ 7,178	$ 9,124
Accumulated amortization			
Balance, December 31, 2010	1,111	5,085	6,196
Amortization	167	628	795
Balance, December 31, 2011	1,278	5,713	6,991
Amortization	67	219	286
Balance, June 30, 2012	1,345	5,932	7,277
Carrying Value			
At December 31, 2010	$ 835	$ 2,093	$ 2,928
At December 31, 2011	$ 668	$ 1,465	$ 2,133
At June 30, 2012	$ 601	$ 1,246	$ 1,847

During fiscal 2012, the Company sold equipment for gross proceeds of $930. The carrying value of the equipment had been written off in prior years. The gain on sale of the equipment has been recorded in the statement of loss and comprehensive loss.

12. EXPLORATION AND EVALUATION EXPENDITURES

At June 30, 2012, expenditures incurred on mineral exploration properties were as follows:

	Red Chris South, British Columbia	Rare Earth Claims, British Columbia	Yukon Prospect, Yukon	Charge Property, British Columbia	Maria Township Graphite, Ontario	Six months ended June 30, 2012	Year ended December 31, 2011
Acquisition costs:							
Balance, beginning of period	$ 229,160	$ 789,393	$ 211,515	$ 83,306	$ -	$ 1,313,374	$ 1,213,357
Additions during the period	-	-	-	-	251,702	251,702	100,017
Balance, end of period	229,160	789,393	211,515	83,306	251,702	1,565,076	1,313,374
Deferred exploration costs:							
Balance, beginning of period	1,176,587	2,173,300	76,296	159,114	-	3,585,297	1,220,476
Assays	-	(5,800)	-	-	-	(5,800)	58,710
Surveys, reports, maps	-	-	-	-	-	-	346,238
Rental of equipment and facilities	-	-	-	-	-	-	14,870
Field supplies	-	-	-	-	-	-	28,488
Geologists and other labour	13,579	30,125	-	5,830	-	49,534	350,540
Excavation, drilling and transportation	84	43	-	60	-	187	1,280,827
Licences, permits and maintenance fees	21,969	-	(39)	-	-	21,930	61,534
Travel, meals and accommodation	-	-	-	-	-	-	159,239
Admin and other expenses	3,085	4,537	-	2,538	-	10,160	64,375
Additions during the period	38,717	28,905	(39)	8,428	-	76,011	2,364,821
Balance, end of period	1,215,304	2,202,205	76,257	167,542	-	3,661,308	3,585,297
Total	$ 1,444,464	$ 2,991,598	$ 287,772	$ 250,848	$251,702	$ 5,226,384	$ 4,898,671

(EXPRESSED IN CANADIAN DOLLARS)

12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

The Company paid $5,000 and issued 50,000 shares valued at $8,000 pursuant to the amended Cougar rare earth agreement.

In May 2012, the Company entered into a purchase agreement with an arm's length vendor to acquire 38 prospective, large-flake Graphite mineral claims located in the Maria Township in Ontario. The claims cover an area of approximately 2,000 hectares contiguous with Northern Graphite Corporation's "Bissett Creek" Graphite deposit. Pursuant to the Agreement, the Company paid $100,000 and issued 1,000,000 common shares, valued at $140,000 to the vendor. In addition, the Company granted to the vendor, a 2% net smelter return royalty ("NSR") and a production royalty equal to $25 per tonne of all graphite mined from the property. The Company may reduce the NSR to 1% by paying $1,000,000 to the vendor and additionally may reduce the Production Royalty to $12.50 per tonne by paying $500,000 to the vendor. The transaction has received regulatory approval.

13. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

Property	June 30, 2012	December 31, 2011
Red Chris South	$ 8,000	$ 8,041
Rare Earth	5,000	5,000
Bald Butte and Cannivan Gulch	7,542	7,505
Total	$ 20,542	$ 20,546

14. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

The Company performed reclamation work on its former Bald Butte and Cannivan Gulch properties during 2010. The Company is responsible for weed control on Cannivan Gulch until July 2012 and on Bald Butte until 2013. A bond of $7,338 (US$7,360) is being held by the Department of Environmental Quality ("DEQ") until the Company has met that commitment. It is estimated that the weed control obligations at both properties will be approximately $5,852 (US$5,870).

The Company set up a $28,000 obligation to reclaim the Arcadia Property at December 31, 2010 of which $14,000 was incurred during fiscal 2011 and $14,000 was incurred during fiscal 2012.

The Company has recorded an obligation of $10,000 for the Rare Earth Property and $5,000 for the Red Chris South Property to reclaim the disturbance caused by the work programs. The reclamation work on the Canadian properties is expected to be carried out within the next 12 months.

The following is an analysis of the restoration, rehabilitation and environmental obligations:

Balance, December 31, 2010	$ 39,001
Additions	10,000
Reductions	(14,130)
Foreign exchange	115
Balance, December 31, 2011	34,986
Reductions	(14,000)
Foreign exchange	30
Balance, June 30, 2012	$ 21,016

(EXPRESSED IN CANADIAN DOLLARS)

15. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

Trading transactions
The Company entered into the following transactions with related parties

			Six months ended	
	Nature of transactions	Notes	June 30, 2012	June 30, 2011
West Oak Capital	Management fees	a	$ 60,000	$ 60,000
O2 Ltd.	Management fees	b	$ 50,000	-
Olga Nikitovic	Professional fees	c	$ 30,000	$ 30,000
Roger Steininger	Consulting fees	d	$ 18,238	$ 2,915
Aird & Berlis	Professional fees	e	$ 22,106	$ 9,895

a) West Oak Capital is owned by R. B. Duncan, the Company's former President and CEO and current Chairman of the Board. The fees paid to West Oak Capital relate to management fees.

b) O2 Ltd. is owned by Paul Ogilvie who became the Company’s CEO on May 23, 2012. The fees paid relate to management fees.

c) Olga Nikitovic is the CFO for the Company. The fees paid relate to financial management and accounting services which are charged to professional fees.

d) Roger Steininger is a director of the Company. Fees paid relate to geological consulting which are charged to exploration and evaluation expenditures.

e) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Fees relate to legal services which are reflected as professional fees. As at June 30, 2012, $21,979 (2011 - $Nil) is included in accounts payable.

These transactions were in the normal course of operations and were measured at the transaction amount which is the amount established and agreed to by the related parties. The repayment terms are the same as those for arms length transactions.

Compensation of key management personnel

		Six months ended	
	Notes	June 30, 2012	June 30, 2011
Salaries	a	$ 140,000	$ 90,000
Share-based payments	b	$ 94,906	$ -

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries represent the fees for the CEO, Chairman of the Board and CFO which are included in trading transactions above.
b) Share-based payments are the fair value of options granted to key management and directors.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at June 30, 2012, the Company had 39,604,558 common shares outstanding (2011–35,319,558). The common shares outstanding at December 31, 2011 were 38,554,558.

Common shares issued for mineral exploration property interests are valued based on the quoted price of the shares on the date of issue.

In March 2012, the Company issued 50,000 shares valued at $8,000 pursuant to the amended Cougar Earth Element property acquisition agreement.

In May 2012, the Company issued 1,000,000 shares valued at $140,000 for the acquisition of the Maria Township graphite claims.

Share purchase warrants

At June 30, 2012, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price	Number of Shares	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
September 27, 2012	0.30	4,000,000	0.26	4,000,000	0.26
December 14, 2012	0.60	280,000	0.45	280,000	0.45
December 23, 2012	0.60	2,000,000	0.48	2,000,000	0.48
December 23, 2012	0.50	312,000	0.48	312,000	0.48
December 22, 2013	0.18	1,280,000	1.48	1,280,000	1.48
October 28, 2014	0.30	4,755,000	2.33	4,755,000	2.33
		12,627,000	1.21	12,627,000	1.21

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Share purchase warrants (Continued)

The following is a summary of the warrant transactions for the six months ended June 30, 2012 and the year ended December 31, 2011.

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the period	14,445,000	$0.37	15,505,197	$0.41
Warrants issued pursuant to private placements	-	-	1,280,000	0.18
Warrants expired	(1,818,000)	0.49	(1,515,197)	0.78
Warrants exercised	-	-	(825,000)	0.30
Balance, end of period	12,627,000	$0.35	14,445,000	$0.37

The Company has recognized an income tax recovery of $35,772 related to the tax impact of the expiry of warrants.

Stock options

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts, of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

As at June 30, 2012, the following incentive stock options were outstanding:

		Options Outstanding		Options Exercisable	
Expiry Date	Exercise Price	Number of Options Outstanding	Weighted average remaining contractual life (years)	Number of Options Vested	Weighted average remaining contractual life (years)
March 7, 2013	3.00	165,000	0.69	165,000	0.69
May 9, 2013	2.00	10,000	0.86	10,000	0.86
July 30, 2014	0.25	272,000	2.08	272,000	2.08
April 1, 2015	0.28	60,000	2.75	60,000	2.75
December 29, 2015	0.50	950,000	3.50	950,000	3.50
July 19, 2016	0.35	500,000	4.05	305,556	4.05
May 17, 2017	0.20	1,000,000	4.88	-	-
June 15, 2017	0.20	1,750,000	4.96	-	-
		4,707,000	4.20	1,762,556	3.07

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

The following is a summary of the stock option transactions for the six months ended June 30, 2012 and the year ended December 31, 2011:

	Six months ended June 30, 2012		Year ended December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of the period	2,253,667	0.83	2,067,000	1.12
Options granted	2,750,000	0.20	500,000	0.35
Options forfeited	-	-	(58,333)	0.50
Options expired	(296,667)	1.72	(235,000)	2.57
Options exercised	-	-	(20,000)	0.28
Balance end of period	4,707,000	0.38	2,253,667	0.83

Share based compensation

The Company appointed a new CEO in May 2012. Pursuant to the terms of the contract for the new CEO, the Company will issue 2,500,000 fully paid, non- assessable common shares and grant 1,000,000 options exercisable at $0.20 for a period of five years. The options will vest over a period of six months. The share grant is subject to shareholder and regulatory approval.

In June 2012, the Company entered into consulting contracts with seven individuals, or corporations controlled by individuals, to provide various duties and services to the Company. Pursuant to the terms of the contracts, the Company will issue 3,500,000 fully paid, non-assessable common shares and grant 1,750,000 options exercisable at $0.20 for a period of five years. The options will vest over a period of six months. The share grant is subject to shareholder and regulatory approval.

There were no options granted in the first six months of fiscal 2011. Total share based compensation for the six months ended June 30, 2012 was $146,451 (2011: $302,129) which has been expensed with a corresponding amount being recorded in the equity settled share-based payments reserve.

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the six months ended June 30, 2012 consisted of:

a) The issuance of 1,000,000 common shares of the Company valued at $140,000 pursuant to the acquisition of the Maria Township graphite claims.

b) Decrease in shares to be issued of 50,000 common shares of the Company valued at $8,000 pursuant to the amended Cougar Rare Earth Element property agreement.

c) An increase in restoration, rehabilitation and environmental obligations of $30.

d) A decrease in drilling and reclamation deposits of $4.

e) A decrease in accrued exploration and evaluation expenditures of $28,011.

f) A decrease in accrued share issuance costs of $6,167.

Significant non-cash investing and financing transactions for the six months ended June 30, 2011 consisted of:

a) The issuance of 150,000 common shares of the Company valued at $61,500 pursuant to the Charge mineral property agreement.

b) The decrease in restoration, rehabilitation and environmental obligations of $141.

c) The decrease in drilling and reclamation deposits of $174.

d) An increase in accrued exploration and evaluation expenditures of $65,473.

18. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise in a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

19. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend $319,744 by December 31, 2012 as part of the flow through funding agreement for shares issued in December 2011. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments. In February 2012, the Company renounced exploration expenditures in the amount of $319,744 with an effective date of December 31, 2011.

The Company’s exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

19. COMMITMENTS AND CONTINGENCIES (Continued)

In May 2012, the Company entered into two year employment contracts with its CEO (now former CEO and current Chairman of the Board) and CFO for $10,000 and $5,000 per month respectively. The Company is committed to pay $180,000 per annum with respect to these contracts. These contracts contain clauses requiring additional payments of up to $180,000 to be made upon the occurrence of certain events such as change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these unaudited condensed interim financial statements.

20. SUBSEQUENT EVENTS

In August 2012, the Company entered into a non-binding term sheet with Uragold Bay Resources Inc. ("Uragold" or "UBR") to negotiate a definitive agreement for the purchase of UBR's Asbury mining claims. Under the Term Sheet, Bolero is required to make an initial contribution of $30,000CDN (paid) to UBR and a second cash payment of $70,000 CDN within thirty days of the signed Term Sheet. Subject to completion of final due diligence, Bolero and UBR will enter into a definitive agreement for the acquisition of the Asbury mining claims. On completion of the transaction, as consideration for the transfer and sale of the claims and related assets, Bolero will pay $200,000 CDN and issue 5,000,000 common shares to Uragold. In addition, the Company will pay a yearly royalty of 0.75% on the net production cost for a period of 10 years after the start of graphite production. The transaction is subject to regulatory approval.

In August 2012, one of the consulting contracts entered into in June 2012 was terminated. Accordingly, the 250,000 options and 500,000 shares that were to be issued pursuant to the terms of the consultant contract are cancelled.