



INTERIM FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED MAY 31, 2011 AND 2010  
(Unaudited)  
AND  
MANAGEMENT'S DISCUSSION & ANALYSIS

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## REPORT TO SHAREHOLDERS

July 27, 2011

Dear Shareholders:

Our second quarter financial statements for the six months ended May 31, 2011 and the related Management's Discussion & Analysis (MD&A) accompany this report. We remain focussed on keeping the Company active as a Canadian precious metals explorer on projects with good geological settings to host gold mineralization that cover large structural features and have known gold mineralization. The Company's near term objective is to advance an initial exploration program on our prospective Santa Maria gold property in the Dryden area of Ontario.

The Santa Maria property is located approximately 40 km southeast of the town of Dryden, consists of 19 contiguous unpatented mining claims comprising 87 claim units encompassing an area of approximately 1,392 hectares. The property hosts at least 6 known gold occurrences. Gold values ranging from trace to 0.82oz/ton (28.0 g/t) have been documented from the property and visible gold has been observed in at least 3 of the zones. One of these occurrences, the Santa Maria Shaft Zone, was explored by two shallow shafts in the early 1900s. There has been very little exploration completed in the area covered by the claims. The property covers a series of strongly developed, deeply seated east-west structures that lie along the north flank of a major northwest trending fault zone. The property also hosts intense carbonate alteration and quartz zones. These geological features and the presence of known gold mineralization suggest that the Santa Maria property has excellent potential to host an economic gold deposit. This area of northwestern Ontario has become an active gold exploration camp during the last few years and now hosts several projects with defined resources, two of which presently have categorized resources of +5 million oz./Au.

Our Nickel Offsets property near Sudbury remains subject to an option granted to URSA Major Minerals Incorporated where they have the right to earn a 70% interest in the property. URSA Major's drilling programs on the property during 2009 and 2010 generated encouraging results and are discussed further in our MD&A and on the Company's website. URSA Major is compiling their drilling and geophysical survey results from these programs into a 3-dimensional model to generate new drill targets. They are planning a further drilling and bore-hole EM program on the property during 2011.

Management is pursuing new financing opportunities for the Company to fund an exploration program on our Santa Maria project and to allow the investigation and acquisition of new projects. We are also making efforts where possible to monetize some of the Company's non-core assets. Detailed descriptions of the Company's properties can be found on the Company's website at [www.unitedreef.com](http://www.unitedreef.com).

I would like to thank shareholders for your continuing support and patience as we move the Company forward.

Yours truly,

UNITED REEF LIMITED

“Signed”

Michael D. Coulter  
President

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **A) Introduction**

This document should be read in conjunction with the unaudited financial statements of United Reef Limited ("United Reef" or the "Company") for the six months ended May 31, 2011, with comparative figures for the six months ended May 31, 2010, together with the audited financial statements for the year ended November 30, 2010 and the related annual Management's Discussion and Analysis ("MD&A"). The unaudited financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise indicated. Additional information about United Reef is available on the SEDAR website at [www.sedar.com](http://www.sedar.com), and on the Company's website at [www.unitedreef.com](http://www.unitedreef.com).

#### **B) Overview**

United Reef, which now operates solely as a mineral resource exploration company, was founded in 1948 with interests in several Ontario projects, which are described in further detail below. The Company's projects do not presently contain any known reserves or resources. The Company's common shares are listed on the TSX Venture Exchange (TSX-V) under the symbol URP.

In 2009, the Company refocused its efforts to concentrate on gold and other precious metals exploration in Canada and subsequently acquired two gold projects in Ontario – the Santa Maria Project in the Dryden area and the other in the west Timmins area (which was evaluated by drilling in early 2011 and the option for the property was then terminated). Management is currently working to generate a new gold project in Ontario. The Company owns the Nickel Offsets property (Sudbury Basin), which is under option to URSA Major Minerals Incorporated who is exploring it for base metals and PGMs with encouraging results from their 2009 and 2010 drilling programs. Some of United Reef's historic assets continue to hold promise through its retained royalty interests.

Management is continuing its efforts to raise additional working capital in the immediate future to allow the Company to advance its exploration projects and to fund its operating expenses. For the foreseeable future, the Company will remain dependent on raising new equity financing through the capital markets to fund its operations and planned exploration programs. See the "Going Concern" discussion under section "O) Significant Accounting Policies" below.

#### *Recent Developments*

Management's primary objectives are to raise additional capital to advance an initial exploration program on the Company's prospective Santa Maria gold property in the Dryden area of Ontario and to generate a new gold exploration project.

#### **C) Forward Looking Statements**

This MD&A may contain certain forward looking statements relating to, but not limited to, the Company's operations, exploration plans, anticipated equity financing, business prospects and strategies. Forward looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. Such forward-looking statements are subject to risks, uncertainties and other factors as identified under "Risks and Uncertainties" below, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such factors include financial market conditions and economic, competitive, regulatory and business conditions. The Company cannot update its assumptions and forward-looking statements until future dates to reflect outcomes not presently known and as such, readers should not place undue reliance on forward-looking statements.

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **D) Trends**

Mineral exploration is a speculative venture. There is no certainty that funds spent on exploration and development of projects will result in discoveries of commercial quantities of minerals. The long-term profitability of the Company's operations will, in part, be related to the success of its exploration programs, which may be affected by a number of factors that are beyond the control of the Company.

The exploration industry is intensely competitive in all its phases. The Company competes with many other exploration companies who have greater financial resources and experience. The market price of precious metals and other minerals is volatile and cannot be controlled.

#### **E) Risks and Uncertainties**

The Company's business is subject to risks inherent in mineral exploration and the future development of operations on its projects. The Company has identified certain risks pertinent to its business including: exploration and reserve risks; drilling and operating risks; costs and availability of materials and services; access to capital markets and the requirement for additional capital; loss of or changes to joint venture or related agreements; development of cooperative relationships with First Nation communities; economic and sovereign risks; the possible effects of less developed legal systems; reliance on strategic relationships; market risk; volatility of future metals prices; and foreign currency risk. Management attempts to monitor, assess and mitigate certain of these risks by retaining experienced professionals and using modern exploration technology.

**UNITED REEF LIMITED**
**Management's Discussion and Analysis of Financial Condition and Results of Operations**
**F) Exploration Properties**

Details of the changes in the Company's investment in exploration properties for 2011 (6 months) and 2010 (12 months) and the composition of carrying value of each property are as follows:

<u>Details of Changes for Period</u>	<u>Nickel Offsets, Sudbury, ON</u>	<u>Santa Maria Project, ON</u>	<u>Nixon- Bartleman, Timmins, ON</u>	<u>McFaulds Lake, ON</u>	<u>Other</u>	<u>Totals</u>
<b>2011 Six-Month Summary</b>						
Opening balance – December 1, 2010	\$ 78,172	\$ 39,140	\$ 71,465	\$ 1	\$ 2	\$ 188,780
Expenditures	1,279	1,789	105,581	-	-	108,649
Option payments rec'd - cash	(25,000)	-	-	-	-	(25,000)
Write-off of property, net	-	-	(177,046)	(1)	-	(177,047)
Net change during the period	(23,721)	1,789	(71,465)	(1)	-	(93,398)
Closing balance – May 31, 2011	\$ 54,451	\$ 40,929	\$ -	\$ -	\$ 2	\$ 95,382
<b>2010 Annual Summary</b>						
Opening balance – December 1, 2009	\$ 113,274	\$ 26,661	\$ -	\$ 1	\$ 3	\$ 139,939
Expenditures	2,100	-	14,965	-	-	17,065
Option payments made - cash	-	-	10,000	-	-	10,000
Option payments made - shares	-	12,500	46,500	-	-	59,000
Option payments rec'd - cash	(25,000)	-	-	-	-	(25,000)
Option payments rec'd - shares	(10,000)	-	-	-	-	(10,000)
Other recoveries	(2,202)	(21)	-	-	(1)	(2,224)
Net change during the period	(35,102)	12,479	71,465	-	-	48,841
Closing balance – November 30, 2010	\$ 78,172	\$ 39,140	\$ 71,465	\$ 1	\$ 2	\$ 188,780
<b>Composition of Carrying Value of Each Property As at May 31, 2011</b>						
<u>Active Properties</u>						
Acquisition, including option payments made	\$ 20,001	\$ 20,500	\$ 56,500	\$ -	\$ -	\$ 97,001
Assaying	9,324	490	9,238	-	-	19,052
Consulting	119,644	11,635	36,245	-	-	167,524
Drilling	198,224	-	69,691	-	-	267,915
Geology	175,102	-	-	-	-	175,102
Geophysical surveys	53,053	-	-	-	-	53,053
Management fees	5,000	-	-	-	-	5,000
Staking costs	3,434	8,304	-	-	-	11,738
Miscellaneous	43,506	-	5,372	-	-	48,878
Write-offs/write-downs	(41,430)	-	(198,444)	-	-	(239,874)
Recovery of write-off	-	-	21,398	-	-	21,398
Exploration recoveries incl. option payments rec'd	(531,407)	-	-	-	-	(531,407)
Sub-totals	54,451	40,929	-	-	-	95,380
<u>Inactive Properties</u>						
Nominal carrying value	-	-	-	-	2	2
Closing balance – May 31, 2011	\$ 54,451	\$ 40,929	\$ -	\$ -	\$ 2	\$ 95,382

## UNITED REEF LIMITED

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### F) Exploration Properties (Continued)

The Company's investment in each exploration property is discussed below:

##### *Nickel Offsets Project, Sudbury Area*

The Company holds a 100% interest in 12 patented and 5 unpatented mining claims located in Foy Township, Sudbury Mining Division, Ontario. The Company entered into an option and joint venture agreement on May 13, 2008, as amended, with URSA Major Minerals Incorporated, whereby the Company granted URSA Major an option to earn a 70% interest in the Nickel Offsets property by making total exploration expenditures on the property of \$1.25 million over a period of four years from the effective date of the agreement (March 28, 2008), making four annual cash payments of \$25,000 (paid) to the Company and issuing 100,000 (received) of its common shares to the Company. URSA Major was required to make minimum exploration expenditures of \$500,000 on the property by October 28, 2010 and gave the Company notice that they had fulfilled that obligation.

Upon URSA Major incurring \$1.25 million in exploration expenditures and making payments totaling \$100,000, the parties will form a joint venture for the further exploration and development of the property with URSA Major having a 70% interest and becoming the operator and the Company having a 30% interest. Thereafter, the parties will fund their respective pro rata interest in the joint venture for approved programs and expenditures.

Once a joint venture is formed, the Company may elect to fund its 30% interest in the joint venture or convert its interest to a 2% net smelter royalty ("NSR") and allow URSA Major to vest a 100% interest in the property. Should the Company elect to convert its interest to an NSR, URSA Major will have the right thereafter to purchase 1% of the NSR from the Company for consideration of \$1 million at any time. In the event that URSA Major fails to make the cash payments and incur \$1.25 million of expenditures on or before the fourth anniversary of the agreement, its option will terminate and the property will revert to the Company.

##### *Exploration by URSA Major*

URSA Major completed an initial drilling and borehole EM program on the property in the fall of 2009. This work identified new massive sulphide targets in close proximity to the existing mine workings. They mobilized a follow up drilling and borehole EM program in the fall of 2010 and advised that they had made cumulative expenditures of \$500,000 on the property by October 28, 2010. Highlights from this program include an intersection of 2.89 metres of nickel rich massive sulphides and 2 metres of platinum group metals mineralization. URSA Major has disclosed their intention to mobilize a follow-up drilling program on the property during 2011.

##### *Property Geology*

The Nickel Offsets property, which hosts the past-producing Nickel Offsets Mine (1943-1957), covers a 2.5 km strike length of the Foy Offset Dike and to a projected depth of approximately 2,000 m. The Foy Offset Dike is the largest of all known radial offset dikes emanating from the Sublayer of the Sudbury Igneous Complex ("SIC") and has been traced for approximately 28 km from the North Range of the SIC into the surrounding Archean granitic footwall. Striking west-northwest, the Foy Offset Dike is reasonably well exposed through Howell and Foy townships as far as the Nickel Offsets Mine. Northwest of the mine, the extension of the dike is a matter of interpretation but it is generally accepted that the dike extends a short distance into Tyrone Township after being laterally displaced northwards by the Sandcherry Creek Fault. Dip is steep, averaging 75-80° to the north. The down-dip extent and continuity of the dike appears to be good with diamond drilling intersecting the dike at depths of at least 750 metres in the area of the Nickel Offsets Mine.

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **F) Exploration Properties (Continued)**

##### ***Santa Maria Project, Ontario***

Effective October 29, 2009 the Company entered into an option agreement to acquire a 100% interest in five mining claims, consisting of 11 claim units (the "Santa Maria Claims") in the Kenora Mining Division, northwestern Ontario. The Santa Maria Claims are presently owned by Robert J. Fairservice (the "Optionor") and are located approximately 45 km southeast of Dryden, Ontario.

The Optionor granted the Company the right and option to acquire a 100% interest in the Santa Maria Claims whereby the Company agreed to make cumulative exploration expenditures on the property of \$150,000 over a three-year period (during the first, second and third years of the option, \$25,000, \$50,000 and \$75,000, respectively), make cash payments totaling \$30,000 (\$5,000 upon regulatory approval, \$10,000 on October 29, 2010 and \$15,000 on October 29, 2011) and issue 450,000 common shares of the Company (100,000 upon regulatory approval, 150,000 on October 29, 2010 and 200,000 on October 29, 2011) to the Optionor over the three-year term of the option.

The Company made the initial cash payment of \$5,000 and issued 100,000 common shares of the Company valued at \$3,000 to the Optionor upon receipt of regulatory approval in November 2009. The \$8,000 acquisition cost was capitalized to the exploration property in 2009. The Optionor has retained a 2% NSR on the Santa Maria Claims and the Company has the right to purchase 1% of the NSR for payment of \$500,000.

Effective October 2, 2010, the Company entered into an amending agreement with the Optionor of the Santa Maria property. The amendment provided that the cash option payment of \$10,000 due to the Optionor on October 29, 2010 would be settled by the issuance of 200,000 common shares of the Company. The Company issued these shares on October 15, 2010 and recorded this option payment at the \$8,000 fair value based on the closing price of the Company's shares on that date. In addition, the Company's obligation for exploration expenditures on the property during the first year was extended so that the Company must now complete a total of \$75,000 of expenditures on the property by October 29, 2011.

The Company issued 150,000 common shares to the Optionor on October 18, 2010 in satisfaction of shares due to the Optionor on October 29, 2010. The Company recorded this option payment at the \$4,500 fair value based on the closing price of the Company's shares on that date.

The Company staked fourteen mining claims in November 2009, consisting of 76 claim units contiguous to the Santa Maria claims, and granted the Optionor a 1% NSR on these claims.

The Company is planning an exploration program for the project during 2011 of sufficient size to meet the exploration and assessment work commitments coming due in 2011.

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **F) Exploration Properties (Continued)**

##### **Santa Maria Project, Ontario (Continued)**

###### **Property Geology**

The Santa Maria Property lies within the Eagle-Wabigoon-Manitou Lakes Greenstone Belt, which is one of a series of six interconnected greenstone belts that make up the western part of the Wabigoon Subprovince in Northwestern Ontario. Numerous elliptical shaped granitic batholiths thought to be derived from the same parent magmas as the volcanic rocks are enclosed within the greenstone belts. The Revell Lake Granite batholith is located approximately 5 km to the east of the Santa Maria Property. The greenstone belts are made up of 60 – 80% untramafic to felsic volcanic rocks of various types and 20 - 40% clastic and chemical metasediments. All of these rocks have been extensively deformed and intruded locally by syntectonic and post tectonic plutons, dykes and small bodies of ultramafic to felsic composition.

The Santa Maria Property is underlain by calc-alkaline metavolcanics of the Archean aged Kawashegamuk Lake Group. These rocks, a lower mafic sequence and an upper felsic to intermediate sequence, have been folded around the eastwest trending axis of the Tabor Lake anticline. All of these rocks have been intruded by dykes and small bodies of hypabyssal felsic rocks, most of which are elongated, also along an east-west trending axis. A very strong northwest trending fault/shear structure passes along the southwest boundary of the claim group. The axis of this structure follows Kawashegamuk Lake (also referred to as Long Lake) and several gabbroic intrusive bodies are located along or proximal to the Kawashegamuk Lake structure. This structure is also coincident with the axis of a zone of intense carbonate alteration that affects the mafic intrusive and volcanic rocks, as well as younger quartz and quartz-feldspar porphyry bodies in the area.

##### ***Nixon-Bartleman Project, Ontario***

The Company carried out an initial, shallow-spaced drilling program on the Nixon-Bartleman gold property during February 2011. The program was designed to test two distinct types of gold mineralization on the property and was completed on March 2, 2011 with the drilling of 7 holes totalling 597 metres.

Following a review and evaluation of the program results, the Company decided to terminate its option for the property and write off the \$198,444 of cumulative capitalized costs for the property as at February 28, 2011. During the three months ended May 31, 2011, the Company reduced its initial write-off to \$177,046, through a reversal of over-accruals and negotiated credits from suppliers.

##### ***McFaulds Lake Project, Northwestern Ontario***

The Company holds a 45% joint venture interest in five unpatented mining claims, consisting of 70 claim units in the McFauld's Lake area, in the James Bay Lowlands of northwestern Ontario. Management has determined that it will not participate in future exploration of this property and has written off the remaining nominal carrying value of the property as at May 31, 2011.

## UNITED REEF LIMITED

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### G) Financial Position

The following table shows selected financial information with respect to United Reef's financial results and financial position, prepared in accordance with Canadian GAAP:

<u>As At</u>	<u>May 31,</u> <u>2011</u>	<u>November 30,</u> <u>2010</u>	<u>May 31,</u> <u>2010</u>
Working capital (deficiency)	\$ (49,336)	\$ 57,278	\$ (31,278)
Investment in exploration properties	95,382	188,780	161,568
Total assets	152,505	336,984	216,366
Capital stock, warrants & contributed surplus	21,358,750	21,320,875	21,163,186
Deficit	(21,427,809)	(21,165,541)	(21,100,120)

#### H) Quarterly Results

Summarized quarterly results for United Reef for the past eight quarters, prepared in accordance with Canadian GAAP are as follows:

<u>Quarter Ended</u>	<u>May 31,</u> <u>2011 (Q2)</u>	<u>February 28,</u> <u>2011 (Q1)</u>	<u>November 30,</u> <u>2010 (Q4)</u>	<u>August 31,</u> <u>2010 (Q3)</u>
Additions to (recoveries of) investments in exploration properties, net *	\$ (46,033)	\$ 129,682	\$ 27,612	\$ (400)
Net income (loss)	103	(262,371)	(53,683)	(11,738)
Basic and diluted loss per share	0.000	(0.003)	(0.000)	(0.000)

<u>Quarter Ended</u>	<u>May 31,</u> <u>2010 (Q2)</u>	<u>February 28,</u> <u>2010 (Q1)</u>	<u>November 30,</u> <u>2009 (Q4)</u>	<u>August 31,</u> <u>2009 (Q3)</u>
Additions to (recoveries of) investments in exploration properties, net *	\$ 17,262	\$ 4,367	\$ 26,961	\$ 420
Net loss	(26,802)	(51,721)	(66,326)	(192,814)
Basic and diluted loss per share	(0.000)	(0.000)	(0.000)	(0.002)

\* Excluding write-downs of properties

The Company is in the exploration stage and generates no operating revenues.

The fluctuations in the quarterly net loss are mainly due to the normal timing of expenditures.

As noted in section M) Related Party Transactions, certain management and administrative fees have been suspended effective December 1, 2010 due to the Company's limited cash resources.

## UNITED REEF LIMITED

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### H) Quarterly Results (Continued)

In addition, the quarterly results are affected by the timing of stock options since the associated cost is recognized at the time of vesting. Stock-based compensation, a non-cash expense, was recorded in the following quarterly periods: Q2-2011 - \$4,250, Q1-2011 - \$33,000, Q4-2010 - \$6,600, Q1-2010 - \$4,201, Q4-2009 - \$2,400, Q3-2009 - \$2,808 and Q2-2009 - \$2,650.

The quarterly results are also affected by fair value adjustments of held-for-trading marketable securities as well as write-offs/write-downs of investments in exploration properties, both non-cash items. A write-up of a marketable security was recorded in Q4-2010 of \$3,000. Write-offs/write-downs/write-ups of investments in exploration properties were recorded in Q2-2011, Q1-2011, Q4-2010 and Q3-2009, for a \$21,398 gain, \$198,444 loss, \$1 loss and \$145,385 loss, respectively.

The quarterly results are also affected by income tax provisions, which currently all relate to non-cash future income tax adjustments due to the Company's current non-taxable position. The only income tax provision recorded in the last eight quarters was a recovery of \$24,375 in Q4-2010.

#### D) Results of Operations for the Three Months Ended May 31, 2011

##### *Net Income (Loss)*

The net income in Q2-2011 is \$103 as compared to the Q2-2010 net loss of \$26,802. The decrease in net loss of \$26,905 is primarily due to reduced administrative expenses in Q2-2011 (see below), and stock compensation expense of \$4,250 and a recovery of write-off of exploration property of \$21,398 both occurring in Q2-2011 (see section H, Quarterly Results).

##### *Administrative Expenses*

Total administrative expenses of \$21,295 in Q2-2011 is 35% lower than the Q2-2010 expense of \$32,545. The net decrease of \$11,250 is primarily due to reduced management fees, administration and professional fees in 2011, and also increased stock-based compensation in 2011 as further explained below.

##### *Administration*

Administration of \$8,597 in Q2-2011 is 39% lower than the Q2-2010 expense of \$14,188. The decrease of \$5,591 is primarily due to a \$4,000 reduction in administrative fees paid to a related party and a \$1,591 net increase in other expenses incurred, as outlined in the table below. See also section M) Related Party Transactions.

Breakdown of administration expenses by period:

<u>Three Months Ended May 31</u>	<u>2011</u>	<u>2010</u>
Administrative fees – related party	\$ -	\$ 4,000
Accounting fees – CFO	3,495	1,800
Office and general	1,779	3,750
Rent	3,135	4,445
Travel and accommodation	188	193
	<u>\$ 8,597</u>	<u>\$ 14,188</u>

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **I) Results of Operations for the Three Months Ended May 31, 2011 (Continued)**

##### *Management Fees*

Management fees of \$Nil in Q2-2011 are 100% lower than the Q2-2010 expense of \$4,000. The decrease of \$4,000 is due to reduced fees paid/accrued to a related party. See also section "M) Related Party Transactions."

##### *Stock-Based Compensation*

Stock-based compensation of \$4,250 in Q2-2011 compares to a Q2-2010 expense of \$Nil.

#### **J) Liquidity and Capital Resources**

##### *Liquidity*

As at May 31, 2011, the Company had cash of \$30,153 compared with cash resources of \$92,214 as at November 30, 2010, a decrease of \$62,061 or 67%. As at May 31, 2011, the Company had a working capital deficiency of \$49,336 (defined as the difference between current assets and current liabilities) compared with a surplus of \$57,278 at November 30, 2010, a decrease of \$106,614 or -186%.

##### *Capital Resources*

In Q1-2011, the Company raised \$25,000 (2010 - Nil) through non-brokered private placements, to finance exploration activities. The private placements were for units comprised of flow-through shares, and warrants to acquire non-flow-through common shares. A description of the private placement is as follows:

On December 30, 2010, the Company issued 500,000 units to investors at a price of \$0.05 per unit for gross proceeds of \$25,000, with each unit being comprised of one flow-through common share and one common share purchase warrant. Each warrant entitles the holder to purchase one non-flow-through common share at a price of \$0.10 each for a period of 24 months following the closing of the offering. The common shares and warrants comprising the units are subject to a 4-month restricted sale period. 100,000 of the units were purchased by an officer of the Company, on the same basis as other investors. Of the \$25,000 gross proceeds, 100% was attributable to the issuance of flow-through shares. The Company renounced this amount to investors on December 31, 2010 and it has pledged to incur an equal amount of qualifying exploration expenditures prior to January 1, 2012.

##### *Future Funding Sources and Requirements*

The Company's main sources of funding are equity markets and the exercise of outstanding warrants and options. Additional funding is potentially available from receipt of option payments due to the Company, sale of marketable securities and sale of non-core assets. As at May 31, 2011, the Company had cash resources of \$30,153 and will require additional funds to meet its planned exploration, working capital and administrative expenses during fiscal 2011. Management believes that the Company has the ability to generate sufficient funds in the short term to maintain the Company's capacity and advance its exploration plans and to develop and fund new projects for future growth. The Company's ability to raise these funds could be impacted by the market, economic and other conditions described in the discussion under section "E) Risks and Uncertainties" above.

The Company's presently estimated minimum cash requirement during the balance of fiscal 2011 is in the order of \$265,000 and consists of the following:

- general and administrative expenses for balance of year (excluding management fees) \$75,000.
- cash payments coming due to maintain property option agreements \$15,000.
- planned exploration expenditures (minimum to maintain properties in good standing) \$75,000.
- for working capital \$100,000.

## UNITED REEF LIMITED

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### K) Financial Instruments

The Company has not entered into any specialized financial agreements to minimize its investment risk, currency risk or commodity risk. There are no off-balance sheet arrangements. The principal financial instrument affecting the Company's financial condition and results of operations is currently its cash and short-term money market investments. The Company also has a marketable security, which it has classified as a "held-for-trading" financial asset. As at May 31, 2011, the fair value of the marketable security was approximately \$13,000. This asset was sold in July 2011 for net proceeds of \$12,641.

#### L) Share Data

The following table sets out the number of shares, warrants and options outstanding at the dates indicated.

	<u>May 31,</u> <u>2011</u>	<u>Subsequently</u> <u>Forfeited/</u> <u>Expired/</u> <u>Granted</u>	<u>July 27,</u> <u>2011</u>
Common shares outstanding	88,909,980	-	88,909,980
Potential issuance of common shares			
Warrants	11,189,000	(8,049,000)	3,140,000
Stock options granted to directors, officers and employees/consultants	2,400,000	400,000	2,800,000
Fully diluted # of common shares outstanding	<u>102,498,890</u>	<u>(7,649,000)</u>	<u>94,849,980</u>

#### *Warrant transactions After the Quarter*

On June 22, 2011, 5,799,000 warrants expired unexercised. On July 2, 2011, an additional 2,250,000 warrants expired unexercised.

#### *Stock Option Transactions During the Quarter*

Stock options held by a former director (525,000) and a former officer (200,000), both of whom resigned during December 2010, were forfeited during March 2011. In addition, 1,000,000 stock options held by two directors (400,000 each) and a consultant (200,000) expired on April 1, 2011 unexercised.

#### *Stock Option Transactions After the Quarter*

On July 5, 2011, 400,000 stock options were granted to a director.

#### *Outstanding Warrants (3,140,000)*

- 2,440,000 warrants outstanding, each exercisable into one common share at \$0.10 until November 11, 2012.
- 200,000 warrants outstanding, each exercisable into one common share at \$0.10 until November 21, 2012.
- 500,000 warrants outstanding, each exercisable into one common share at \$0.10 until December 29, 2012.

#### *Outstanding Options (2,800,000)*

- 400,000 options outstanding (all presently exercisable), each exercisable at \$0.10 until August 6, 2012.
- 2,000,000 options outstanding (500,000 presently exercisable), each exercisable at \$0.10 until December 23, 2013.
- 400,000 options outstanding (100,000 presently exercisable), each exercisable at \$0.10 until July 4, 2014.

#### *Potentially Issuable Shares for Property Option Payments*

The Company has agreed to issue a total of 200,000 common shares from treasury for future property option payments, on the following basis (see section "F) Exploration Properties"):

- 200,000 shares on October 29, 2011 (Santa Maria Project)

If these potentially issuable shares were included in the share data table above, the fully diluted number of common shares outstanding as at July 27, 2011 would be increased by 200,000 to 95,049,980.

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **M) Related Party Transactions**

The Company's President (Michael D. Coulter) and the former Secretary (resigned December 2010) provide(d) their respective management and administrative services through a corporation owned by them (M.D. Coulter & Associates Inc.), pursuant to a fee-for-services agreement. The agreement, which provides for standard monthly fees as agreed upon by the parties from time to time, may be terminated by either party upon ninety (90) days written notice to the other party or upon seven (7) days' notice for unremedied cause. Effective, December 1, 2010 the fees for the monthly services of the President were suspended. The former Secretary is no longer providing services to the Company.

During the period, the Company was charged management fees of \$Nil (2010 - \$4,000) by the related party. At May 31, 2011, the Company was indebted to this corporation for a total of \$121,000 (2010 - \$101,324) in respect of these past services. The related party has agreed to defer payment of the \$121,000 (which has no fixed terms of payment, is unsecured and non-interest bearing) until after May 31, 2012. The \$121,000 deferred balance relates to the following fiscal periods: 2008 - \$36,000; 2009 - \$36,000; and 2010 - \$49,000.

During the period, the Company was charged \$Nil (2010 - \$Nil) for professional services by a law firm of which a former Director of the Company is a partner. The balance owing to this law firm of \$20,000 (2010 - \$20,000) is included in accounts payable at May 31, 2011. This amount is unsecured, non-interest-bearing and is due on demand.

In addition, during the period the Company's Chief Financial Officer charged accounting fees to the Company in the amount of \$3,495 (2010 - \$1,800), which amount is included in administration expense for the three-month period ended May 31, 2011. Accounts payable and accrued liabilities as at May 31, 2011 includes \$2,288 (2010 - \$Nil) payable to this related party.

Management believes the above transactions were conducted in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

#### **N) Commitments and Contingencies**

##### *Environmental Contingencies*

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 has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

As at November 30, 2010, the Company was committed to incur, on a best efforts basis, \$72,500 in qualifying Canadian exploration expenditures pursuant to private placements for which flow-through proceeds had been received prior to November 30, 2010 and renounced to the investors effective December 31, 2010. As at November 30, 2010, the Company had incurred qualifying expenditures of approximately \$7,000. In December 2010, the Company issued an additional \$25,000 of flow-through shares increasing its remaining expenditure commitment to \$90,500, which amount must be spent prior to January 1, 2012.

Management believes that the Company has incurred sufficient qualifying exploration expenditures, in fiscal 2011, to satisfy the \$90,500 commitment. The Company has indemnified the subscribers for any tax related amounts that become payable by them as a result of the Company not meeting its flow-through expenditure commitments.

## **UNITED REEF LIMITED**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations**

#### **O) Significant Accounting Policies**

The Company's significant accounting policies, as presented in Note 2 to its annual audited financial statements for the years ended November 30, 2010 and 2009, include the following policies, which are critical for a proper understanding of the Company's financial position and the results of its operations:

##### *Going Concern*

The Company now operates solely in the mineral resource exploration business and as is common with companies in this sector, the Company's ability to continue on-going exploration activities and continue operations as a going concern, is dependent upon obtaining necessary financing from time to time. Should the Company be unable to continue as a going concern, amounts realized from the disposal of its assets on a liquidation basis may be significantly less than their carrying values.

##### *Use of Estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when exploration and development costs should be capitalized or expensed, and affect estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants and income tax accounts. The Company regularly reviews its estimates and assumptions, however, actual results could differ from these estimates and these differences could be material.

The factors affecting stock-based compensation include estimates of when stock options might be exercised and stock price volatility. The timing for exercise of options is out of the Company's control and will depend on a variety of factors, including the market value of the Company's shares and financial objectives of the stock-based instrument holders. The Company used historical data to determine volatility in accordance with the Black-Scholes option-pricing model. However, the future volatility is uncertain and the model has its limitations.

The Company's recoverability of its recorded value of its exploration properties and associated exploration expenses is based on current market conditions for metals, underlying exploration potential associated with the properties and future costs that may be required for ultimate realization through operations or by sale. The Company operates in an industry that is dependent on a number of factors including environmental, legal and political risks, the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or the proceeds of disposition thereof.

##### *Flow-through Financing*

The Company periodically finances a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and warrants and the related exploration costs have been charged to interest in mineral properties. Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation reduce capital stock and warrants.

## UNITED REEF LIMITED

### Management's Discussion and Analysis of Financial Condition and Results of Operations

#### P) New Accounting Changes

The Company did not choose to early adopt any accounting standards changes that are effective in future periods.

#### Q) Future Accounting Changes

##### *International Financial Reporting Standards*

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed January 1, 2011 as the mandatory changeover date to International Financial Reporting Standards ("IFRS") for all Canadian publicly accountable enterprises. Specifically, the Company will prepare IFRS financial statements for its interim periods and fiscal year ends commencing on and after December 1, 2011 with comparative information for fiscal 2011 restated under IFRS. The Company is continuing to assess and develop its plans for adoption of IFRS and is monitoring the progress of early adopters within its industry.

The Company's IFRS implementation project consists of three phases:

- Phase I – the preparation of a preliminary impact assessment to identify key areas that may be impacted by the transition to IFRS.
- Phase II – the selection of IFRS accounting policies by management and review by the audit committee; the quantification of the impact of changes on our existing accounting policies on the opening IFRS balance sheet and the development of draft IFRS financial statements.
- Phase III – the implementation of the required changes to information systems and business policies and procedures. This will enable the Company to collect the financial information necessary to prepare IFRS financial statements and obtain audit committee approval of IFRS financial statements.

Management has completed Phase I and is now involved in Phase II work. To date, it has identified the following key areas where changes are likely to occur in the Company's financial reporting under IFRS, as compared to Canadian GAAP:

<u>Area of Change</u>	<u>Nature of Change</u>
Financial statement formats	- Renaming of statements and modified formats
Exploration property interests	- Presentation of exploration and evaluation expenditures; new impairment tests
Flow-through shares	- Recognition and timing of future income taxes relating to flow-through renunciations to investors
Warrants	- Valuation of warrants and related equity disclosures
Share-based compensation	- Recording of share-based compensation credit; graded vesting provisions
Income taxes	- Measurement of income taxes and related disclosures
Note disclosures	- General enhancement of note disclosures to provide readers with more information about accounting policies used and individual financial statement items

Based on findings from Phase I (the diagnostic phase), management does not expect that adoption of IFRS will have a significant impact on the Company's present systems and processes. It plans to implement minor changes to the Company's general ledger account descriptions and may also modify some calculation methodologies currently in use for specific financial statement items. As final IFRS accounting policies are selected, appropriate changes will be made to ensure the integrity of internal control over financial reporting including disclosure controls and procedures.

**UNITED REEF LIMITED**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Q) Future Accounting Changes (Continued)**

*Other CICA Standards*

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards are effective for fiscal years beginning on or after January 1, 2011. Management believes that these new standards, if adopted, would not have a material impact on the Company's Canadian GAAP financial statements. The Company will not be required to adopt these new CICA accounting standards prior to its changeover to IFRS.

July 27, 2011

Toronto, Ontario

Unaudited Interim Financial Statements of

## UNITED REEF LIMITED (A Development Stage Company)

May 31, 2011 and 2010

### Responsibility for Financial Statements

The accompanying financial statements for United Reef Limited (the "Company") have been prepared by management in accordance with Canadian generally accepted accounting principles consistently applied. The most significant of these accounting principles have been set out in the November 30, 2010 audited financial statements. Only changes in accounting information have been disclosed in these financial statements. These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

### Auditors' Involvement

In accordance with National Instrument 51-102, Part 4, sub-section 4.3(3)(a), notice is hereby given that the accompanying interim financial statements of the Company for the six-month periods ended May 31, 2011 and May 31, 2010 have not been reviewed by the Company's auditors.

UNITED REEF LIMITED  
(A Development Stage Company)

Table of Contents

	<b><u>PAGE</u></b>
Unaudited Interim Balance Sheet	2
Unaudited Interim Statements of Operations, Comprehensive Loss and Deficit	3
Unaudited Interim Statements of Cash Flows	4
Unaudited Notes to the Interim Financial Statements	5 – 16

**UNITED REEF LIMITED**  
(A Development Stage Company)  
**INTERIM BALANCE SHEETS AS AT**  
(Unaudited – Prepared by Management)

	May 31, 2011	November 30, 2010
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 30,153	\$ 92,214
Marketable security (Note 4)	13,000	13,000
Sundry receivables and prepaid expenses	8,075	12,714
	<u>51,228</u>	<u>117,928</u>
<b>EQUIPMENT</b> (Note 5)	<b>5,895</b>	5,901
<b>INVESTMENT IN EXPLORATION PROPERTIES</b> (Note 6)	<b>95,382</b>	188,780
<b>FUTURE INCOME TAXES</b>	-	24,375
	<u>\$ 152,505</u>	<u>\$ 336,984</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 100,564	\$ 49,700
Due to related party (Note 8)	-	10,950
	<u>100,564</u>	<u>60,650</u>
<b>LONG-TERM</b>		
Due to related party (Note 8)	121,000	121,000
	<u>221,564</u>	<u>181,650</u>
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock (Note 7b))	20,510,340	20,508,526
Warrants (Note 7d))	121,215	122,404
Contributed surplus (Note 7f))	727,195	689,945
Deficit	(21,427,809)	(21,165,541)
	<u>(69,059)</u>	<u>155,334</u>
	<u>\$ 152,505</u>	<u>\$ 336,984</u>

Continuance of Operations (Note 1)  
Commitments and Contingencies (Note 12)

**APPROVED ON BEHALF OF THE BOARD:**

Signed "MICHAEL D. COULTER" , Director

Signed "WILLIAM W. OLLERHEAD" , Director

See accompanying notes to the interim financial statements.

# UNITED REEF LIMITED

Page 3

(A Development Stage Company)

## INTERIM STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

(Unaudited – Prepared By Management)

	<b>Three Months Ended May 31, 2011</b>	Three Months Ended May 31, 2010	<b>Six Months Ended May 31, 2011</b>	Six Months Ended May 31, 2010
<b>EXPENSES</b>				
Management fees (Note 8)	\$ -	\$ 4,000	\$ -	\$ 16,000
Administration (Note 8)	<b>8,597</b>	14,188	<b>17,298</b>	33,561
Stock-based compensation	<b>4,250</b>	-	<b>37,250</b>	4,201
Insurance	<b>1,620</b>	1,620	<b>3,240</b>	3,240
Shareholders' information and filing fees	<b>1,742</b>	3,818	<b>14,408</b>	14,416
Transfer agent fees	<b>2,295</b>	2,588	<b>5,113</b>	5,369
Professional fees	-	4,914	-	4,914
Promotion	<b>2,041</b>	979	<b>6,413</b>	1,689
Amortization	<b>750</b>	438	<b>1,500</b>	876
<b>LOSS BEFORE THE FOLLOWING</b>	<b>(21,295)</b>	(32,545)	<b>(85,222)</b>	(84,266)
Interest and other income	-	300	-	300
Recovery (write-off) of exploration property (Note 6c)	<b>21,398</b>	5,443	<b>(177,046)</b>	5,443
<b>NET INCOME (LOSS) AND COMPREHENSIVE LOSS</b>	<b>103</b>	(26,802)	<b>(262,268)</b>	(78,523)
<b>DEFICIT, BEGINNING OF PERIOD</b>	<b>(21,427,912)</b>	(21,073,318)	<b>(21,165,541)</b>	(21,021,597)
<b>DEFICIT, END OF PERIOD</b>	<b>\$ (21,427,809)</b>	\$ (21,100,120)	<b>\$ (21,427,809)</b>	\$ (21,100,120)
<b>Basic and diluted income (loss) per common share</b>	<b>\$ 0.000</b>	\$ (0.000)	<b>\$ (0.003)</b>	\$ (0.000)
<b>Weighted-average number of common shares – basic and diluted (Note 7g)</b>	<b>88,909,980</b>	84,669,978	<b>88,827,563</b>	84,398,000

See accompanying notes to the interim financial statements.

**UNITED REEF LIMITED**  
(A Development Stage Company)  
**INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited – Prepared by Management)

	<b>Three Months Ended May 31, 2011</b>	Three Months Ended May 31, 2010	<b>Six Months Ended May 31, 2011</b>	Six Months Ended May 31, 2010
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	\$ 103	\$ (26,802)	\$ (262,268)	\$ (78,523)
Items not involving cash				
Amortization	750	438	1,500	876
Stock-based compensation	4,250	-	37,250	4,201
Write-off (recovery) of exploration property	(21,398)	-	177,047	
	<u>(16,295)</u>	(26,364)	<u>(46,471)</u>	(73,446)
Changes in non-cash working capital				
Decrease (increase) in sundry receivables and prepaid expenses	18,870	24	4,639	(8,998)
Increase (decrease) in accounts payable and accrued liabilities (iii)	9,398	(11,151)	50,864	(2,407)
Increase (decrease) in amounts due to related party	-	9,391	(10,950)	23,806
	<u>11,973</u>	(28,100)	<u>(1,918)</u>	(61,045)
<b>FINANCING ACTIVITIES</b>				
Issuance of private placement units	-	-	25,000	-
<b>INVESTING ACTIVITIES</b>				
Purchase of equipment	-	-	(1,494)	-
Expenditures on exploration properties, net of recoveries (i)(ii)(iii)	(33,966)	11,238	(83,649)	6,871
	<u>(33,966)</u>	11,238	<u>(85,143)</u>	6,871
<b>DECREASE IN CASH</b>	<b>(21,993)</b>	<b>(16,862)</b>	<b>(62,061)</b>	<b>(54,174)</b>
<b>CASH – BEGINNING OF PERIOD</b>	<b>52,146</b>	<b>42,016</b>	<b>92,214</b>	<b>79,328</b>
<b>CASH – END OF PERIOD</b>	<b>\$ 30,153</b>	<b>\$ 25,154</b>	<b>\$ 30,153</b>	<b>\$ 25,154</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>				
(i) Issuance of shares for exploration property interest	\$ -	\$ 38,500	\$ -	\$ 38,500
(ii) Receipt of shares as option payment, credited to exploration property	-	(10,000)	-	(10,000)
(iii) (Decrease) in accrued exploration expenditures	(80,000)	-	-	-

See accompanying notes to the unaudited interim financial statements.

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared by Management)

**1. GOING CONCERN**

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business.

For the six months ended May 31, 2011, the Company incurred a net loss of \$262,268 and at May 31, 2011, reported a negative shareholders' equity of \$69,059. The Company has no income or cash flow from operations, although it periodically receives property option payments under existing agreements. As at May 31, 2011, the Company had a working capital deficiency of \$49,336, which is insufficient to fund its short-term or long-term activities. The continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Such circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management believes that sufficient working capital will be obtained from external financing sources to meet the Company's current and future liabilities and commitments as they become due. There is a risk, however, that additional financing may not be available on a timely basis or on terms acceptable to the Company.

The Company's ability to continue as a going concern is dependent upon securing new funding to meet its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These financial statements do not reflect the adjustments to the carrying value of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate and these adjustments could be material.

**2. BASIS OF PRESENTATION**

These unaudited financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") for interim financial information and are based on accounting principles and practices consistent with those used in the preparation of the annual audited financial statements. Accordingly, they do not include all of the information and notes to the financial statements required under Canadian GAAP and they should be read in conjunction with the annual financial statements of the Company for its year ended November 30, 2010. The balance sheet as at November 30, 2010 has been derived from the audited financial statements as at that date, but does not include all the information and footnotes required by Canadian GAAP for annual financial statements.

Operating results for the six months ended May 31, 2011 are not necessarily indicative of the results that may be expected for the full year ended November 30, 2011.

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**3. CHANGES IN ACCOUNTING POLICIES**

The Company did not choose to early adopt in 2011 any new accounting standards changes that are effective in future periods.

On February 13, 2008 the Accounting Standards Board (“AcSB”) confirmed January 1, 2011 as the mandatory changeover date to International Financial Reporting Standards (“IFRS”) for all Canadian publicly accountable enterprises. Specifically, the Company will prepare IFRS financial statements for its interim periods and fiscal year ends commencing on December 1, 2011 with comparative information for 2010 restated under IFRS. The Company is continuing to assess and develop its plans for adoption of IFRS; accordingly, the financial reporting impact of the Company’s transition to IFRS cannot be reasonably estimated at this time.

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards are effective for fiscal years beginning on or after January 1, 2011. Management believes that these new standards, if adopted, would not have a material impact on the Company’s Canadian GAAP financial statements. The Company will not be required to adopt these new CICA accounting standards prior to its changeover to IFRS.

**4. MARKETABLE SECURITY**

	<u>May 31,</u> <u>2011</u>	<u>November 30,</u> <u>2010</u>
URSA Major Minerals Incorporated - 100,000 common shares	\$ 13,000	\$ 13,000

URSA Major Minerals Incorporated (“URSA Major”) is a publicly traded company listed on the Toronto Stock Exchange (TSX:UMJ). In July 2011, the Company sold this investment for net proceeds of \$12,641.

**5. EQUIPMENT**

<u>As at May 31, 2011</u>	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Book Value</u>
Computer equipment	\$ 9,435	\$ 8,057	\$ 1,378
Office furniture and equipment	14,726	10,209	4,517
	<u>\$ 24,161</u>	<u>\$ 18,266</u>	<u>\$ 5,895</u>
<u>As at November 30, 2010</u>	<u>Cost</u>	<u>Accumulated</u> <u>Amortization</u>	<u>Net</u> <u>Book Value</u>
Computer equipment	\$ 7,941	\$ 7,457	\$ 484
Office furniture and equipment	14,726	9,309	5,417
	<u>\$ 22,667</u>	<u>\$ 16,766</u>	<u>\$ 5,901</u>

Continued...

# UNITED REEF LIMITED

(A Development Stage Company)

## NOTES TO THE INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

### 6. INVESTMENT IN EXPLORATION PROPERTIES

Details of the changes in the Company's investment in exploration properties for 2011 (6 months) and 2010 (12 months), and the composition of carrying value as at May 31, 2011, are as follows:

<u>Details of Changes for Period</u>	<u>Nickel Offsets, Sudbury, ON</u> (Note 6a))	<u>Santa Maria Project, ON</u> (Note 6b))	<u>Nixon-Bartleman, Timmins, ON</u> (Note 6c))	<u>McFaulds Lake, ON</u> (Note 6d))	<u>Other</u>	<u>Totals</u>
<b>2011 Six-Month Summary</b>						
Opening balance – December 1, 2010	\$ 78,172	\$ 39,140	\$ 71,465	\$ 1	\$ 2	\$ 188,780
Expenditures	1,279	1,789	105,581	-	-	108,649
Option payments rec'd - cash	(25,000)	-	-	-	-	(25,000)
Write-off of property, net	-	-	(177,046)	(1)	-	(177,047)
Net change during the period	(23,721)	1,789	(71,465)	(1)	-	(93,398)
Closing balance – May 31, 2011	\$ 54,451	\$ 40,929	\$ -	\$ -	\$ 2	\$ 95,382

<b>2010 Annual Summary</b>						
Opening balance – December 1, 2009	\$ 113,274	\$ 26,661	\$ -	\$ 1	\$ 3	\$ 139,939
Expenditures	2,100	-	14,965	-	-	17,065
Option payments made - cash	-	-	10,000	-	-	10,000
Option payments made - shares	-	12,500	46,500	-	-	59,000
Option payments rec'd - cash	(25,000)	-	-	-	-	(25,000)
Option payments rec'd - shares	(10,000)	-	-	-	-	(10,000)
Other recoveries	(2,202)	(21)	-	-	(1)	(2,224)
Net change during the period	(35,102)	12,479	71,465	-	-	48,841
Closing balance – November 30, 2010	\$ 78,172	\$ 39,140	\$ 71,465	\$ 1	\$ 2	\$ 188,780

<u>Composition of Carrying Value of Each Property As at May 31, 2011</u>	<u>Nickel Offsets, Sudbury, ON</u> (Note 6a))	<u>Santa Maria Project, ON</u> (Note 6b))	<u>Nixon-Bartleman, Timmins, ON</u> (Note 6c))	<u>McFaulds Lake, ON</u> (Note 6d))	<u>Other</u>	<u>Totals</u>
<b>Active Properties</b>						
Acquisition, including option payments made	\$ 20,001	\$ 20,500	\$ 56,500	\$ -	\$ -	\$ 97,001
Assaying	9,324	490	9,238	-	-	19,052
Consulting	119,644	11,635	36,245	-	-	167,524
Drilling	198,224	-	69,691	-	-	267,915
Geology	175,102	-	-	-	-	175,102
Geophysical surveys	53,053	-	-	-	-	53,053
Management fees	5,000	-	-	-	-	5,000
Staking costs	3,434	8,304	-	-	-	11,738
Miscellaneous	43,506	-	5,372	-	-	48,878
Write-offs/write-downs	(41,430)	-	(198,444)	-	-	(239,874)
Recovery of write-off	-	-	21,398	-	-	21,398
Exploration recoveries including option payments received	(531,407)	-	-	-	-	(531,407)
Sub-totals	54,451	40,929	-	-	-	95,380
<b>Inactive Properties</b>						
Nominal carrying value	-	-	-	-	2	2
Closing balance – May 31, 2011	\$ 54,451	\$ 40,929	\$ -	\$ -	\$ 2	\$ 95,382

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

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**6. INVESTMENT IN EXPLORATION PROPERTIES (Continued)**

Information explaining the nature of each project follows.

a) Nickel Offsets, Sudbury area, Ontario

The Company holds a 100% interest in 12 patented and 5 unpatented mining claims located in Foy Township, Sudbury Mining Division, Ontario. The Company entered into an option and joint venture agreement on May 13, 2008, as amended, with URSA Major Minerals Incorporated, whereby the Company granted URSA Major an option to earn a 70% interest in the Nickel Offsets property by making total exploration expenditures on the property of \$1.25 million over a period of four years from the effective date of the agreement (March 28, 2008), making four annual cash payments of \$25,000 (paid) to the Company and issuing 100,000 (received) of its common shares to the Company. URSA Major was required to make minimum exploration expenditures of \$500,000 on the property by October 28, 2010 and gave the Company notice that they had fulfilled that obligation.

Upon URSA Major incurring \$1.25 million in exploration expenditures and making payments totaling \$100,000, the parties will form a joint venture for the further exploration and development of the property with URSA Major having a 70% interest and becoming the operator and the Company having a 30% interest. Thereafter, the parties will fund their respective pro rata interest in the joint venture for approved programs and expenditures.

Once a joint venture is formed, the Company may elect to fund its 30% interest in the joint venture or convert its interest to a 2% net smelter royalty (“NSR”) and allow URSA Major to vest a 100% interest in the property. Should the Company elect to convert its interest to an NSR, URSA Major will have the right thereafter to purchase 1% of the NSR from the Company for consideration of \$1 million at any time. In the event that URSA Major fails to make the cash payments and incur \$1.25 million of expenditures on or before the fourth anniversary of the agreement, its option will terminate and the property will revert to the Company.

On March 28, 2011, Ursa Major made its scheduled \$25,000 option payment to the Company.

b) Santa Maria Project, Ontario

Effective October 29, 2009 the Company entered into an option agreement to acquire a 100% interest in five mining claims, consisting of 11 claim units (the “Santa Maria Claims”) in the Kenora Mining Division, northwestern Ontario. The Santa Maria Claims are presently owned by Robert J. Fairservice (the “Optionor”) and are located approximately 45 km southeast of Dryden, Ontario.

The Optionor granted the Company the right and option to acquire a 100% interest in the Santa Maria Claims whereby the Company agreed to make cumulative exploration expenditures on the property of \$150,000 over a three-year period (during the first, second and third years of the option, \$25,000, \$50,000 and \$75,000, respectively), make cash payments totaling \$30,000 (\$5,000 upon regulatory approval, \$10,000 on October 29, 2010 and \$15,000 on October 29, 2011) and issue 450,000 common shares of the Company (100,000 upon regulatory approval, 150,000 on October 29, 2010 and 200,000 on October 29, 2011) to the Optionor over the three-year term of the option.

The Company made the initial cash payment of \$5,000 and issued 100,000 common shares of the Company valued at \$3,000 to the Optionor upon receipt of regulatory approval in November 2009. The \$8,000 acquisition cost was capitalized to the exploration property in 2009. The Optionor has retained a 2% NSR on the Santa Maria Claims and the Company has the right to purchase 1% of the NSR for payment of \$500,000.

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

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**6. INVESTMENT IN EXPLORATION PROPERTIES (Continued)**

Effective October 2, 2010, the Company entered into an amending agreement with the Optionor of the Santa Maria property. The amendment provided that the cash option payment of \$10,000 due to the Optionor on October 29, 2010 would be settled by the issuance of 200,000 common shares of the Company. The Company issued these shares on October 15, 2010 and recorded this option payment at the \$8,000 fair value based on the closing price of the Company's shares on that date. In addition, the Company's obligation for exploration expenditures on the property during the first year was extended so that the Company must now complete a total of \$75,000 of expenditures on the property by October 29, 2011.

The Company issued 150,000 common shares to the Optionor on October 18, 2010 in satisfaction of shares due to the Optionor on October 29, 2010. The Company recorded this option payment at the \$4,500 fair value based on the closing price of the Company's shares on that date. The Company staked fourteen mining claims in November 2009, consisting of 76 claim units contiguous to the Santa Maria claims, and granted the Optionor a 1% NSR on these claims.

The Company is planning an exploration program for the project during 2011 of sufficient size to meet the exploration and assessment work commitments coming due in 2011.

c) Nixon-Bartleman Property

Effective January 21, 2010 the Company entered into an option agreement, as amended, with Casey Enterprises Inc. ("Casey"), a private Ontario company, to acquire a 70% interest in nineteen contiguous mining claims (4 patented and 15 unpatented claims) known as the Nixon-Bartleman property. The claims are located in Keefer and Hillary Townships, southwest of Timmins, Ontario.

The Company had the right to exercise the option by making cumulative exploration expenditures on the property of \$150,000 over a period of three years (\$50,000 by April 7<sup>th</sup> each year), by making cash payments totaling \$50,000 (\$10,000 every six months commencing from April 7, 2010) and issuing 2,300,000 common shares of the Company to Casey over the three year term of the option (1,100,000 upon regulatory approval and 600,000 on each of April 7, 2011 and April 7, 2012). Upon the Company vesting a 70% interest in the property, the parties agreed to form a joint venture for the continuing exploration and development of the property with the Company having a 70% interest and acting as the operator and Casey having a 30% interest. The property is subject to a 2% NSR held by a former property owner.

The Company made an initial cash payment of \$10,000 on April 20, 2010 and issued 1,100,000 common shares to Casey on April 16, 2010. The Company recorded the common share portion of the option payment at the \$38,500 fair value based on the closing price of the Company's shares on that date.

Effective October 2, 2010, the Company entered into an amending agreement with Casey which provided that the cash option payment of \$10,000 due to Casey on October 7, 2010 would be settled by the issuance of 200,000 common shares of the Company. The Company issued these shares on October 15, 2010 and recorded the option payment at the \$8,000 fair value based on the closing price of the Company's shares on that date.

The Company carried out a drilling program on the Nixon-Bartleman Property during February 2011 at a cost of approximately \$125,000. Following a review and evaluation of the program results, the Company decided to terminate its option for the property and write off the \$198,444 cumulative capitalized costs for the property as at February 28, 2011. During the three months ended May 31, 2011, the Company incurred some additional costs, reversed some over-accruals and negotiated some credits from suppliers leading to a final net recovery of \$21,398, as an offset to the previous \$198,444 write-off.

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**6. INVESTMENT IN EXPLORATION PROPERTIES (Continued)**

d) McFauld’s Lake Project, Northwestern Ontario

The Company holds a 45% joint venture interest in five unpatented mining claims, consisting of 70 claim units in the McFauld’s Lake area, in the James Bay Lowlands of northwestern Ontario. Canstar Resources Inc. holds the remaining 55% and is the operator of the joint venture. In 2008, the Company wrote down the property interest to a nominal value following discouraging exploration results from the initial drilling program. Management was monitoring exploration activity in the property area until May 2011, at which time the remaining value was written off.

**7. CAPITAL STOCK**

a) Authorized share capital – an unlimited number of common shares without par value.

b) The Company’s issued and outstanding share capital and changes therein, is as follows:

<u>Common Shares</u>	<u># of Shares</u>	<u>Value Assigned</u>
Balance, November 30, 2010	88,409,980	\$ 20,508,526
Three months ended February 28, 2011		
Issued pursuant to flow-through private placement	500,000	25,000
Value of warrants issued in private placement	-	(8,000)
Future tax effect on flow-through renunciation	-	(15,186)
Three months ended May 31, 2011	-	-
	<hr/>	<hr/>
Balance, May 31, 2011	<u>88,909,980</u>	<u>\$ 20,510,340</u>

c) Non-brokered Private Placement

On December 30, 2010, the Company issued 500,000 units at a price of \$0.05 per unit for gross proceeds of \$25,000, with each unit being comprised of one flow-through common share and one common share purchase warrant. Each warrant entitles the holder to purchase one non-flow-through common share at a price of \$0.10 each for a period of 24 months following the closing of the offering. The common shares and warrants comprising the units are subject to a 4-month restricted sale period.

The December 30, 2010 private placement included 100,000 units purchased by an officer of the Company, on the same basis as other investors.

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**7. CAPITAL STOCK (Continued)**

d) Common Share Purchase Warrants

The balance of the Company's outstanding warrants, and changes therein, is as follows:

	<u># of Warrants Outstanding</u>	<u>Value Assigned</u>	<u>Weighted- average Exercise Price</u>
Balance, November 30, 2010	10,689,000	\$ 122,404	\$ 0.10
Three months ended February 28, 2011			
Issued for cash	500,000	8,000	0.10
Future tax effect on flow-through renunciation	-	(9,189)	-
Three months ended May 31, 2011	-	-	-
Balance, May 31, 2011	<u>11,189,000</u>	<u>\$ 121,215</u>	\$ 0.10

As at May 31, 2011, the following warrants are outstanding and exercisable:

<u>Issue Date</u>	<u># of Warrants Outstanding</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
June 23, 2009	5,799,000	\$ 0.10	June 22, 2011 (see below)
July 3, 2009	2,250,000	0.10	July 2, 2011 (see below)
November 12, 2010	2,440,000	0.10	November 11, 2012
November 22, 2010	200,000	0.10	November 21, 2012
December 30, 2010	500,000	0.10	December 30, 2012
	<u>11,189,000</u>		

As at May 31, 2011, the 11,189,000 (November 30, 2010 – 10,689,000) outstanding warrants have a weighted-average remaining contractual life of 0.7 years (November 30, 2010 – 0.9 years).

**Valuation of Warrants Issued**

The Company values warrants issued using the Black-Scholes option-pricing model. The assumptions used for the valuation of warrants issued in the December 30, 2010 private placement, were as follows:

Expected dividend yield	0%
Expected volatility	145%
Risk-free interest rate	1.71%
Expected life	2.0 years

The average issue-date fair value for the 500,000 warrants issued on December 30, 2010 was \$0.016 per warrant.

**Transactions After Period-end**

On June 22, 2011, 5,799,000 warrants expired unexercised. On July 2, 2011, an additional 2,250,000 warrants expired unexercised.

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**7. CAPITAL STOCK (Continued)**

e) Common Share Purchase Options

The balance of the Company's outstanding stock options, and changes therein, is as follows:

	<u># of Options Outstanding</u>	<u>Weighted- average Exercise Price</u>
Balance, November 30, 2010	2,125,000	\$ 0.10
Three months ended February 28, 2011		
Granted	2,000,000	0.10
Three months ended May 31, 2011		
Forfeited	(725,000)	0.10
Expired unexercised	<u>(1,000,000)</u>	0.10
Balance, May 31, 2011	<u>2,400,000</u>	\$ 0.10

Stock options held by a former director (525,000) and a former officer (200,000), both of whom resigned during December 2010, were forfeited during March 2011. In addition, 1,000,000 stock options held by two directors (400,000 each) and a consultant (200,000) expired on April 1, 2011 unexercised.

As at May 31, 2011, the following stock options are outstanding and exercisable:

<u>Grant Date</u>	<u># of Options Outstanding</u>	<u># of Options Exercisable</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
August 7, 2009	400,000	400,000	\$ 0.10	August 6, 2012
December 24, 2010	<u>2,000,000</u>	<u>1,000,000</u>	0.10	December 23, 2013
	<u>2,400,000</u>	<u>1,400,000</u>	\$ 0.10	

The 2,400,000 options outstanding as at May 31, 2011 have a weighted average remaining contractual life of approximately 2.4 years and represent 2.7% of the Company's outstanding common shares.

The average grant-date fair value of \$0.039 per option granted during the period was estimated using the Black-Scholes option-pricing model with the following assumptions:

Expected dividend yield	0%
Expected volatility	160%
Risk-free interest rate	1.9%
Expected life	3.0 years

During the three months ended May 31, 2011, the Company recorded a stock-based compensation expense for employees of \$4,250 in operations. The offsetting credit was recorded in contributed surplus (see Note 7f)).

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**7. CAPITAL STOCK (Continued)**

e) Common Share Purchase Options (Continued)

On December 24, 2010, the Company's Board of Directors approved as compensation, the grant of an aggregate 2,000,000 options to four directors, one officer/director and one officer to acquire up to 2,000,000 common shares of the Company. These options, which vest as to 25% at the grant date and 25% on each of the next three (3) six-month anniversary dates of the grant date, are exercisable at \$0.10 each over a three-year period.

Transactions After Period-end

On July 5, 2010, the Company's Board of Directors approved as compensation, the grant of 400,000 options to a director to acquire up to 400,000 common shares of the Company. These options, which vest as to 25% at the grant date and 25% on each of the next three (3) six-month anniversary dates of the grant date, are exercisable at \$0.10 each over a three-year period.

f) Contributed Surplus

The balance of the Company's contributed surplus, and changes therein, is as follows:

Balance – November 30, 2010	\$ 689,945
Three Months Ended February 28, 2011	
Stock-based compensation expense (Note 7e))	33,000
Three Months Ended May 31, 2011	
Stock-based compensation expense (Note 7e))	<u>4,250</u>
Balance – May 31, 2011	<u>\$ 727,195</u>

g) Loss Per Share

Loss per share is calculated using the basic and diluted weighted-average number of common shares outstanding during the period, which was 88,909,980 (2010 – 84,669,978). The determination of the weighted-average number of shares outstanding for the calculation of loss per share does not include the potential effect of 11,189,000 (2010 – 8,049,000) outstanding warrants and 2,400,000 (2010 - 2,125,000) outstanding options, as they are anti-dilutive.

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**8. RELATED PARTY TRANSACTIONS**

The Company's President and former Secretary provide(d) their respective management and administrative services through a corporation owned by them, pursuant to a fee-for-services agreement. The agreement, which provides for standard monthly fees as agreed upon by the parties from time to time, may be terminated by either party upon ninety (90) days written notice to the other party or upon seven (7) days notice for unremedied cause. Effective, December 1, 2010 the fees for the monthly services of the President were suspended. The former Secretary is no longer providing services to the Company.

During the three-month period ended May 31, 2011, the Company was charged management fees of Nil (2010 - \$4,000) and administrative fees of Nil (2010 - \$4,000) by the related party. At May 31, 2011, the Company was indebted to this corporation for a total of \$121,000 (2010 - \$101,324) in respect of these services. The related party has agreed to defer payment of \$121,000 of the total amount owed (which has no fixed terms of payment, is unsecured and non-interest bearing) until after May 31, 2012. The \$121,000 deferred balance relates to the following fiscal periods: 2008 - \$36,000; 2009 - \$36,000; and 2010 - \$49,000.

From time to time, the Company receives professional services from a law firm of which a former Director of the Company is a partner. As at May 31, 2011, the balance owed to this law firm for past services was \$20,000 (2010 - \$20,000) and is included in accounts payable and accrued liabilities. This amount is unsecured, non-interest-bearing and is due on demand.

In addition, during the period the Company's Chief Financial Officer charged accounting fees to the Company in the amount of \$3,495 (2010 - \$1,800), which amount is included in administration expense for the three-month period ended May 31, 2011. Accounts payable and accrued liabilities as at May 31, 2011 includes \$2,288 (2010 - Nil) payable to this related party.

Management believes the above transactions were conducted in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

See also Note 7c) regarding units issued in private placements and acquired by related parties.

**9. FINANCIAL RISK FACTORS**

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

**Credit risk**

The Company's credit risk is primarily attributable to guaranteed investment certificates and receivables included in current assets. The Company has no significant concentration of credit risk arising from operations.

**Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at May 31, 2011, the Company had a cash balance of \$30,153, an HST receivable of approximately \$3,500, and a held-for-trading marketable security with a fair value of \$13,000 to settle current liabilities of \$100,564. With the exception of certain deferred amounts due to related parties included in long-term liabilities (see Note 8), all of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

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**9. FINANCIAL RISK FACTORS (Continued)**

## Market risk

## i) Interest rate risk

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

## ii) Foreign currency risk

The Company's functional currency is the Canadian dollar and all purchases are transacted in Canadian dollars. The Company has no foreign operations and thus has no foreign exchange risk derived from either currency conversions or from holding foreign currencies. The Company does not speculate in the foreign currency market nor does it have any need to acquire foreign currency hedges.

## iii) Price risk

The Company is exposed to some price risk with respect to commodity prices; however, this is limited since the Company is not a producing entity. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

## Financial Instruments

The Company has designated its cash equivalents and marketable security as held-for-trading assets, which are measured at fair value. Cash and financial instruments included in sundry receivables and prepaid expenses, are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, and amounts due to related party, are classified as other financial liabilities, which are measured at amortized cost.

As at May 31, 2011, the carrying and fair value amounts of the Company's short-term financial instruments are approximately the same. In addition, the Company's financial instrument that is carried at fair value consists of a marketable security, which is classified as "Level 1" within the fair value hierarchy.

## Sensitivity Analysis

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve-month period:

- the Company has no cash equivalents as at May 31, 2011; although in future months it may choose to invest surplus funds, if available, in interest-bearing cash equivalents, changes in interest rates will not have any significant impact on the Company;
- the Company does not hold significant balances in foreign currencies that give rise to exposure to foreign exchange risk; and
- price risk is remote since the Company is not a producing entity.

Continued...

(A Development Stage Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS**

FOR THE THREE MONTHS ENDED MAY 31, 2011 and 2010

(Unaudited – Prepared By Management)

**10. CAPITAL MANAGEMENT**

The Company considers its capital structure to consist of components of shareholders' equity. 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.

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 period. The Company is not subject to externally imposed capital requirements.

**11. SEGMENTED INFORMATION**

The Company's operations include the acquisition, exploration, development and production of mineral properties. All of the Company's operating expenses for the three-month periods ended May 31, 2011 and 2010, and for the year-ended November 30, 2010, were incurred with respect to the acquisition, exploration, and development of the Company's mineral property interests, and substantially all of the Company's assets as at those related ending balance sheet dates were located in Canada.

**12. COMMITMENTS AND CONTINGENCIES****a) Environmental Contingencies**

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 has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

**b) Flow-through Expenditures**

As at November 30, 2010, the Company was committed to incur, on a best efforts basis, \$72,500 in qualifying Canadian exploration expenditures pursuant to private placements for which flow-through proceeds had been received prior to November 30, 2010 and renounced to the investors effective December 31, 2010. As at November 30, 2010, the Company had incurred qualifying expenditures of approximately \$7,000. In December 2010, the Company issued an additional \$25,000 of flow-through shares increasing its remaining expenditure commitment to \$90,500, which amount must be spent prior to January 1, 2012.

Management believes that the Company has incurred sufficient qualifying exploration expenditures in fiscal 2011 to satisfy the \$90,500 commitment.

The Company has indemnified the subscribers for any tax related amounts that become payable by them as a result of the Company not meeting its flow-through expenditure commitments.