

**COPPER REEF MINING CORPORATION**  
**FINANCIAL STATEMENTS**  
**NINE MONTHS ENDED AUGUST 31, 2011**

**COPPER REEF MINING CORPORATION**

**NINE MONTHS ENDED AUGUST 31, 2011**

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# **COPPER REEF MINING CORPORATION**

## **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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 the financial statements have not been reviewed by an auditor.

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

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

# COPPER REEF MINING CORPORATION

(Incorporated under the laws of Manitoba)

## BALANCE SHEET

AS AT AUGUST 31, 2011

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	<u>2010</u>	November 30 <u>2009</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 1,513,013	\$ 1,303,617
Marketable securities	2,880,000	3,600,000
GST receivable	<u>125,986</u>	<u>26,065</u>
	4,518,999	4,929,682
<b>CAPITAL ASSETS</b>	<b>10,031</b>	-
<b>MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (Note 6)</b>	<u>7,820,727</u>	<u>5,441,890</u>
	<u>\$12,349,757</u>	<u>\$10,371,572</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>\$ 468,231</u>	<u>\$ 384,089</u>
<b>FUTURE INCOME TAX LIABILITIES</b>	<u>869,932</u>	<u>928,500</u>
	<u>1,338,163</u>	<u>1,312,589</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK (Note 7)</b>	12,191,321	9,418,632
<b>CONTRIBUTED SURPLUS (Note 7)</b>	946,027	755,827
<b>WARRANTS (Note 7)</b>	494,233	48,686
<b>DEFICIT</b>	<u>(2,619,987)</u>	<u>(1,164,162)</u>
	<u>11,011,594</u>	<u>9,058,983</u>
	<u>\$12,349,757</u>	<u>\$10,371,572</u>

On behalf of the Board of Directors

“signed”  
Stephen L. Masson, Director

“signed”  
Dave Kendall, Chief Financial Officer

See accompanying notes.

**COPPER REEF MINING CORPORATION**

**STATEMENT OF OPERATIONS AND DEFICIT**

**NINE MONTHS ENDED AUGUST 31, 2011**

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Aug 31</u> <u>2011</u>	Aug 31 <u>2010</u>	<u>Aug 31</u> <u>2011</u>	Aug 31 <u>2010</u>
<b>OPERATING EXPENSES</b>				
Advertising and promotion	\$ 6,653	\$ 1,500	\$ 12,433	\$ 5,664
Bank charges and interest	189	809	932	1,435
Consulting	10,500	14,000	52,260	34,915
Equipment rental	2,100	-	8,250	9,768
Filing fees	10,811	9,469	39,767	39,398
Land management fees	161	450	2,489	3,636
Office	7,457	2,853	28,176	19,515
Professional fees	17,531	12,202	124,433	65,188
Rent	4,500	4,500	19,183	16,680
Subcontract	14,195	54,395	59,436	72,883
Supplies	4,325	1,840	9,319	6,513
Telephone	3,013	2,751	11,296	12,184
Travel	915	1,782	6,726	9,649
Utilities	2,069	1,156	9,750	6,304
Vehicle	14,625	2,143	28,967	11,182
Wages	43,647	43,647	119,722	136,119
Wages - Stock-Based (Note 7(b))	<u>185,700</u>	-	<u>202,700</u>	<u>220,600</u>
	<u>328,391</u>	<u>153,498</u>	<u>735,839</u>	<u>671,634</u>
Interest income	-	-	14	12
Miscellaneous income (loss)	<u>(720,000)</u>	-	<u>(720,000)</u>	<u>-</u>
<b>OTHER INCOME (LOSS)</b>	<u>(720,000)</u>	<u>-</u>	<u>(719,986)</u>	<u>12</u>
<b>NET LOSS BEING NET COMPREHENSIVE</b>				
<b>LOSS FOR THE PERIOD</b>	<b>(1,048,391)</b>	<b>(153,498)</b>	<b>(1,455,825)</b>	<b>(671,622)</b>
Deficit at beginning of period	<u>(1,571,596)</u>	<u>(2,603,808)</u>	<u>(1,164,162)</u>	<u>(2,085,684)</u>
<b>DEFICIT AT END OF PERIOD</b>	<u><b>(2,619,987)</b></u>	<u><b>(2,757,306)</b></u>	<u><b>(2,619,987)</b></u>	<u><b>(2,757,306)</b></u>
<b>Loss per share</b>	<u><b>\$ 0.012</b></u>	<u><b>\$ 0.006</b></u>	<u><b>\$ 0.016</b></u>	<u><b>\$ 0.008</b></u>
<b>Fully diluted loss per share</b>	<u><b>\$ 0.012</b></u>	<u><b>\$ 0.006</b></u>	<u><b>\$ 0.016</b></u>	<u><b>\$ 0.008</b></u>

See accompanying notes.

**COPPER REEF MINING CORPORATION**

**STATEMENT OF CASH FLOWS**

**NINE MONTHS ENDED AUGUST 31, 2011**

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>Aug 31</u> <u>2011</u>	<u>Aug 31</u> <u>2010</u>	<u>Aug 31</u> <u>2011</u>	<u>Aug 31</u> <u>2010</u>
<b>FUNDS PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Cash paid to suppliers and employees	\$ 33,443	\$ (329,811)	\$ (651,697)	\$ (573,297)
Cash paid on income and other taxes	(52,242)	(11,680)	(99,921)	(51,302)
Interest received	-	-	14	12
Future income tax expense (recovery)	-	-	(58,568)	-
Unrealized gain (loss) on investments	<u>(720,000)</u>	<u>-</u>	<u>(720,000)</u>	<u>-</u>
Funds used in operating activities	<u>(738,799)</u>	<u>(341,491)</u>	<u>(1,530,172)</u>	<u>(624,587)</u>
<b>FUNDS PROVIDED BY (USED IN)</b>				
<b>INVESTING ACTIVITIES</b>				
Purchase of capital assets			(10,031)	-
Net increase in deferred exploration and other expenditures	(902,706)	76,058	(3,847,746)	(1,407,656)
Net increase in mining claims	<u>-</u>	<u>-</u>	<u>1,468,909</u>	<u>-</u>
Funds used in investing activities	<u>(902,706)</u>	<u>76,058</u>	<u>(2,388,868)</u>	<u>(1,407,656)</u>
<b>FUNDS PROVIDED BY (USED IN)</b>				
<b>FINANCING ACTIVITIES</b>				
Capital stock issuance	<u>-</u>	<u>10,150</u>	<u>3,408,436</u>	<u>1,571,000</u>
<b>DECREASE IN FUNDS</b>	<b>(1,641,505)</b>	<b>(255,283)</b>	<b>(510,604)</b>	<b>(461,243)</b>
Cash and cash equivalents at beginning of period	<u>6,034,518</u>	<u>672,126</u>	<u>4,903,617</u>	<u>878,086</u>
<b>CASH AND CASH EQUIVALENTS</b>				
<b>AT END OF PERIOD</b>	<b><u>\$ 4,393,013</u></b>	<b><u>\$ 416,843</u></b>	<b><u>\$ 4,393,013</u></b>	<b><u>\$ 416,843</u></b>
Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:				
Cash	\$ 1,513,013	\$ 416,843	\$ 1,513,013	\$ 416,843
Marketable securities	<u>2,880,000</u>	<u>-</u>	<u>2,880,000</u>	<u>-</u>
	<b><u>\$ 4,393,013</u></b>	<b><u>\$ 416,843</u></b>	<b><u>\$ 4,393,013</u></b>	<b><u>\$ 416,843</u></b>

See accompanying notes.

# **COPPER REEF MINING CORPORATION**

## **NOTES TO FINANCIAL STATEMENTS**

**NINE MONTHS ENDED AUGUST 31, 2011**

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### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Copper Reef Mining Corporation (the "Company" or "Copper Reef") is a Canadian company incorporated in Ontario. The Company's principal activities are the acquisition, exploration and development of mineral property interests. The Company is considered to be in the development stage, as defined by Accounting Guideline 11 of the Canadian Institute of Chartered Accountants ("CICA") Handbook. To date the Company has not earned any revenues from operations.

The Company has not yet determined whether its mineral properties contain economically recoverable ore reserves. The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, 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 of mineral properties.

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, 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 and political uncertainties.

As at August 31, 2011, the Company had cash of \$1,513,013 and working capital of \$4,050,768. These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. 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 is actively pursuing such additional sources of financing, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Because of this uncertainty, there is some doubt about the ability of the Company to continue as a going concern. These financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

### **2. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and their basis of application is consistent with that of the previous year except where disclosed below. Outlined below are those policies considered particularly significant. All amounts are presented in Canadian dollars

#### **USE OF ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and 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 the existence and valuation of asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of mineral properties and deferred exploration costs, stock-based compensation, warrants, contingencies and future income taxes. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

## INCOME TAXES

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

## MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS AND GOVERNMENT ASSISTANCE

Mineral properties and deferred exploration expenditures are carried at cost until they are brought into production, at which time they are depleted on a unit of production method. If a property is subsequently determined to be significantly impaired in value, the property and related deferred costs are written down to their net realizable value. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration costs are charged to operations in the current year.

The Company reviews capitalized costs on its property interests on a periodic basis and recognizes an impairment in value based upon a review of exploration results, whether the Company has significant exploration plans in the immediate future and upon management's assessment of the future probability of profitable revenues from the property or from the sale of the property. The recoverability of costs incurred on the mineral properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks and the Company's ability to attain profitable production. Management's assessment of the property's estimated current fair market value may also be based upon a review of other property transactions that have occurred in the same geographic area as that of the property under review.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts, and then recorded in operations. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company, are recorded in the accounts at the time of payment.

Certain exploration projects of the Company related to the exploration and development of mineral properties located in Manitoba qualify for the Manitoba provincial Mineral Exploration Assistance Program ("MEAP"). Recoverable amounts are offset against deferred exploration costs incurred when the Company has complied with the terms and conditions of the program and the recovery is estimable and reasonably assured.

## ASSET RETIREMENT OBLIGATIONS

The Company recognizes the fair value of a liability for an asset retirement obligation on a discounted basis in the year in which it is incurred. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Over time, the liabilities will be accreted for the change in their present value and the initial capitalized costs will be depleted and amortized over the useful lives of the related assets. The Company did not have any asset retirement obligations as at August 31, 2011 and 2010.

## FLOW THROUGH SHARES

The Company has financed a portion of its exploration activities through the issuance of flow-through shares, which transfers the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to 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 will reduce share capital. The Company has indemnified the subscribers for any tax related amounts that become payable by the subscriber as a result of the Company not meeting its expenditure commitments.

## STOCK BASED COMPENSATION

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of each option is

recognized over the vesting period as stock-based compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any amount in contributed surplus will be credited to capital stock. The Company's stock-based compensation plan is described in Note 7(b).

#### MARKETABLE SECURITIES

The Company's marketable securities, classified as held-for-trading financial instruments, consist of common shares which are traded on a recognized securities exchange and are recorded at fair values based on quoted closing prices at the balance sheet date or the closing price on the last day the security traded if there were no trades at the balance sheet date. Changes in fair value are recognized in operations.

#### REVENUE RECOGNITION

Interest on cash is recorded as income on an accrual basis.

#### FINANCIAL INSTRUMENTS

Financial assets and liabilities, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held to maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in operations for the year. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until impairment is assessed as other than temporary. Held to maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income. For the periods ended August 31, 2011 and 2010, the Company had no derivatives or embedded derivatives.

#### INCOME (LOSS) PER SHARE

Basic income (loss) per share is calculated using the weighted average number of shares outstanding. Diluted income (loss) per share is calculated using the treasury stock method which assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted income (loss) per share calculation. The diluted income (loss) per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. See Notes 7(b) and 7(c) for potentially dilutive securities. The issued and outstanding warrants were excluded from the calculation of diluted income per share for the period ended August 31, 2011 and for the year ended November 30, 2010 as they were considered to be anti-dilutive.

### 3. CHANGES IN ACCOUNTING POLICIES

#### (i) INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Canadian Accounting Standards Board ("AcSB") published a strategic plan significantly affecting financial reporting requirements for Canadian companies. The AcSB plan outlines the convergence of Canadian GAAP with IFRS. In February 2008, the AcSB announced that 2011 is the changeover date for publicly listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of December 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. A changeover plan is being established to convert to the new standards within the allotted timeline. While the Company has begun assessing the adoption of IFRS for fiscal 2012, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

#### (ii) BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

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 will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards.

Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes

standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination

#### **4. CAPITAL RISK MANAGEMENT**

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, warrants, and options. The Company had no bank indebtedness at August 31, 2011 or November 30, 2010. 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 Company must rely on capital markets to support continued growth. There can be no assurance that the Company will be able to obtain sufficient capital in the case of operating cash deficits. 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. The Company is not subject to externally imposed capital requirements.

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 ended August 31, 2011 or the year ended November 30, 2010.

#### **5. FINANCIAL RISK MANAGEMENT**

##### Financial instruments

The Company's financial instruments consist of cash, GST receivable, marketable securities, accounts payable and accrued liabilities and due to shareholder. Unless otherwise noted, management's opinion is that the Company is not exposed to significant risks arising from these financial instruments.

The Company has designated its cash and GST receivable as loans and receivables, which are measured at amortized cost. Marketable securities are classified as held-for-trading, which are measured at fair value. Accounts payable and accrued liabilities and due to shareholder are classified as other financial liabilities, which are measured at amortized cost.

The carrying value of cash, GST receivable, accounts payable and accrued liabilities reflected in the balance sheet approximate fair value because of the limited term of these instruments.

There have been no changes in the risks, objectives, policies and procedures during 2011 and 2010. The Company's activities are exposed to a variety of financial risks, which include:

##### (a) Market Risk

(i) Commodity Price Risk - The Company is subject to price risk from fluctuations in market prices of commodities as it relates to the possible underlying values of its commodity based mineral properties and deferred exploration costs and the corresponding ability to raise funds for future operations.

(ii) Marketable Securities Price Risk - The Company carries investments in certain public securities for which price fluctuations can affect the Company's earnings. The Company classifies these marketable securities as held-for-trading and as a result, price volatility is reflected in operations.

(iii) Interest Rate Risk - The Company's main interest rate risk arises from short-term deposits. The Company has no interest-bearing debt. The Company's current policy is to invest excess cash in short term deposits with major banks. The Company periodically monitors the investment it makes and is satisfied with the credit rating of its banks.

(b) Credit Risk - Credit risk arises from non performance by counterparties of contractual financial obligations and is managed on a group basis. Credit risk arises from cash and deposits with banks. The Company has amounts receivable from the provincial government of Manitoba with respect to the Mineral Exploration Assistance Program and GST receivable due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to these financial instruments is minimal. The Company does not have a significant concentration of credit risk

with any one group.

(c) Liquidity Risk - As at August 31, 2011, the Company had \$4,518,999 in cash, marketable securities, and GST receivable and \$468,231 of accounts payable and accrued liabilities. Management believes that it has sufficient funds to meet its current liabilities as they become due.

In June 2009, the CICA amended Section 3862, Financial Instruments Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy under Section 3862 are:

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
- Level 3 Inputs for assets or liabilities that are not based on observable market data.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at August 31, 2011:

	Level 1	Level 2	Level 3	Total
Marketable securities	\$ 2,880,000	\$ -	\$ -	\$ 2,880,000

#### 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:

(i) The Company does not hold significant balances in foreign currencies to give rise to exposure to foreign exchange risk.

(ii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of copper, gold and other minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of copper, gold and other minerals may be produced in the future, a profitable market will exist for them. As of August 31, 2011, the Company is not a producer of copper, gold and other minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

(iii) Based on the number of marketable securities held by the Company at August 31, 2011, an increase or decrease in the market price of the securities of \$0.10 would result in a respective increase or decrease in the unrealized gain of approximately \$400,000.

## 6. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS

The Company holds mineral property interests in the provinces of Saskatchewan and Manitoba. Title to mineral property interests involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims.

The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, expects title to all of its interests to be in good standing. The Company has mining leases requiring expenditures that are due annually. Some of the mineral properties have had cash paid in lieu of exploration expenditures.

<b>Annual Costs by Category</b>	<u>August 31, 2011</u>	<u>Nov 30, 2010</u>	<u>Nov 30, 2009</u>
Acquisition costs	\$(1,468,909)	\$ (6,000)	\$ 66,000
Deferred exploration costs	<u>3,847,746</u>	<u>1,888,654</u>	<u>1,782,130</u>
	<u>\$ 2,378,837</u>	<u>\$ 1,882,654</u>	<u>\$ 1,848,130</u>

## Balance by Property

	November 30, 2010			August 31, 2011			
	Total Costs to Nov 30, 2009	Costs incurred (recovered) during the year	Sold (written off) during the year	Total Costs to Nov 30, 2010	Costs incurred (recovered) during the period	Sold (written off) during the period	Total Costs to August 31, 2011
McIlvenna	1,780,769	-	(1,780,769)	-	-	-	-
Mink Narrows	2,449,988	14,996	-	2,464,984	10,837	-	2,475,821
Jewel Box	2,574	1,274	-	3,848	2,312	-	6,160
Gold Rock	1,010,443	423,652	-	1,434,095	8,432	-	1,442,527
Lucille	63,932	41,347	-	105,279	5,674	-	110,953
Kiss	22,510	6,424	-	28,934	6,424	-	35,358
Hanson Lake	168,448	951,778	(177,752)	942,474	648,012	-	1,590,486
Other	19,093	443,183	-	462,276	35,698	-	497,974
Smelter	-	-	-	-	1,305,794	-	1,305,794
Albert's	-	-	-	-	355,654	-	355,654
	<u>\$ 5,517,757</u>	<u>\$ 1,882,654</u>	<u>\$ (1,958,521)</u>	<u>\$ 5,441,890</u>	<u>\$ 2,378,837</u>	<u>\$ -</u>	<u>\$ 7,820,727</u>

During the period ended August 31, 2011, the Company received MEAP of \$nil (year ended November 30, 2010 - \$190,014).

### McIlvenna, Saskatchewan

The McIlvenna Bay Deposit occurs within the Hanson Lake Property and comprises 26 claims. During the year ended November 30, 2010, the Company sold its 25% interest in the McIlvenna Property, its interest in the North Hanson Lake Property, and issued 3,000,000 common shares of the Company to Foran Mining Corporation ("Foran") in exchange for \$1,000,000 in cash, 4,000,000 common shares of Foran valued at \$3,400,000, and five other properties owned by Foran with a value of \$31,091, based on expenditures incurred by Foran on these properties, resulting in a gain on disposition of \$1,995,498. The August 31, 2011 fair value of the 4,000,000 Foran shares was \$2,880,000 resulting in an unrealized loss of \$720,000 for the 3 month period ended August 31, 2011 (\$720,000 for the 9 month period, \$200,000 for the year ended November 30, 2010). See also Note 10.

### Mink Narrows, Manitoba

The Mink Narrows property is comprised of a total of 35 unpatented, contiguous, mining claim units in the aggregate (the "Mink Narrows Property"). The claims are 100% owned by the Company and, except for 6 unit claims which are subject to a 1% Net Smelter Return ("NSR") interest, the claim units are not subjected to any royalties, back-in rights or payments. The Company has no surface rights on the Mink Narrows Property.

### Gold Rock, Manitoba

Copper Reef holds a 100% interest in the North Star Group Property, which is comprised of a total of 19 mining claim units and 2 mining leases located near Snow Lake, Manitoba. The North Star Mining Lease is subject to a 1% NSR.

### Hanson Lake, Saskatchewan

The Hanson Lake Property consists of a single claim located in the Hanson Lake area of Saskatchewan.

### Other Properties

The Company holds 100% title to other property interests in Manitoba and Saskatchewan.

## 7. CAPITAL STOCK

Authorized

Unlimited common shares, no par value.

	#	\$
Issued		
Balance, November 30, 2008	34,233,590	6,276,941

Issued for cash (i)	1,900,000	117,000
Value of warrants (i)	20,820,000	(9,889)
Issued for cash (ii)	-	1,193,400
Value of warrants (ii)	-	(101,990)
Share issue costs	-	(38,096)
Tax effect of share issue costs	-	10,285
Balance, November 30, 2009	56,953,590	7,447,651
Issued for cash (iii)	3,220,000	805,000
Issued for cash (iv)	375,000	75,000
Issued for cash (v)	12,960,000	691,000
Issued for cash (vi)	2,945,000	353,000
Issued for mineral properties (vii)	3,000,000	450,000
Share issue costs	-	(8,128)
Tax effect of share issue costs	-	2,195
Tax effect of flow-through renunciation (viii)	-	(348,400)
Value of warrants (vi)	-	(48,686)
Balance, November 30, 2010	79,453,590	9,418,632
Issued for cash (ix)	1,750,000	190,000
Issued for cash (x)	7,000,000	1,050,000
<b>Issued for cash (xi)</b>	<b>9,351,044</b>	<b>2,104,081</b>
<b>Issued for cash (xii)</b>	<b>200,000</b>	<b>20,000</b>
Share issue costs (ix) and (x)	-	(11,637)
Tax effect of share issue costs (ix) and (x)	-	3,143
<b>Share issue costs (xi)</b>	-	<b>(205,276)</b>
<b>Tax effect of share issue costs (xi)</b>	-	<b>55,425</b>
Value of warrants (ix)	-	(29,447)
Value of warrants (x)	-	(199,985)
<b>Value of warrants (xi)</b>	-	<b>(216,115)</b>
<b>Value of options (xii)</b>	-	<b>12,500</b>
Balance, August 31, 2011	<u>97,754,634</u>	<u>12,191,321</u>

# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2011

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(i) In December 2008, the Company issued 1,100,000 flow-through units ("FT Unit") at \$0.07 per FT Unit for gross proceeds of \$77,000 pursuant to a private placement. Each FT Unit is comprised of one flow-through common share and one common share purchase warrant. Each warrant is exercisable into one additional common share of the Company at \$0.20 per share for a period of 12 months. The Company's directors, officers and a family member of a director subscribed a total of 900,000 FT Units at a price of \$0.07 per FT Unit pursuant to this financing. The grant date fair value of the 1,100,000 warrants issued was \$6,684.

In December 2008, the Company also issued 800,000 non-flow-through units ("NFT Unit") at \$0.05 per NFT Unit for gross proceeds of \$40,000 in a private placement to two directors. Each NFT Unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable into one additional common share of the Company at \$0.15 per share for a period of 12 months. The grant date fair value of the 800,000 warrants issued was \$3,205.

(ii) During the last quarter of fiscal 2009, the Company issued 7,620,000 FT Units at \$0.07 per FT Unit for gross proceeds of \$533,400 and 13,200,000 NFT Units at \$0.05 per NFT Unit for gross proceeds of \$660,000. The Company's directors and officers and their family members, and corporations with a director in common with the Company subscribed for an aggregate of 2,210,000 FT Units for gross proceeds of \$154,700 and 5,250,000 NFT Units for gross proceeds of \$262,500 pursuant to this financing. The 7,620,000 flow through warrants and 13,200,000 warrants issued had an aggregate grant date fair value of \$101,990.

(iii) In December 2009, the Company issued 2,720,000 flow-through common shares at \$0.25 per share for gross proceeds of \$680,000 and 500,000 non-flow-through common shares at \$0.25 per share for gross proceeds of \$125,000. A director of the Company and a family member of an officer of the Company subscribed a total of 320,000 flow-through common shares for gross proceeds of \$80,000 pursuant to this financing.

(iv) In April 2010, the Company issued 375,000 flow-through common shares for gross proceeds of \$75,000.

(v) In May 2010, the Company issued 2,150,000 flow-through common shares at \$0.07 per share for gross proceeds of \$150,500 and 10,810,000 non-flow-through common shares at \$0.05 per share for gross proceeds of \$540,500. The Company's directors and officers and their family members subscribed for an aggregate of 1,145,000 flow-through shares for gross proceeds of \$80,150 and 400,000 non-flow-through shares for gross proceeds of \$20,000 pursuant to this financing.

(vi) In October 2010, the Company issued 2,925,000 flow-through units at \$0.12 for gross proceeds of \$351,000 and 20,000 non-flow-through units at \$0.010 for gross proceeds of \$2,000. Each unit consisted of one common share of the Company and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.20 per share for a period of 12 months. A family member of an officer of the Company and two corporations controlled by the same officer purchased 950,000 flow-through units for gross proceeds of \$114,000 pursuant to this financing. The 2,945,000 warrants issued had an aggregate grant date fair value of \$48,686.

(vii) In November 2010, the Company issued 3,000,000 shares to Foran which were valued at \$450,000 based on the market price of the Company's shares on the date of issue. See Note 6.

(viii) In February 2010, the Company renounced \$1,290,400 (2009 - \$Nil) of Canadian exploration expenditures related to proceeds from the issuance of flow-through shares with an effective date of December 31, 2009. Consequently, this increased the future income tax liability by \$348,400 (2009 - \$Nil).

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# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2011

(ix) In December 2010, the Company issued 750,000 flow-through units at \$0.12 per flow-through unit and 1,000,000 units at \$0.10 per unit for aggregate gross proceeds of \$190,000. Each flow-through unit consisted of one flow-through common share and one common share purchase warrant and each unit consisted of one common share and one common share purchase warrant. Each warrant is exercisable into one common share of the Company at \$0.20 per share until December 2, 2011. A director of the Company and two corporations controlled by an officer of the Company subscribed for a total of 550,000 flow-through units for gross proceeds of \$66,000. The Company is committed to incur, prior to December 31, 2011, \$90,000 in qualifying Canadian exploration expenditures pursuant to this private placement.

(x) In February 2011, the Company issued 7,000,000 units at \$0.15 per unit for gross proceeds of \$1,050,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.15 per share until August 1, 2011 (extended to November 1, 2011 on June 22, 2011). The Company is committed to incur prior to December 31, 2012, on a best efforts basis, \$1,043,000 in qualifying Canadian exploration expenditures pursuant to this private placement.

(xi) In March 2011, the Company issued 1,721,044 units at \$0.18 per unit for gross proceeds of \$309,788. Each unit consisted of one common share and one common share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.33 per share until March 1, 2012. The Company also issued 4,800,000 super flow-through units to Manitoba residents at \$0.25 per unit for gross proceeds of \$1,200,000 and 2,830,000 regular flow-through units at \$0.21 per unit for gross proceeds of \$594,300. Each of these flow-through units consisted of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share of the Company at a price of \$0.33 per share until March 1, 2012. Pursuant to this issue, 654,570 warrants were issued to brokers (exercisable for one common share per warrant at \$0.18 for 18 months). The Company is committed to incur prior to December 31, 2012, on a best efforts basis, \$1,794,300 in qualifying Canadian exploration expenditures pursuant to this private placement.

(xii) In March 2011, 200,000 options were converted to shares for \$20,000 cash.

### (b) Incentive Stock Options

Pursuant to the Company's stock option plan (the "Plan"), the Company may grant to its employees, officers, directors and consultants, options to purchase common shares of the Company at a fixed price as determined by the directors. The options vest in accordance with the terms of their granting and have a maximum term of five years. The common shares reserved for issuance under the Plan will not exceed, in aggregate, 10% of the Company's common shares issued and outstanding at the time of grant. The following tables summarize the Company's outstanding stock options:

	Number of Options	Weighted \$ Average Exercise Price
Options outstanding at November 30, 2008 and 2009	1,000,000	0.20
Granted	3,520,000	0.10
<u>Expired</u>	<u>(1,000,000)</u>	<u>0.20</u>
Options outstanding at November 30, 2010/February 28, 2011	3,520,000	0.10
Granted, April 2011	200,000	0.11
Granted, June 2011	1,575,000	0.10
<u>Exercised, March 2011</u>	<u>(200,000)</u>	<u>0.10</u>
<u>Options outstanding at August 31, 2011</u>	<u>5,095,000</u>	<u>0.10</u>

# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### NINE MONTHS ENDED AUGUST 31, 2011

All options vest immediately and their fair values are expensed to stock-based compensation and reflected as contributed surplus. Fair values are estimated using the Black-Scholes valuation model with the following assumptions: (1) the 3,520,000 options granted during the year ended November 30, 2010 had a grant date fair value of \$220,600 based on risk-free interest rate – 2.52%; expected volatility – 113%; expected dividend yield – 0%; and expected life – 5 years. 200,000 of these options were exercised and reduced contributed surplus and increased share capital by \$12,500. (2) the 200,000 options granted during the quarter ended May 31, 2011 had a grant date value of \$17,000 based on risk-free interest rate – 2.61%; expected volatility – 105%; expected dividend yield – 0%; and expected life – 5 years. (3) the 1,575,000 options granted during the quarter ended August 31, 2011 had a grant date value of \$185,700 based on risk-free interest rate – 2.15%; expected volatility – 105%; expected dividend yield – 0%; and expected life – 5 years. As at August 31, 2011, the following options were outstanding:

Expiry Date	Number of Issued and Exercisable Options	Weighted average remaining contractual life (in years)	Weighted average exercise price
May 25, 2015	3,320,000	3.98	\$0.10
April 27, 2016	200,000	4.68	\$0.11
June 15, 2016	1,575,000	4.79	\$0.10

(c) Warrants - The following table summarizes a continuity of the warrants:

	Number of Warrants	Weighted average Exercise price	Grant Date Fair Value
Warrants outstanding at November 30, 2008	4,449,175	\$0.30	\$391,196
Issued pursuant to private placement (Note 7(a) (i))	1,100,000	0.20	6,684
Issued pursuant to private placement (Note 7(a) (i))	800,000	0.15	3,205
Issued pursuant to private placement (Note 7(a) (ii))	7,620,000	0.20	46,403
Issued pursuant to private placement (Note 7(a) (ii))	13,200,000	0.15	55,587
Expired	(3,273,417)	0.39	(262,860)
Warrants outstanding at November 30, 2009	23,895,758	0.18	\$240,215
Issued pursuant to private placement (Note 7(a) (vi))	2,945,000	0.20	48,686
Expired	(23,895,758)	0.18	(240,215)
Warrants outstanding at November 30, 2010	2,945,000	\$0.20	\$48,686
Issued pursuant to private placement (Note 7(a) (ix))	1,750,000	0.20	29,447
Issued pursuant to private placement (Note 7(a) (x))	7,000,000	0.15	199,985
Warrants outstanding at February 28, 2011	11,695,000	\$0.17	\$278,118
Issued pursuant to share issue (Note 7(a) (xi))	5,536,004	\$0.33	171,062
Issued to brokers pursuant to above (Note 7(a) (xi))	654,570	\$0.18	45,053
Warrants outstanding at May 31 and August 31, 2011	17,885,574	\$0.22	\$494,233

# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

### NINE MONTHS ENDED AUGUST 31, 2011

The weighted average grant date fair value of the warrants issued during the period ended August 31, 2011 of \$0.03 (year ended November 30, 2010 - \$0.02; 2009 - \$0.01) was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010	2009
Expected dividend yield	0%	0%	0%
Expected volatility	112%	112%	112%
Risk free interest rate	1.69%	1.42%	1.11%
Expected life	1.0 and 1.5 years	1.0 year	1.0 year

As at August 31, 2011, the following warrants were outstanding:

Expiry Date	Number of Granted Warrants	Weighted average remaining contractual life (in years)	Weighted average exercise price
			\$
October 15, 2011	2,945,000	.12	0.20
December 2, 2011	1,750,000	.25	0.20
November 1, 2011	7,000,000	.18	0.15
March 1, 2012	5,536,004	.50	0.33
December 31, 2012	654,570	1.33	0.18

#### (d) Contributed surplus

The following is a continuity of contributed surplus:

Balance, November 30, 2008	\$	<b>32,152</b>
Expired warrants (Note 7(c))		<b>262,860</b>
Balance, November 30, 2009	\$	<b>295,012</b>
Expired warrants (Note 7(c))		<b>240,215</b>
Stock-based compensation – consultant (Note 7(b))		<b>42,000</b>
Stock-based compensation – officers and directors (Note 7(b))		<b>178,600</b>
Balance, November 30, 2010 and February 28, 2011	\$	<b>755,827</b>
Stock-based compensation - officers and directors (Note 7(b))		<b>17,000</b>
Exercised options (Note 7(b))		<b>(12,500)</b>
Balance, May 31, 2011	\$	<b>760,327</b>
Stock-based compensation – officers and directors (Note 7(b))		<b>185,700</b>
Balance, August 31, 2011	\$	<b>946,027</b>

# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2011

### 8. INCOME TAX

#### Provision for income taxes

Major items causing the Company's income tax rate to differ from the Canadian combined federal and provincial statutory rate of approximately 30% (2009 – 31.5%) are as follows:

	<u>2010</u>	<u>2009</u>
Income (loss) before income taxes	<u>\$ 1,310,217</u>	<u>\$ (547,215)</u>
Expected income tax recovery based at statutory rate	<b>393,065</b>	(172,314)
Adjustments to benefit resulting from:		
Non-taxable portion of unrealized gain	<b>(27,000)</b>	-
Stock-based compensation	<b>66,200</b>	-
Change in expected tax rates	<b>(88,200)</b>	24,600
Other	<u><b>44,630</b></u>	<u>(33,800)</u>
Future income tax expense (recovery)	<u><b>\$ 388,695</b></u>	<u>\$ (181,514)</u>

#### Future income tax balances

The tax effect of temporary differences that give rise to future income tax assets and liabilities in Canada at August 31, 2011, November 30, 2010 and November 30, 2009 approximate the following:

#### Future income tax assets (liabilities)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Non-capital losses	<b>\$ 509,800</b>	\$ 509,800	\$ 560,600
Resource properties	<b>(1,468,100)</b>	(1,468,100)	(838,500)
Marketable securities	<b>(27,000)</b>	(27,000)	-
Share issue costs	<u><b>115,368</b></u>	<u>56,800</u>	<u>84,300</u>
Net future income tax (liability)	<u><b>\$ (869,932)</b></u>	<u>\$ (928,500)</u>	<u>\$ (193,600)</u>

The Company has approximately \$303,400 of non capital losses in Canada, which under certain circumstances can be used to reduce the taxable income of future years. These losses expire as follows:

2028	<b>\$ 48,500</b>
2029	<u><b>254,900</b></u>
	<u><b>\$ 303,400</b></u>

### 9. RELATED PARTY TRANSACTIONS

During the 3 month period ended August 31, 2011, the Company paid management fees and related expenses of \$10,500 (2010 - \$10,500) to a corporation controlled by a director of the Company. Included in accounts payable and accrued liabilities is \$nil (2010 - \$nil) owing to this corporation.

During the 3 month period ended August 31, 2011, the Company paid filing fees of \$7,500 (2010 - \$7,500) and

# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2011

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professional fees of \$6,250 (2010 - \$nil) to corporations controlled by officers of the Company of which \$nil was included in accounts payable and accrued liabilities as at August 31, 2011 (2010 - \$2,800). The Company paid \$10,676 (2010 - \$6,500) of professional fees to an accounting firm of which an officer of the Company is a partner, and set up \$8,800 (2010 - \$13,000) as accounts payable and accrued liabilities as at August 31, 2011. These balances are unsecured and non interest bearing with no repayment terms.

During the 3 month period ended August 31, 2011, the Company was charged \$244,735 (2010 - \$133,542) by M'Ore Exploration Services Ltd. ("M'Ore") for services and expense reimbursements. M'Ore is a corporation controlled by a former director who is also an officer and significant shareholder of the Company. M'Ore is also a shareholder of the Company. Of these charges, \$159,956 (2010 - \$70,355) was capitalized as deferred exploration expenditures, \$36,000 (2010 - \$36,000) was for management fees and salaries, \$8,453 (2010 - \$5,656) was paid for rent and utilities, and the balance of \$40,326 (2010 - \$21,531) was paid for office and general expenses. Included in accounts payable and accrued liabilities as at August 31, 2011 was \$81,942 (2010 - \$43,949) owing to M'Ore. This amount is unsecured and non interest bearing with no terms of repayment.

All of these transactions are in the normal course of business and are measured at the exchange amounts established and agreed to by the related parties.

See also Note 10.

## 10. COMMITMENTS AND CONTINGENCIES

### Consulting Agreement

The Company entered into a consulting services agreement dated December 4, 2008 with M'Ore and the President of M'Ore. Pursuant to the agreement, M'Ore provides consulting and management services to the Company and incurs various administrative expenses, including administrative salaries and office and vehicle rentals on behalf of the Company. The initial term of the agreement is for a period of two years ended December 4, 2010 and can be renewed thereafter at the end of every 12 months. Pursuant to this agreement, administrative costs incurred by M'Ore are approximately \$270,000 per annum; however, during the year ended November 30, 2009, M'Ore reduced these payments to \$217,000 per annum until additional operational funding can be obtained. In the event the agreement is terminated by the Company, the Company is required to pay an amount equal to \$72,000.

### Environmental Considerations

The exploration for and development of resource properties involves the extraction, production and transportation of materials, which under certain conditions, can be hazardous or cause environmental pollution. The Company is continually taking action it believes appropriate to satisfy applicable federal, provincial and local environmental regulations and does not currently anticipate that compliance with federal, provincial and local environmental regulations will have a material adverse effect upon capital expenditures, results of operations or the competitive position of the Company in the mineral resource industry. However, due to the significant public and governmental interest in environmental matters related to those activities, the Company cannot predict the effects of possible future legislation, rule changes, or governmental or private claims.

### Flow-through Expenditures

In the year ended November 30, 2010, the Company renounced Canadian exploration expenditures related to proceeds from the issuance of flow-through shares pursuant to the financings described in Notes 7(a)(iv)(v) and (vi), and is committed to incur \$576,500 in qualifying Canadian exploration expenditures prior to December 31, 2011. As at November 30, 2010, approximately \$117,000 of this commitment was unexpended, however the Company has now incurred the required

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# COPPER REEF MINING CORPORATION

## NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED AUGUST 31, 2011

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qualifying expenditures.

### **Shareholder Dispute**

On three separate occasions beginning October 22, 2010, certain shareholders of the Company had indicated their intent to initiate litigation against the Company and its directors in connection with the Foran sale agreement described in Note 6. The Company attempted to settle this dispute with these parties but did not offer concessions in the course of settlement. No settlement agreement was formally executed between these parties and the Company. The likelihood or quantum of damages relating to these claims is not determinable at this time, and no provision has been recorded in these financial statements. Management is of the opinion that this claim is without merit.