

**Condensed Consolidated Interim Financial Statements of**

**Mosquito Consolidated Gold  
Mines Limited**

September 30, 2012

UNAUDITED

### NOTICE

The accompanying unaudited condensed consolidated interim financial statements of Mosquito Consolidated Gold Mines Limited (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# Mosquito Consolidated Gold Mines Limited

## Condensed consolidated interim statements of financial position

(Expressed in Canadian dollars)

		September 30,	June 30,
	Note	2012	2012
		\$	\$
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents		255,111	2,291,209
Trade and other receivables		284,333	365,039
Inventory	5	466,175	473,076
Prepaid expenses and deposits		123,140	197,266
Investments	6	572,914	437,430
		1,701,673	3,764,020
<b>Non-current assets</b>			
Reclamation bonds		361,159	361,159
Property, plant and equipment	7	2,935,438	3,063,165
Unproven mineral right interests	8	25,878,874	24,449,593
Other		19,900	20,750
		30,897,044	31,658,687
<b>LIABILITIES</b>			
<b>Current</b>			
Trade and other payables	12	1,151,824	1,452,373
Borrowings		53,452	53,200
Unearned revenue		15,936	16,938
		1,221,212	1,522,511
<b>Non-current liabilities</b>			
Reclamation provision	10	361,159	361,159
		1,582,371	1,883,670
<b>EQUITY</b>			
Share capital	11	50,545,199	50,545,199
Equity reserve	11	10,413,643	10,413,643
Deficit		(30,401,488)	(29,899,037)
Accumulated other comprehensive loss		(1,242,681)	(1,284,788)
		29,314,673	29,775,017
		30,897,044	31,658,687
Nature of operations	1		
Commitments and contingencies	14		
Subsequent events	15		
Approved on behalf of the Board of Directors			
"Long Wang"			
Long Wang, Director			
"Joseph Baird"			
Joseph Baird, Director			

See accompanying notes to the condensed consolidated interim financial statements.

# Mosquito Consolidated Gold Mines Limited

## Condensed consolidated interim statements of loss and comprehensive loss

(Expressed in Canadian dollars)

	Note	Three months ended September 30,	
		2012	2011
		\$	\$
<b>Revenue</b>			
Drilling		396,924	1,012,541
Other		1,013	6,826
		397,937	1,019,367
<b>Direct drilling costs</b>		261,568	1,044,897
<b>Gross profit (loss)</b>		136,369	(25,530)
<b>Expenses</b>			
Bank charges and interest		4,019	6,302
Consulting fees		50,830	16,500
Depreciation		106,659	239,605
Gain on foreign exchange		(30,546)	-
Management fees	12	52,500	52,500
Office and miscellaneous		97,390	38,978
Professional fees		200,904	77,476
Rent		24,574	18,787
Repairs and maintenance		6,241	75,427
Shareholder communications and regulatory		118,298	47,619
Travel and promotions		2,222	76,656
		633,091	649,850
Loss before other items		(496,722)	(675,380)
<b>Other items</b>			
Gain on sale of unproven mineral right interests		-	313,059
Impairment of unproven mineral right interests		(5,760)	-
Other income		31	-
<b>Net loss</b>		(502,451)	(362,321)
<b>Other comprehensive income (loss):</b>			
Unrealized gain (loss) on investments		135,484	(51,622)
Cumulative translation adjustment		(93,377)	27,979
		42,107	(23,643)
<b>Comprehensive loss</b>		(460,344)	(385,964)
<b>Loss per common share:</b>			
Basic and diluted		(0.01)	(0.00)
<b>Weighted average number of common shares outstanding</b>			
Basic and diluted		82,262,447	80,459,282

See accompanying notes to the condensed consolidated interim financial statements.

# Mosquito Consolidated Gold Mines Limited

## Condensed consolidated interim statements of cash flows

(Expressed in Canadian dollars)

	Three months ended September 30,	
	2012	2011
	\$	\$
<b>OPERATING ACTIVITIES</b>		
Net loss	(502,451)	(362,321)
Items not involving cash		
Depreciation	106,659	239,605
Gain on sale of unproven mineral right interests	-	(313,059)
Impairment of unproven mineral right interests	5,760	-
Changes in non-cash working capital items:		
Decrease in trade and other receivables	80,706	224,968
Decrease in prepaid expenses	74,126	46,897
Decrease in inventory	6,901	-
Increase in reclamation bonds	-	(295,470)
Decrease in trade and other payables	(301,551)	(241,299)
	(529,850)	(700,679)
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(88,335)	-
Proceeds from sale of property, plant and equipment	-	97,023
Expenditures on equipment and unproven mineral right interests	(1,435,041)	(977,339)
Other	850	-
	(1,522,526)	(880,316)
<b>FINANCING ACTIVITIES</b>		
Issue of common shares for cash, net of issue costs	-	1,815,340
Exercise of share options	-	2,250
	-	1,817,590
Effect of exchange rate changes on cash	16,278	-
Net change in cash and cash equivalents	(2,052,376)	236,595
Cash and cash equivalents, beginning of the period	2,291,209	458,766
<b>Cash and cash equivalents, end of the period</b>	<b>255,111</b>	<b>695,361</b>
Supplemental cash flow information (Note 13)		

See accompanying notes to the condensed consolidated interim financial statements.

# Mosquito Consolidated Gold Mines Limited

## Condensed consolidated interim statements of changes in equity

(Expressed in Canadian dollars)

		Share capital		Equity	Deficit	Accumulated Other Comprehensive (Loss) Income	Total Equity
	Note	Number of shares	Amount	Reserve			
			\$	\$	\$	\$	\$
<b>Balance on July 1, 2011</b>		79,300,955	48,719,365	7,765,598	(30,061,310)	(685,408)	25,738,245
Common shares issued for:							
Financing, net of issue costs	11	2,505,241	1,801,391	-	-	-	1,801,391
Exercise of share options	11	6,250	4,543	(2,293)	-	-	2,250
Net loss		-	-	-	(362,321)	-	(362,321)
Unrealized loss on investments	6	-	-	-	-	(51,622)	(51,622)
Cumulative translation adjustment		-	-	-	-	27,979	27,979
<b>Balance on September 30, 2011</b>		81,812,446	50,525,299	7,763,305	(30,423,631)	(709,051)	27,155,922
<b>Balance on July 1, 2012</b>		82,262,446	50,545,199	10,413,643	(29,899,037)	(1,284,788)	29,775,017
Net loss		-	-	-	(502,451)	-	(502,451)
Unrealized gain on investments	6	-	-	-	-	135,484	135,484
Cumulative translation adjustment		-	-	-	-	(93,377)	(93,377)
<b>Balance on September 30, 2012</b>		82,262,446	50,545,199	10,413,643	(30,401,488)	(1,242,681)	29,314,673

See accompanying notes to the condensed consolidated interim financial statements.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 1. Nature of operations

Mosquito Consolidated Gold Mines Limited ("Mosquito") is an exploration and development company with mineral right interests in the United States of America and formerly in Canada. In recent years the Company also conducted operations as an operator of drilling rigs.

These consolidated financial statements include the accounts of Mosquito and of its wholly-owned subsidiaries (collectively, the "Company"): Kirkness Diamond Drilling Co., Inc. ("Kirkness"), 1156207 Ontario Ltd., Mosquito Mining Corp., MSQ Operations Inc. and Kirkness Drilling Mexico S.A. de C.V. ("Kirkness Mexico").

The Company is in the process of exploring its mineral right interests in the United States and at the date of these consolidated interim financial statements, has not yet determined whether any of its mineral properties contain economically recoverable mineral reserves. Accordingly, the carrying amount of mineral right interests represents cumulative expenditures incurred to date and does not necessarily reflect present or future values. The recovery of these costs is dependent upon the discovery of economically recoverable mineral reserves and the ability of Mosquito to obtain the necessary financing to complete their exploration and development and to resolve any environmental, regulatory, or other constraints. Uncertainty also exists with respect to the recoverability of the carrying value of certain mineral properties. The ability of the Company to realize on its investment in resource properties is contingent upon resolution of the uncertainties and confirmation of the Company's title to the mineral properties.

These consolidated interim financial statements have been prepared on a going concern basis. The Company does not generate material cash flows from operations and accordingly, Mosquito will need to raise additional funds through future issuance of securities. Although Mosquito has been successful in raising funds in the past, there can be no assurance Mosquito will be able to raise sufficient funds in the future, in which case the Company may be unable to meet its obligations as they come due in the normal course of business. The Company has not determined whether any of its properties contain mineral reserves that are economically recoverable. It is not possible to predict whether financing efforts will be successful or if the Company will attain a profitable level of operations. Since inception, the Company has incurred cumulative losses of \$30,401,488 as of September 30, 2012 (June 30, 2012: \$29,899,037), which may cast significant doubt regarding Mosquito's ability to continue as a going concern. Should Mosquito be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts on the statement of financial position.

These interim consolidated financial statements are presented in Canadian dollars and all values are rounded to the nearest dollar except where otherwise indicated.

Mosquito's common shares are listed on the TSX Venture Exchange ("TSX-V") and on the OTCQX stock exchange in the United States, under the trading symbols "MSQ" and "MQCMF", respectively. Mosquito's share options and warrants are not listed.

The head office and principal address of the Company is 638 Millbank, Vancouver, British Columbia, Canada V5Z 4B7.

These consolidated financial statements were authorized for issue by the board of directors on November 28, 2012.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 2. Basis of preparation and statement of compliance

The Company is following the same accounting policies and methods of computation in these condensed consolidated interim financial statements as were utilized in the preparation of the audited consolidated financial statements for the year ended June 30, 2012. Some accounts have been reclassified to ensure comparability with respect to the presentation of the June 30, 2012 condensed consolidated interim financial statements.

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements for the year ended June 30, 2012, which have been prepared in accordance with IFRS as issued by the IASB.

### 3. Accounting policies

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

### 4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended June 30, 2012.

### 5. Inventory

	September 30, 2012	June 30, 2012
	\$	\$
Drill supplies	466,175	473,076
	<u>466,175</u>	<u>473,076</u>

The write-down of inventories recognised in operating expenses amount to \$nil (June 30, 2012: \$nil).

### 6. Investments

	September 30, 2012	June 30, 2012
	\$	\$
Beginning of period	437,430	830,179
Additions	-	237,250
Changes in fair value	135,484	(629,999)
End of period	<u>572,914</u>	<u>437,430</u>



# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 6. Investments (continued)

Investments include the following:

	September 30, 2012	June 30, 2012
	\$	\$
Golden Cariboo Resources Inc.	602	1,333
IEMR Resources Inc.	90,000	90,000
Barkerville Gold Mines Ltd.	22	22
Mega Precious Metals Inc.	172,000	112,000
Running Fox Resource Corp.	225,000	165,000
Salmon River Resources Ltd.	12,500	14,500
Detour Gold Corporation	7,790	5,825
Urastar Gold Corp.	65,000	48,750
	<b>572,914</b>	<b>437,430</b>

- a) The Company holds 4,300 shares of Golden Cariboo Resources Inc.
- b) The Company holds 3,000,000 shares of IEMR Resources Inc. ("IEMR"). During the year ended June 30, 2012, the Company received 2,000,000 shares of IEMR.
- c) The Company holds 400,000 shares of Mega Precious Metals Inc. ("Mega"). During the year ended June 30, 2012, the Company received 100,000 shares of Mega.
- d) The Company holds 3,000,000 shares of Running Fox Resource Corp.
- e) The Company holds 100,000 shares of Salmon River Resources Ltd.
- f) The Company holds 284 shares of Detour Gold Corporation.
- g) The Company holds 250,000 shares of Urastar Gold Corp. ("Urastar"), received during the year ended June 30, 2012.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 7. Property, plant and equipment

	Aircraft \$	Land and Building \$	Office equipment and furniture \$	Rigs, mine and other equipment \$	Total \$
<b>Cost</b>					
Balance at					
June 30, 2011	214,970	948,396	205,724	7,102,286	8,471,376
Additions	-	220,386	4,821	435,911	661,118
Disposals	-	-	(529)	(14,451)	(14,980)
Impairment	-	(5,910)	(43,842)	(1,228,109)	(1,277,861)
Exchange differences	-	29,672	284	214,240	244,196
Balance at					
June 30, 2012	214,970	1,192,544	166,458	6,509,877	8,083,849
Additions	-	2,833	9,234	76,268	88,335
Exchange differences	-	(30,007)	1	(59,715)	(89,721)
Balance at					
September 30, 2012	214,970	1,165,370	175,693	6,526,430	8,082,463
<b>Accumulated depreciation</b>					
Balance at					
June 30, 2011	145,716	65,590	193,691	4,745,910	5,150,907
Depreciation	20,776	10,238	3,841	553,262	588,117
Disposals	-	-	-	-	-
Impairment	-	(212)	(32,554)	(1,157,491)	(1,190,257)
Exchange differences	-	2,628	204	469,085	471,917
Balance at					
June 30, 2012	166,492	78,244	165,182	4,610,766	5,020,684
Depreciation	3,636	3,111	442	99,470	106,659
Exchange differences	-	(2,415)	1	22,096	19,682
Balance at					
September 30, 2012	170,128	78,940	165,625	4,732,332	5,147,025
<b>Carrying amount</b>					
At June 30, 2011	69,254	882,806	12,033	2,356,376	3,320,469
At June 30, 2012	48,478	1,114,300	1,276	1,899,111	3,063,165
At September 30, 2012	44,842	1,086,430	10,068	1,794,098	2,935,438

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 8. Unproven mineral right interests

The Company's flagship project is the CuMo molybdenum project, located in Idaho, in the United States. The Company's Boise property, also located in Idaho, is contiguous to and provides access to the CuMo project.

The Company also has other unproven mineral right interests in the United States and in Canada, which have been optioned to other exploration companies.

#### **CUMO PROJECT**

The CuMo project is situated in the mountains of south-central Idaho, approximately 15 miles northeast of the town of Idaho City. It consists of eight unpatented mineral claims.

The project was optioned to the Company by Cumo Molybdenum Mining Inc. in 2004. The terms of the option agreement called for a combination of advance royalty payments, 300,000 Mosquito shares (issued) and work requirements outlined below.

#### 1. Advance royalty payments:

- US\$10,000 upon signing (completed);
- US\$10,000 after 60 days (completed);
- US\$5,000 after 6 months (completed);
- US\$20,000 1st year anniversary (completed);
- US\$20,000 2nd year anniversary (completed);
- US\$15,000 3rd year anniversary (completed);
- US\$15,000 every 6 months thereafter (up-to-date).

These payments are to be credited against a 1.5% net smelter return ("NSR") which reduces to 0.5% NSR after cumulative payments of US\$3,000,000.

#### 2. Work requirements:

- US\$25,000 during the first year (completed);
- At least US\$50,000 each year thereafter (up-to-date).

#### **BOISE PROPERTY**

On July 8, 2010, the Company entered into an option agreement, amended on July 5, 2011, to purchase certain mineral claims that included surface rights located in Boise County, Idaho. These patent mineral claims are contiguous to and provide access to the CuMo project. In order to maintain the option in good standing, the Company was required to make option payments of US\$ 1,200,000. These payments have been completed and the Company has obtained title to the Boise property, which becomes part of the overall CuMo project.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 8. Unproven mineral right interests (continued)

#### PINE TREE PROPERTY

The Pine Tree property is located in the Pilot Mountains, Mineral County in western Nevada. The primary target on the property is a copper-molybdenum-rhenium porphyry deposit, with potential gold, silver and tungsten by-products.

In 2005 the Company entered into an option agreement to purchase the Pine Tree property through a combination of advance royalty payments that are currently \$25,000 per year until a total of US\$2,000,000 (the "NSR Royalty") has been paid after which a 2% NSR shall be reduced to 0.5%, share payments totaling 300,000 shares of the Company (issued) and an exploration commitment of US\$450,000 (completed).

On June 25, 2010 (the "Effective Date"), the Company entered into an option agreement with IEMR. Pursuant to the agreement, IEMR acquired an option to purchase a 100% interest in the Pine Tree property. In order to maintain the option in good standing, IEMR is required to make the following payments and share issuances to the Company:

	<b>Cash Payments</b>	<b>Common Shares</b>
	\$	
On the Effective Date (completed)	<b>200,000</b>	1,000,000
On or before the first anniversary of the Effective Date (completed)	<b>200,000</b>	1,000,000
On or before the second anniversary of the Effective Date (completed)	<b>200,000</b>	1,000,000
On or before the third anniversary of the Effective Date	<b>200,000</b>	1,000,000
On or before the fourth anniversary of the Effective Date	<b>200,000</b>	-
	<b>200,000</b>	1,000,000
	<b>1,000,000</b>	5,000,000

In addition, IEMR must incur aggregate exploration and development expenditures on the property of \$3,000,000 on or before the fourth anniversary of the Effective Date, subject to minimum expenditures of \$500,000 incurred each year on or before the anniversary of the Effective Date (up-to-date).

During the option period, IEMR will also be responsible for making advance royalty payments of US\$25,000 per year to the holders of the NSR Royalty. All payments are presently current with the agreement in good standing.

During the year ended June 30, 2012, the Company received cash proceeds of \$200,000 and 2,000,000 IEMR shares valued on receipt at \$336,520 in connection with this option agreement. Option payments were credited against the carrying value of the Pine Tree property.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 8. Unproven mineral right interests (continued)

#### **BLACKPOINT PROPERTY**

The Blackpoint gold-silver property is located in Eureka County, Nevada. The Company completed limited exploration work on this property and during the fiscal year 2008, management wrote down the carrying value of the property to a nominal amount.

On August 24, 2011, the Company finalized an agreement with Urastar to sell a 100% interest in the BlackPoint property. Pursuant to the agreement, Urastar could earn a 100% interest in Blackpoint by making the following cash and share payments to the Company:

	<b>Cash Payments US\$</b>	<b>Common Shares</b>
On signing of Letter of Intent (completed)	<b>25,000</b>	-
At closing (completed)	<b>225,000</b>	250,000
Year 1 from closing	<b>350,000</b>	250,000
Year 2 from closing	<b>1,000,000</b>	250,000
Year 3 from closing	<b>1,500,000</b>	250,000
Year 4 from closing	<b>2,500,000</b>	250,000
Year 5 from closing	<b>4,400,000</b>	250,000
	<b>10,000,000</b>	1,500,000

Urastar terminated this agreement during the quarter ended September 30, 2012 and returned the Blackpoint property to the Company.

During the year ended June 30, 2012, cash payments of \$246,810 (US\$250,000) and 250,000 Urastar shares (valued on receipt at \$66,250) were received by the Company, who recorded a gain on disposal of unproven mineral right interests of \$313,060.

#### **OTHER UNITED STATES PROPERTIES**

Other unproven mineral right interests in the United States were the Spruce Mountain, Motley, Spring Creek and Copper Chief properties, which have been fully impaired.

#### **CARIBOO PROPERTY**

The Company was originally formed to establish a mining complex on the former producing mines known as Island Mountain Mine and Cariboo Gold Quartz Mine, located near Wells, in British Columbia. In 1994 an agreement was reached with Barkerville Gold Mines Limited ("Barkerville") under which the Company granted to Barkerville the right to earn a 50% in the Cariboo property.

In December 2011, the Company entered into an agreement to sell to Barkerville all residual property interests owned by the Company in the Cariboo property for \$5,000,000. These interests included a 50% Interest in the Cariboo Gold Quartz property, placer mining rights on Mosquito Creek and a 3% Net Smelter Return royalty on the Cariboo Gold Quartz Mine property, Island Mountain Mine property and Mosquito Creek Mine property.

In January 2012, Barkerville paid the \$5,000,000 amount to the Company, who recorded a gain on disposal of unproven mineral right interests of \$4,992,448 after adjustments to capitalized expenses associated with the property, as the carrying value of the property had been impaired to a nominal value of \$1 in prior fiscal years.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 8. Unproven mineral right interests (continued)

#### **LAVERTY and CUMMINS PROPERTIES**

In 2004 the Company acquired a 100% interest in 1156207 Ontario Ltd. for \$80,000 with the vendor retaining a 1% NSR. 1156207 Ontario Ltd. holds a 100% interest in two groups of patented mineral claims known as the Lavery property, located in Red Lake, Ontario and the Cummins property, located near Larder Lake, Ontario. The carrying value of these properties was written down to a nominal value during the fiscal year ended June 30, 2008.

By way of an option agreement dated January 26, 2009, and amended on March 11, 2009, the Company optioned the Lavery property to Mega (formerly Skybridge Development Corp. ("Skybridge")) in consideration of cash payments of \$500,000, 250,000 shares of Skybridge, 500,000 shares of Mega and the following \$1,500,000 exploration expenditures commitment:

- \$250,000 prior to the 12 month anniversary date (completed);
- \$250,000 prior to the 24 month anniversary date (completed);
- \$250,000 prior to the 36 month anniversary date; (completed);
- \$250,000 prior to the 48 month anniversary date;
- \$500,000 prior to the 60 month anniversary date.

A cash payment of \$200,000 and receipt of 200,000 shares of Mega remain outstanding and are due in March 2013. The Company retains a 2% NSR on ore mined from the property. Given that the property had been written-down to a nominal value, the cash and share consideration received on the property are recognized through earnings. During the year ended June 30, 2012, cash payments of \$100,000 and 100,000 Mega shares valued on receipt at \$46,000 were received by the Company, who recorded a gain on disposal of unproven mineral right interests of \$146,000.

The Cummins property consists of 5 patented mineral claims located in McElroy Township, near Larder Lake, Ontario. The Company has a 100% interest in the project and has not performed any work to date.

#### **BRETT PROPERTY**

In 2003 the Company completed an agreement to acquire a 100% interest in the Brett #1 and Brett #2 mineral claims located in the Vernon Mining District of British Columbia for a consideration of 500,000 shares of the Company. In 2004, Running Fox Resource Corp. ("Running Fox") and the Company entered into an option agreement on the Brett property whereby Running Fox earned a 50% interest in the property in 2004. The carrying value of the property was written down to a nominal value during the fiscal year ended June 30, 2008.

In 2011, the Company entered into an agreement with Running Fox whereby the Company sold to Running Fox, subject to a NSR, the Company's remaining 50% interest in the Brett property. Consideration for this transaction consisted of a cash payment of \$1,000,000 and 3,000,000 common shares of Running Fox at a fair value of \$900,000. The Company recorded a gain on sale of unproven mineral right interest of \$1,899,999. In addition to this consideration the Company retains a sliding-scale royalty on the property based on the price of gold as follows:

- Gold price up to \$500 per ounce: 2% NSR;
- Gold price between \$501 and \$1,000 per ounce: 3% NSR;
- Gold price between \$1001 and \$1,500 per ounce: 5% NSR;
- Gold price between \$1501 and \$2,000 per ounce: 6% NSR;
- Gold price over \$2,001 per ounce: 8% NSR.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 8. Unproven mineral right interests (continued)

	CuMo \$	Boise \$	Pinetree \$	Other \$	Total \$
Balance, June 30, 2011	12,996,014	415,160	7,638,205	14,256	21,063,635
Exploration expenditures:					
Assays and analysis	16,443	-	21,740	-	38,183
Drilling	1,510,193	-	(54,108)	-	1,456,085
Geological consulting	362,853	-	-	-	362,853
Environmental studies	489,903	-	-	-	489,903
Other exploration costs	791,818	-	(30)	-	791,788
Reclamation costs	295,470	-	-	5,500	300,970
	16,462,694	415,160	7,605,807	19,756	24,503,417
Other items:					
Acquisition costs and payments	80,838	393,290	8,570	-	482,698
Impairment charges	-	-	-	(2)	2
Option payments received	-	-	(536,520)	-	(536,520)
Balance, June 30, 2012	16,543,532	808,450	7,077,857	19,754	24,449,593
Balance, July 1, 2012	16,543,532	808,450	7,077,857	19,754	24,449,593
Exploration expenditures:					
Assays and analysis	16,191	-	-	-	16,191
Drilling	715,512	-	-	-	715,512
Geological consulting	62,333	-	-	-	62,333
Environmental studies	47,680	-	-	-	47,680
Other exploration costs	133,174	-	-	-	133,174
	17,518,422	808,450	7,077,857	19,754	25,424,483
Other items:					
Acquisition costs and payments	48,793	405,600	-	5,758	460,151
Impairment charges	-	-	-	(5,760)	(5,760)
Balance, September 30, 2012	17,567,215	1,214,050	7,077,857	19,752	25,878,874

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 9. Segmented information

The Company operates in three geographical areas, being Canada, the United States and Mexico. The following is an analysis of the Company's assets by geographical area and reconciled to the Company's consolidated financial statements:

	September 30, 2012	June 30, 2012
	\$	\$
Assets by geographic segment, at cost		
Canada		
Current assets	955,855	3,013,614
Reclamation bonds	19,749	19,749
Property, plant and equipment	-	339,225
Unproven mineral right interests	1	3,501
Other	-	-
	<b>975,605</b>	<b>3,376,089</b>
United States		
Current assets	521,309	626,769
Reclamation bonds	341,410	341,410
Property, plant and equipment	2,306,026	2,142,975
Unproven mineral right interests	25,878,873	24,446,092
Other	19,900	20,750
	<b>29,067,518</b>	<b>27,577,996</b>
Mexico		
Current assets	224,509	123,637
Reclamation bonds	-	-
Property, plant and equipment	629,412	580,965
Unproven mineral right interests	-	-
Other	-	-
	<b>853,921</b>	<b>704,602</b>
	<b>30,897,044</b>	<b>31,658,687</b>



# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 10. Reclamation provision

The Company's reclamation provision relates to the following Company properties:

	September 30, 2012	June 30, 2012
	\$	\$
CuMo	299,255	299,255
Pine Tree	42,155	42,155
Cariboo	3,500	3,500
General reclamation costs	16,249	16,249
	<b>361,159</b>	<b>361,159</b>

The reclamation provision is comprised of deposits to the Bureaus of Land Management (the "BLMs") in Nevada and Idaho and to other agencies for the above properties.

Although the Company does not anticipate being required to perform significant reclamation activities, it has recorded a provision for estimated reclamation costs based on the amount of the reclamation bonds. The bonds represent the fair value of the maximum reclamation costs associated with the Company's properties. Due to the uncertainty around the timing and amount of the associated reclamation cash flows, the amount of the provision is not discounted. The reclamation deposits will be refunded once the BLMs are satisfied that the Company has performed all necessary decommissioning activities.

The continuity of the reclamation provision is as follows:

	September 30, 2012	June 30, 2012
	\$	\$
Balance at the beginning of the period	361,159	65,869
Reclamation work performed - Brett	-	(5,680)
Increase in estimate - Brett	-	5,500
Increase in estimate - CuMo	-	295,470
Balance at the end of the period	<b>361,159</b>	<b>361,159</b>

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 11. Capital and equity reserve

#### (a) *Capital*

At September 30, 2012, Mosquito's authorized share capital consisted of an unlimited number of common shares without par value. All issued common shares are fully paid.

No shares were issued during the three months ended September 30, 2012.

On August 25, 2011, Mosquito completed a non-brokered private placement consisting of 2,490,649 units (the "Units") in Mosquito at a price of \$0.75 per Unit, for gross proceeds of \$1,867,687. Each Unit was comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one additional common share of the Company until August 25, 2014, at an exercise price of \$0.85. The fair value of the warrants issued in this private placement was \$174,345, determined using the residual method.

The Company incurred cash share issue costs of \$103,654 in connection with the private placement.

Agents were paid an aggregate fee of \$66,296, 102,986 share purchase warrants exercisable at \$0.85 for three years and 14,592 units, comprised of one share and one share purchase warrant exercisable at \$0.85 for three years. The fair value of the warrants for the units was \$1,021, determined using the residual method. The fair value of the 102,986 share purchase warrants was estimated at \$40,285 using the Black-Scholes pricing model. The assumptions used for the valuation of the warrants were a risk-free interest 1.17%, volatility of 91%, dividend of \$nil, exercise price of \$0.85 per share and expected life of the warrants of 3 years.

#### (b) *Equity reserve*

##### Share Options

Equity reserve consists of the accumulated fair value of common share options and share purchase warrants recognized as share-based payments.

Mosquito has an incentive share option plan under which directors, officers, consultants and employees of the Company are eligible to receive stock options. The maximum number of shares reserved for issuance upon exercise of all options granted under the plan is equal to 10% of the then issued and outstanding common shares. No more than 5% of the issued shares may be issued to any eligible person other than a consultant in any 12 month period unless disinterested shareholder approval has been obtained. No more than 2% of the issued shares may be issued to any one consultant in any 12 month period. No more than 2% of the issued shares may be issued to all employees in the aggregate conducting investor relations activities in any 12 month period.

The exercise price of share options is determined by the Board of Directors at the time of grant and may not be less than the discounted market price as calculated and defined in accordance with the policies of the TSX-V. Options granted must be exercised no later than 10 years commencing from the later of the date of grant or such lesser period as determined by the Board. Options shall terminate automatically or 90 days after optionees no longer act as officers, directors or consultants of the Company. In the case of death, options shall terminate within one year from the event.

Once approved, all options are considered vested and are exercisable at any time, except for options granted to employees or consultants conducting investor relation activities. Options granted to employees or consultants conducting investor relations activities must vest in stages over 12 months with no more than one quarter of the options vesting in any 3 month period.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 11. Capital and equity reserve (continued)

Share options were awarded during the period ended September 30, 2012 and the year ended June 30, 2012 as follows:

	Three months ended September 30, 2012		Year ended June 30, 2012	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance, beginning of period	10,779,972	0.49	6,775,600	0.44
Options granted	-	-	5,225,622	0.53
Options exercised	-	-	(456,250)	0.35
Options expired	-	-	-	-
Options forfeited	(5,867,472)	0.55	(765,000)	0.47
Balance, end of period	4,912,500	0.42	10,779,972	0.49

For the 456,250 share options exercised during the year ended June 30, 2012, the weighted average closing share price at the date of exercise was \$0.44.

The following table summarizes information about stock options outstanding and exercisable at September 30, 2012:

Exercise price	Options outstanding	Options outstanding		Options exercisable		
		Weighted average exercise price	Weighted average remaining contractual life (years)	Options outstanding and exercisable	Weighted average exercise price	Weighted average remaining contractual life (years)
\$		\$			\$	
0.35-0.36	4,032,500	0.35	1.42	4,032,500	0.35	1.42
0.37-0.70	285,000	0.51	9.31	285,000	0.51	9.31
0.71-0.80	595,000	0.80	2.84	595,000	0.80	2.84
	4,912,500	0.42	2.02	4,912,500	-	-

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 11. Capital and equity reserve (continued)

The fair value of the share options awarded to employees and directors was estimated using the Black-Scholes option pricing model with the following assumptions for the periods presented below:

	Year ended June 30, 2012
Risk free interest rate	2.08-2.50%
Expected life	10 years
Expected volatility	99-103%
Expected dividend per share	\$Nil

The weighted average fair value of share options awarded during the year ended June 30, 2012, estimated using the Black-Scholes option pricing model was \$0.49 per option.

The Black-Scholes option pricing model was developed for use in estimating the fair value of share options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. Mosquito uses expected volatility rates which are based upon their historical volatility. Changes in the underlying assumptions can materially affect the fair value estimates.

The total share-based payment expense calculated for the three months ended September 30, 2012 was \$nil (three months ended September 30, 2011: \$nil).

#### Warrants

During the year ended June 30, 2012, the Company granted 2,608,227 warrants at an exercise price of \$0.85 with an expiry date of August 25, 2014. The fair value of the warrants issued in 2012 was estimated at \$0.36 per warrant at the grant date using the Black-Scholes option pricing model. The weighted average assumptions used for the calculation are presented in the following table:

	Year ended June 30, 2012
Risk free interest rate	1.17%
Expected life	3 years
Expected volatility	91.00%
Expected dividend per share	\$Nil

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

### 11. Capital and equity reserve (continued)

Warrants were awarded during the three months ended September 30, 2012 and the year ended June 30, 2012 as follows:

	Three months ended September 30, 2012		Year ended June 30, 2012	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
		\$		\$
Balance, beginning of period	2,608,227	0.85	5,262,116	1.25
Warrants granted	-	-	2,608,227	0.85
Warrants exercised	-	-	-	-
Warrants expired	-	-	(5,262,116)	1.25
Balance, end of period	2,608,227	0.85	2,608,227	0.85

### 12. Related party transactions

Details of the transactions between the Company and other related parties are disclosed below.

#### (a) Trading transactions

The Company's related parties consist of companies owned by executive officers and directors, and former executive officers and directors as follows:

	<u>Nature of transactions</u>
1330275 Ontario Inc.	Management fees
Geologic Systems Inc.	Exploration and administration fees

During three months ended September 30, 2012 and 2011 the Company incurred the following fees and expenses in the normal course of operations in connection with companies owned by key management and directors. Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

	2012	2011
	\$	\$
Management fees	52,500	57,675
Exploration fees	-	53,542
Administration fees	-	9,926
	52,500	121,143

Amounts due to related parties are unsecured, non-interest bearing and due on demand. Trade and other payables at September 30, 2012 included \$131,814 (June 30, 2012: \$147,715), which were due to private companies controlled by directors and officers of the Company.

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 12. Related party transactions (continued)

#### (b) Compensation of key management personnel

The remuneration of directors and other members of key management personnel during the three months ended September 30, 2012 and 2011 were as follows:

	Note	2012	2011
		\$	\$
Salaries and fees	(i)	52,500	121,143
Share-based payment	(ii)	-	-
	(iii)	52,500	121,143

- (i) Salaries and fees and include consulting and management fees disclosed in note 11(a).
- (ii) Share-based payments are the fair-value of options granted to key management personnel.
- (iii) Key management personnel were not paid post-employment benefits, termination benefits, or other long-term benefits during the three months ended September 30, 2012 and 2011.

### 13. Supplemental cash flow information

The following significant non-cash transactions have been excluded from the statements of cash flows:

#### a) Three months ended September 30, 2012:

- Nil.

#### b) Year ended June 30, 2012:

- The Company received 250,000 shares valued at \$66,250 in connection with the sale of the Blackpoint property to Urastar (Note 8).
- The Company received 100,000 shares valued at \$46,000 in connection with the sale of the Lavery property to Mega (Note 8).
- The Company received 2,000,000 shares valued at \$336,520 in connection with the sale of Pinetree Property to IEMR (Note 8).

# Mosquito Consolidated Gold Mines Limited

## Notes to the condensed consolidated interim financial statements

September 30, 2012

(Unaudited and expressed in Canadian dollars, except number of shares and per share amounts)

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### 14. Commitments and contingencies

- The Company has entered into a lease agreement for the lease of office premises in Vancouver. The commencement date of the lease was December 1, 2011, for a five year term. The Company's basic rent commitments for the remaining term of the contract are approximately \$188,779.
- Liberty Mutual Insurance Company asserted a claim against the Company for unpaid premium of US\$142,374 plus interest, costs of suit and attorney's fees. The amount in dispute is included in accounts payable and accrued liabilities. Management is in the process of settling the matter without further litigation.

### 15. Subsequent events

Subsequent to September 30, 2012:

- At the Company's special meeting of shareholders held on October 16, 2012, the shareholders of the Company approved the election of a new board of directors. Each Board member was proposed for election by a group of concerned shareholders and received votes in favour representing over 2/3 of the votes cast by proxy. Subsequent to the Meeting, the Board appointed new officers of the Company. New management has begun the exhaustive process of understanding the current state of the Company and its financial affairs. Previous management failed to disclose to the shareholders that a writ had been filed on Friday October 12, 2012 in the Supreme Court of British Columbia by Sacre-Davey Engineering Inc., an engineering firm, in regards to \$82,643 of unpaid invoices. Management is in the process of investigating this claim.
- Subject to regulatory approval, the Board has accepted an offer by International Energy & Mineral Resources Investment (Hong Kong) Company Limited ("HK CO") to finance the ongoing development of the CuMo project. The Company will borrow the principal amount of Cdn\$1,500,000 and US\$1,500,000 from, and issue a secured convertible note (the "Note") in respect of such indebtedness to HK CO (the "Financing"). The Note shall accrue interest at a rate of 6.5% per annum and shall be repayable on or before 5 years from the date of issue (the "Maturity Date"). At the option of HK CO the Note shall be convertible at any time prior to the Maturity Date, in whole or in part, into common shares of the Company at a price of \$0.28 per common share provided that HK CO shall only be permitted to exercise such conversion right to the extent that it results in HK CO holding no greater than 19.9% of the issued and outstanding common shares of Mosquito. The principal amount of the Note will be used to advance the CuMo project forward and for general working capital of the Company. The Note is subject to a four month hold period in accordance with applicable Canadian securities laws.

HK CO is a "Related Party" of the Company pursuant to the policies of the TSX-V, as HK CO holds approximately 16.12% of the issued and outstanding common shares of Mosquito. As such, the Financing constitutes a "Related Party Transaction" under the policies of the TSX-V. The Company is relying on exemptions from the formal valuation and minority approval requirements which are available to the Company.

The Financing was unanimously approved by the Board of Directors of the Company, other than a director who declared his interest in the Financing and abstained from voting with respect to the Financing as he holds a controlling interest in HK CO. If the principal amount of the Note is converted to the full extent possible, HK CO will increase its shareholdings in the Company from 13,256,666 common shares (approximately 16.12% of the issued and outstanding common shares) to 16,370,226 common shares (which would represent approximately 19.9% of the issued and outstanding common shares), assuming that no additional common shares of Mosquito are issued prior to such conversion.