

MINERAL HILL INDUSTRIES LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
June 30, 2011 and 2010

MINERAL HILL INDUSTRIES LTD.

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**NOTICE OF NO AUDITORS' 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 an auditor has not reviewed the financial statements.

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 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.

Mineral Hill Industries Ltd.
Interim consolidated statements of financial position

| | June 30 2011 | December 31 2010 | January 1 2010 |
|---|-----------------|---------------------|-------------------|
| | \$ | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and equivalents | 20,851 | 19,208 | 200,955 |
| Marketable securities (Note 4) | - | 3,068 | 4,725 |
| Receivables | 3,401 | 1,473 | 63,821 |
| Due from related parties (Note 9) | 4,361 | 32,115 | 74,448 |
| Prepaid expenses | 13,191 | 13,273 | 2,979 |
| | 41,804 | 69,137 | 346,928 |
| Investments in associate (Note 5) | - | 31,350 | 31,350 |
| Equipment (Note 6) | 37,313 | 40,810 | 59,761 |
| Mineral properties (Note 7) | 357,914 | 223,566 | 1,340,402 |
| Deferred exploration costs (Note 8) | 180,277 | 178,814 | 527,436 |
| | 617,308 | 543,677 | 2,305,877 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 106,922 | 130,793 | 110,859 |
| Due to related parties (Note 9) | 243,850 | 56,897 | 13,748 |
| | 350,772 | 187,690 | 124,607 |
| Non current liabilities | | | |
| Deferred tax liability (Note 11) | 13,495 | - | - |
| | 13,495 | - | - |
| Shareholders' equity | | | |
| Share capital (Note 10) | 14,528,911 | 14,479,661 | 14,196,161 |
| Share subscriptions | 47,000 | - | - |
| Contributed surplus | 800,405 | 763,510 | 546,381 |
| Warrants | 329,785 | 329,785 | 329,785 |
| Deficit | (15,453,060) | (15,216,969) | (12,891,057) |
| | 253,041 | 355,987 | 2,181,270 |
| | 617,308 | 543,677 | 2,305,877 |

(The accompanying notes are an integral part of these consolidated financial statements)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on August 25, 2011 and were signed on its behalf:

"Dieter Peter"
 Dieter Peter, Director

"Andrew von Kursell"
 Andrew von Kursell, Director

Mineral Hill Industries Ltd.
Interim consolidated statements of comprehensive loss

| | Three months to June 30 | | Six months to June 30 | |
|---|-------------------------|------------------|-----------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Expenses | | | | |
| General and administrative expenses | \$ 73,177 | \$ 151,287 | \$ 171,202 | \$ 247,492 |
| Amortization | 2,040 | 5,652 | 4,081 | 11,488 |
| Stock-based compensation (Note 10) | 20,136 | 102,365 | 36,895 | 158,635 |
| Impairment loss on marketable securities (Note 4) | - | 2,504 | 3,068 | 576 |
| Equity loss on investments (Note 5) | - | - | 7,350 | - |
| Loss before income tax | (95,353) | (261,808) | (222,596) | (418,191) |
| Income tax expense | - | - | (13,495) | - |
| Net comprehensive loss for the period | (95,353) | (261,808) | (236,091) | (418,191) |
| Loss per common share, basic and diluted | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.01) |

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Interim consolidated statements of cash flows

| | Three months to June 30 | | Six months to June 30 | |
|---|-------------------------|-----------------|-----------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Cash flows from operating activities | | | | |
| Loss for the period | \$ (95,353) | \$ (261,808) | \$ (236,091) | \$ (418,191) |
| Items not affecting cash: | | | | |
| Amortization | 2,040 | 1,464 | 4,081 | 7,300 |
| Stock-based compensation | 20,136 | 102,365 | 36,895 | 158,635 |
| Equity loss on investment | - | - | 7,350 | - |
| Impairment loss on marketable securities | - | 2,504 | 3,068 | 576 |
| Income tax expense | - | - | 13,495 | - |
| Changes in non-cash working capital items: | | | | |
| (Increase) decrease in receivables | (260) | (2,528) | 1,928 | 28,259 |
| (Increase) decrease in due from related parties | (2,646) | - | 27,754 | - |
| (Increase) decrease in prepaid expenses | (7,752) | (9,905) | 82 | (7,333) |
| (Decrease) increase in accounts payable and accrued liabilities | (7,365) | 82,956 | (23,871) | 62,332 |
| Increase in accounts payable to related parties | 34,324 | 29,498 | 62,953 | 28,017 |
| Net cash used in operating activities | (56,876) | (55,454) | (106,212) | (140,405) |
| Cash flows from financing activities | | | | |
| Proceeds from the issuance of common shares | - | 82,000 | - | 130,000 |
| Proceeds from subscription | - | - | 47,000 | - |
| Proceeds of loan from related party | 78,000 | - | 124,000 | - |
| Net cash provided by financing activities | 78,000 | 82,000 | 171,000 | 130,000 |
| Cash flows from investing activities | | | | |
| Proceeds from the disposal of investment | 24,000 | - | 24,000 | - |
| Purchase of equipment | (584) | - | (584) | - |
| Payment on Mineral properties | (40,000) | (72,873) | (85,098) | (105,705) |
| Deferred exploration costs | (1,463) | (560) | (1,463) | (1,665) |
| Net cash used in investing activities | (18,047) | (73,433) | (63,145) | (107,370) |
| Increase (decrease) in cash and equivalents | 3,077 | (46,887) | 1,643 | (117,775) |
| Cash and equivalents, beginning of the period | 17,774 | 130,067 | 19,208 | 200,955 |
| Cash and equivalents, end of the period | \$ 20,851 | 83,180 | 20,851 | \$ 83,180 |

Supplemental disclosures with respect to cash flows

During the period ended June 30, 2011

- (i) the Company issued 750,000 common shares (2010: 700,000), valued at \$49,250 (2010: \$34,500) with respect to obligations under property option agreements.
- (ii) An amount of \$66,242 due to Merfin Management Ltd. with respect to consulting fees, was converted to loans.

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of changes
For the six months ended June 30, 2011 and 2010

| | Share Capital | | Reserves | | | Total |
|-----------------------------------|-------------------|-------------------|---------------------|----------------|---------------------|------------------|
| | Number of shares | Amount | Contributed Surplus | Warrants | Deficit | |
| | | \$ | \$ | \$ | \$ | \$ |
| Balance, January 1, 2010 | 35,685,058 | 14,196,161 | 546,381 | 329,785 | (12,891,057) | 2,181,270 |
| Property option | 700,000 | 34,500 | - | - | - | 34,500 |
| Private placement | 1,500,000 | 75,000 | - | - | - | 75,000 |
| Exercise of warrants | 1,100,000 | 55,000 | - | - | - | 55,000 |
| Share based payment | - | - | 158,635 | - | - | 158,635 |
| Comprehensive loss for the period | - | - | - | - | (418,191) | (418,191) |
| Balance, June 30, 2010 | 36,035,058 | 14,263,161 | 705,016 | 329,785 | (13,309,248) | 2,086,214 |
| Balance, December 31, 2010 | 41,365,058 | 14,479,661 | 763,510 | 329,785 | (15,216,969) | 355,987 |
| Property option | 750,000 | 49,250 | - | - | - | 49,250 |
| Share subscriptions | - | 47,000 | - | - | - | 47,000 |
| Share based payment | - | - | 36,895 | - | - | 36,895 |
| Comprehensive loss for the period | - | - | - | - | (236,091) | (236,091) |
| Balance, June 30, 2011 | 42,115,058 | 14,575,911 | 800,405 | 329,785 | (15,453,060) | 253,041 |

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the acquisition and exploration of mineral properties in Québec and British Columbia, Canada and the United States. The Company's shares are listed on the Toronto Stock Venture Exchange ("TSXV") trading under the symbol "MHI". The registered office of the Company is 10th Floor, 595 Howe Street, Vancouver, V6C 2T5, British Columbia.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether those properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure the continuation of the Company's operations and exploration programs. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company

Basis of preparation

These interim consolidated financial statements are unaudited and have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and applicable for the reporting period, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

Since these financial statements represent the Company's first presentation of its results and financial position under IFRS, they were prepared in accordance and compliance with IAS 34 – *Interim Financial Reporting* and IFRS 1 – *First time Adoption of International Financial Reporting Standards*.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, Management has amended some accounting and measurement methods previously applied in Canadian GAAP in order to comply with IFRS. A description of the effects of the differences on equity, loss and comprehensive loss are discussed in Note 16 of the consolidated financial statements along with a line by line reconciliation of the statements of financial positions as at December 31, 2010 and January 1, 2010 and the statement of comprehensive loss for the year ended December 31, 2010 and for the six and three months ended June 30, 2010.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Functional currency

The presentation and functional currency of the Company and each of its subsidiaries is the Canadian dollar.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cerro Minerales S.A. de C.V., Mexico and Veritas Resource Corp, Nevada USA. All significant inter-company balances and transactions have been eliminated upon full consolidation.

b) Estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results could differ from those reported.

Significant accounts that require estimates as the basis for determining the stated amounts include mineral properties, investments and loans, due from related parties, equipment, valuation allowances for future income tax assets, stock-based compensation, the fair value of warrants issued as part of private placements and the fair value of shares issued for mineral properties.

c) Cash and equivalents

Cash is comprised of cash on hand. Cash equivalents include short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

d) Refundable tax credits and mining duties

The Company is entitled to apply for government grants in the form of refundable tax credits and mining duties in respect of qualifying mining exploration expenses incurred. These recoveries are accounted for using the cost reduction approach whereby amounts received or receivable are applied against the cost of related assets or expenditures.

e) Marketable securities

Securities held for trading which are traded on a recognized securities exchange, are recorded at fair values based on quoted closing bid prices at the balance sheet dates or the closing bid prices on the last day the security traded if there was no trade at the balance sheet dates with both realized and unrealized gains and losses recorded in the statement of comprehensive income.

f) Foreign currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items are measured in terms of historical cost in a currency other than the functional currency are not translated.

g) Investments in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed when the Company holds between 20 to 50 percent of the voting power of another entity. Investment in associates is accounted for using the equity method and is recognized initially at cost. The consolidated financial statements include the Company's share of attributable net income or loss with a corresponding entry in the carrying value of the investment.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Equipment

These assets are recorded at cost less accumulated amortization and impairment. Amortization is calculated using the declining balance method to allocate their costs to their residual values over their estimated useful lives as follows:

| | |
|-------------------------|-----------------------|
| Furniture and equipment | 20% |
| Vehicles | 20% |
| Mining equipment | 20% |
| Computer software | 20% |
| Leasehold Improvements | 5 years straight-line |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of income.

i) Mineral properties and deferred exploration costs

All costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property.

Exploration and evaluation expenditures comprise costs that are directly attributable to:

- researching and analysing existing data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its disposal or through farm-out arrangements.

Once commercial production commences, these costs will be reclassified to Mineral properties within Property, plant and equipment and charged to operations on a unit-of-production method based on proven and probable reserves.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income, costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

j) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company does not have any significant asset retirement obligations.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Impairment of long-lived assets

At each reporting date, all capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

l) Stock-based compensation

The fair value of stock options granted is measured at grant date using the Black-Scholes option pricing model. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and Management's best estimate of the awards that expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of income with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in contributed surplus are credited to share capital.

m) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

n) Loss per share

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to purchase the Company's common shares at their average market price during the period, a reduction to the weighted average number of common shares outstanding. If this computation is anti-dilutive, diluted loss per share is the same as basic loss per share. For the periods presented, this calculation proved to be anti-dilutive.

o) Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The premium, if any, paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is credited to other liabilities and recognized in income at the time the qualifying expenditures are made. The recognition of the future income tax liability upon renunciation of the flow through expenditures is recorded as income tax expense in the period of renunciation.

p) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loan and receivables, available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

- *Financial assets at fair value through profit or loss*

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets and include cash and cash equivalents and marketable securities, which are initially recognized at fair value.

- *Loans and receivables*

Loans and receivables are non derivative financial assets which fixed or determinable payments that are not quoted in an active market. They are classified as current or non current assets based on their maturity date. Assets in this category include due from related parties, are measured at amortized cost less impairment.

- *Available-for-sale financial assets*

Available-for-sale financial assets are either designated as available for sale or not classified in any other categories. They are initially recognized at fair value plus transaction costs and are subsequently carried at fair value, with unrealized gains and losses recorded in other comprehensive income until disposition or other-than-temporary impairment at which time the gain or loss is recorded in earnings. The Company does not have any available-for-sale financial assets.

Financial liabilities

Financial liabilities include accounts payable and accrued liabilities and due to related parties, are initially recognized at fair value and subsequently stated at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial instruments (continued)

Impairment of financial assets

The Company assesses at each reporting date, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortization: the loss is the difference between the amortized cost and its value of estimated future cash flows, discounted using the instrument's original effective interest rate;
- Available-for-sale financial asset: The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment previously recognized in the income statement. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Reversals of impairment losses on financial assets carried at amortized cost are recorded through the income statement if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss had been recognized. Impairment on available-for-sale instruments is not reversed.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

International Financial Reporting Standard 9 ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company is currently assessing the impact on its consolidated financial statements.

4. MARKETABLE SECURITIES

Marketable securities consisted of 750,000 shares in Pan Pacific Aggregates Plc, a publicly traded company and are carried at fair value, based on the trading price of the shares at close of business at the reporting date. At June 30, 2011, the company decided to write off the carrying value of the shares as these have been suspended from trading.

| | June 30 | December 31 | January 1 |
|--------------------------------------|----------------|-------------|-----------|
| | 2011 | 2010 | 2010 |
| Marketable securities | | | |
| At fair value through profit or loss | \$ - | 3,068 | 4,725 |

5. INVESTMENT IN ASSOCIATE

The Company holds 50% of the equity in Gixat'in Mhind World Link Inc (GMWL) and 473,799 class "A" preference redeemable shares and are accounted for using the equity method. During the six months ended June 30, 2011, the Company incurred equity loss of \$7,350 (2010: \$Nil) on the investment and on June 30, 2011, disposed of its investment in GMWL to Merfin Management Ltd. for proceeds of \$24,000.

| | | |
|--|----|----------|
| Balance at January 1, 2010 and December 31, 2010 | \$ | 31,250 |
| Share of loss | | (7,350) |
| Carrying value | | 24,000 |
| Disposal proceeds | | (24,000) |
| Net of disposal proceeds | \$ | - |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

5. INVESTMENT IN ASSOCIATE (continued)

Summary financial information for Gixat'in Mhind World Link Inc (GMWL), not adjusted for the percentage ownership held by the Company:

| | June 30 2011 | December 31 2010 | January 1 2010 |
|---------------------|-------------------------|---------------------|-------------------|
| Ownership | Nil | 50% | 50% |
| Current assets | \$ 1,500 | 7,787 | 7,787 |
| Non-current assets | 56,500 | 86,616 | 86,616 |
| Total assets | 58,000 | 94,403 | 94,403 |
| Current liabilities | 10,000 | 31,703 | 31,703 |
| Net assets | \$ 48,000 | 62,700 | 62,700 |

For the six months ended

| | June 30 2011 | June 30 2010 |
|----------|--------------------|-----------------|
| Revenues | - | - |
| Expenses | (14,700) | - |
| Loss | \$ (14,700) | - |

6. EQUIPMENT

| | Furniture & Equipment | Vehicles | Mining Equipment | Leasehold Improvements | Computer Software | TOTAL |
|---|--------------------------|--------------|---------------------|---------------------------|----------------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>At 1 January 2010</i> | | | | | | |
| Cost | 85,900 | 6,655 | 39,130 | 66,780 | 587 | 199,052 |
| Accumulated Amortization | (62,394) | (3,589) | (19,484) | (53,425) | (399) | (139,291) |
| | <u>23,506</u> | <u>3,066</u> | <u>19,646</u> | <u>13,355</u> | <u>188</u> | <u>59,761</u> |
| <i>Movements - year ended December 31, 2010</i> | | | | | | |
| Acquisitions | 1,674 | - | - | - | 2,514 | 4,188 |
| Amortization | (4,701) | (613) | (3,929) | (13,355) | (540) | (23,139) |
| | <u>(3,027)</u> | <u>(613)</u> | <u>(3,929)</u> | <u>(13,355)</u> | <u>1,974</u> | <u>(18,951)</u> |
| <i>Balance - December 31, 2010</i> | | | | | | |
| Cost | 87,574 | 6,655 | 39,130 | 66,780 | 587 | 203,240 |
| Accumulated Amortization | (67,095) | (4,202) | (23,413) | (66,780) | 1,575 | (162,430) |
| | <u>20,479</u> | <u>2,453</u> | <u>15,717</u> | <u>-</u> | <u>2,162</u> | <u>40,810</u> |
| <i>Movements - Six months ended June 30, 2011</i> | | | | | | |
| Acquisitions | 584 | | | | | 584 |
| Amortization | (2,048) | (245) | (1,572) | - | (216) | (4,081) |
| | <u>(1,464)</u> | <u>(123)</u> | <u>(786)</u> | <u>-</u> | <u>(108)</u> | <u>(3,497)</u> |
| <i>Balance - June 30, 2011</i> | | | | | | |
| Cost | 88,158 | 6,655 | 39,130 | 66,780 | 3,101 | 203,824 |
| Accumulated Amortization | (69,143) | (4,447) | (24,985) | (66,780) | (1,155) | (166,511) |
| | <u>19,015</u> | <u>2,208</u> | <u>14,145</u> | <u>-</u> | <u>1,946</u> | <u>37,313</u> |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
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7. MINERAL PROPERTIES

| | Balance January 1 2010 | Additions | Impairment | Balance December 31 2010 | Additions | Balance June 30 2011 |
|--|------------------------------|------------|----------------|--------------------------------|------------|----------------------------|
| Chubb Property, Québec | \$ 46,000 | \$ - | \$ - | \$ 46,000 | \$ 35,000 | \$ 81,000 |
| International Property, Québec | 5,000 | 28,108 | - | 33,108 | 15,000 | 48,108 |
| Athona Property, Québec | 3,500 | 20,500 | - | 24,000 | 31,250 | 55,250 |
| Canadian and McNeely Lithium Property, Québec | - | 28,000 | - | 28,000 | 8,000 | 36,000 |
| Skeena Property, BC | 1,280,902 | - | (1,280,902) | - | - | - |
| Chikadee Creek Property, Alberta | 5,000 | - | (5,000) | - | - | - |
| RR Lithium Property, US | - | 33,144 | (33,144) | - | - | - |
| Liberty Hill Mine, US | - | 92,458 | - | 92,458 | 45,098 | 137,556 |
| | \$ 1,340,402 | \$ 202,210 | \$ (1,319,046) | \$ 223,566 | \$ 134,348 | \$ 356,914 |

Title to mineral properties

Title to mineral properties 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 conveyance history characteristic of many mineral properties. The Company has investigated title to all of its properties and, to the best of its knowledge, title to all of its properties are in good standing. However, this should not be construed as a guarantee of title. The mineral properties may be subject to prior claims, arguments or transfers and rights of ownership may be affected by undetected defects.

Lithium Properties, Val d'Or, Quebec

Chubb Property, Québec

On May 11, 2009, the Company signed an option agreement to acquire 100% interest in the Chubb Lithium Property, which is located in the Archean Abitibi Greenstone belt in the La Corne Township. Under the agreement, in order for the Company to earn-in 100% undivided interest in the property, the following payments will have to be made:

| | Cash payment | Shares |
|--|------------------|----------------|
| Upon execution of the option agreement | \$ 5,000 | Nil |
| Upon approval of the Exchange (February 8, 2010) | \$ 15,000 | 200,000 |
| On or before February 8, 2011 | \$ 20,000 | 200,000 |
| On or before February 8, 2012 | \$ 20,000 | 200,000 |
| On or before February 8, 2013 | \$ 20,000 | 200,000 |
| Total | \$ 80,000 | 800,000 |

The agreement provides for a 2% net smelter return ("NSR"). The Company has an exclusive option to buy back 50% for \$1,000,000 within one year and the remaining 50% for \$1,000,000 within two years of the date the Chubb Property is put into commercial production.

As at December 31, 2010, the Company had issued 200,000 shares valued at \$26,000 and paid \$20,000 to the Optionors, pursuant to the agreement.

During the six months ended June 30, 2011, the Company issued 200,000 common shares pursuant to the option agreement. Please see note below regarding the settlement of outstanding cash payments.

Mineral Hill Industries Ltd.
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7. MINERAL PROPERTIES (continued)

International Property, Québec

On August 7, 2009, the Company signed an option agreement to acquire 100% interest in the International Property. Under the agreement, the following payments will have to be made before the Company acquires a 100% undivided interest in the property:

| | Cash Payment | Shares |
|--|-----------------|----------------|
| Upon execution of the option agreement | \$5,000 | Nil |
| On or before February 8, 2010 | \$18,108 | 200,000 |
| On or before February 8, 2011 | \$20,000 | 200,000 |
| On or before February 8, 2012 | \$20,000 | 100,000 |
| On or before February 8, 2013 | \$20,000 | 100,000 |
| Total | \$83,108 | 600,000 |

The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for \$500,000 within one year and the remaining 50% for \$500,000 within two years of the date the International Property is put into commercial production.

As at December 31, 2010, the Company had issued 200,000 shares valued at \$10,000 and paid \$23,108 pursuant to the agreement.

During the six months ended June 30, 2011, the Company issued 200,000 common shares pursuant to the option agreement. Please see note below regarding the settlement of outstanding cash payments.

Athona Property

On September 16, 2009, the Company signed an option agreement to acquire 100% interest in the Athona Property. Under the agreement, in order for the Company to earn-in 100% undivided interest in the property, the following payments will have to be made, in addition to a work commitment of \$25,000 to be incurred on the property in 2009 (commitment met):

| DATE | Cash Payment | Shares |
|--|-----------------|----------------|
| Upon execution of the option agreement | \$3,500 | Nil |
| On or before March 20, 2010 | \$11,500 | 150,000 |
| On or before March 20, 2011 | \$15,000 | 150,000 |
| On or before March 20, 2012 | \$15,000 | 75,000 |
| On or before March 20, 2013 | \$15,000 | 75,000 |
| Total | \$60,000 | 450,000 |

As at December 31, 2010, the Company issued 150,000 shares valued at \$9,000 and paid \$15,000 to the Optionors, pursuant to the agreement.

During the six months ended June 30, 2011, the Company issued 150,000 common shares pursuant to the option agreement. Please see note below regarding the settlement of outstanding cash payments.

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7. MINERAL PROPERTIES (continued)

Canadian and McNeely Lithium Property, Québec

On May 20, 2010, the Company signed an option agreement to acquire 100% interest in the Canadian and McNeely Property. Under the agreement, the following payments will have to be made before the Company acquires 100% undivided interest in the property:

| | Cash Payment | Shares |
|--|---------------------|----------------|
| Upon execution of the option agreement | \$5,000 | Nil |
| On May 27, 2010 | \$15,000 | 200,000 |
| On or before May 27, 2011 | \$20,000 | 200,000 |
| On or before May 27, 2012 | \$20,000 | 100,000 |
| On or before May 27, 2013 | \$20,000 | 100,000 |
| Total | \$80,000 | 600,000 |

The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for \$500,000 within one year and the remaining 50% for \$500,000 within two years of the date the Canadian and McNeely Property is put into commercial production.

As at December 31, 2010, the Company had issued 200,000 shares valued at \$8,000 paid \$20,000 to the Optionors, pursuant to the agreement.

During the six months ended June 30, 2011, the Company issued 200,000 shares pursuant to the agreement. Please see note below regarding the settlement of outstanding cash payments.

Settlement of outstanding cash payments

The Company defaulted on the cash payments that were due in February and March 2011. The Company received a notice of default dated April 27, 2011 indicating the option agreements will terminate on June 26, 2011 should the payment not be made, in pursuance of which, the Company and the Optionor have agreed to a payment plan, as follows:

- (i) \$20,000 on May 15, 2011;
- (ii) \$20,000 on June 15, 2011;
- (iii) \$20,000 on July 15, 2011; and
- (iv) \$15,000 on August 15, 2011.

During the six months ended June 30, 2011, the Company made cash payments totaling \$60,000 pursuant to the following and subsequent to June 30, 2011, completed all payment obligations for 2011 with respect to the properties in Quebec.

Skeena Property, BC

In 2005, the Company earned a 51% interest in the mineral claims owned by Praxis Goldfields Inc. which are located in the Skeena mining division of British Columbia, through payments totalling \$300,000.

In 2006, the Company purchased the remaining 49% interest in the claims by issuing 598,440 common shares valued at \$831,832 and 563,440 non-transferable share purchase warrants valued at \$361,912. The total fair market value of consideration given to acquire the 49% interest was \$1,193,744.

At December 31, 2010, the Company has incurred an amount of \$1,280,902 in acquisition costs and has capitalized \$367,262 in exploration expenditures (see Note 8) incurred on the property.

On December 31, 2010, the Company considered the property impaired and wrote-off \$1,648,164 to operations during the year.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

7. MINERAL PROPERTIES (continued)

Chikadee Creek Lithium Brine Property, Alberta

On September 15, 2009, the Company signed a letter of intent to acquire 100% interest in the Chikadee Creek Lithium Brine Property and paid a non refundable deposit of \$5,000 towards the acquisition price of the property. During fiscal year 2010, the Company decided not to proceed with the acquisition of the property and wrote-off \$5,000 to operations.

RR Lithium Property, Nye County, USA

On April 1, 2010, the Company signed an option agreement to acquire 100% interest in the RR Property. Under the agreement, before the Company acquires 100% undivided interest in the property, it is required to pay US \$ 130,000 in cash and issue 675,000 common shares.

During the fiscal year 2010, the Company issued 150,000 shares valued at \$7,500 and paid \$25,644 (US\$25,000) pursuant to the agreement.

During the six months ended June 30, 2011, the Company decided that it would not proceed with the payments on the property and wrote-off \$33,144 to operations at December 31, 2010.

Liberty Hill Mine, Nevada County, California, USA

On September 30, 2010, the Company entered into an agreement, to earn in a 50% participation a Joint venture agreement with Mining and Energy International Corp (MEICO) in the Liberty Hill Mine, in the Nevada County, California, USA. Under the agreement, in order for the Company to earn a 50% Joint Venture interest, it was required to pay US\$1,000,000 upon the satisfaction of certain conditions and incur US\$1,500,000 in expenditure as follows:

- (i) US\$40,000 on signature of the agreement
- (ii) US\$45,000 within 21 days after signature of the agreement
- (iii) the balance of US\$1,415,000 payable in increasing tranches within 180 days from a date which is the earlier of the approval from the regulatory authorities and the receipt of the exploration permit from the US Forest Service. Any funds generated from the processing of the existing stockpile will reduce the balance payable.

During the fiscal year 2010, the Company paid a total of \$92,458 (US\$88,000), including \$19,245 (US\$18,000) for the renewing the mineral tenures.

During the six months ended June 30, 2011, the Company paid a further \$45,098 (US\$45,000). The Company is awaiting the issuance of the exploration permit from the US Forest Service, which is one of the obligations of MEICO under the agreement.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

8. DEFERRED EXPLORATION COSTS

At June 30, 2011, the Company has capitalized the following exploration expenditures:

| | TOTAL | Skeena Property | Athona Lithium Property | International Property | Chubb Lithium Property | McNeely Lithium Property |
|------------------------------------|-------------------|----------------------------|--|-----------------------------------|---------------------------------------|---|
| Balance - December 31, 2008 | \$ 358,681 | \$ 358,681 | \$ - | \$ - | \$ - | \$ - |
| Mineral tax credit | (569) | (569) | - | - | - | - |
| Expenditure | 169,324 | - | 30,624 | 60,983 | 77,717 | - |
| Balance – January 1, 2010 | 527,436 | 358,112 | 30,624 | 60,983 | 77,717 | - |
| Expenditure | 72,623 | 9,150 | 2,048 | 925 | 1,916 | 58,584 |
| Mineral tax credit | (53,983) | - | (9,763) | (19,443) | (24,777) | - |
| Impairment (Note 7) | (367,262) | (367,262) | - | - | - | - |
| Balance - December 31, 2010 | \$ 178,814 | \$ - | \$ 22,909 | \$ 42,465 | \$ 54,856 | \$ 58,584 |
| Expenditure | 1,463 | - | - | - | - | 1,463 |
| Balance – June 30, 2011 | \$ 180,277 | \$ - | \$ 22,909 | \$ 42,465 | \$ 54,856 | \$ 60,047 |

9. RELATED PARTY TRANSACTIONS

During the six months ended June 30, 2011, the Company entered into the following transactions with related parties. These transactions were in the normal course of operations and were priced on an arm's length basis.

Key management personnel compensation

The remuneration of key management personnel during the six months ended June 30, 2011 and 2010 were as follows:

| | Note | | June 30 2011 | June 30 2010 |
|------------------------------|------|----|-------------------------|-------------------------|
| Consulting fees and salaries | (i) | \$ | 98,957 | \$ 98,957 |
| Share based compensation | (ii) | \$ | 15,210 | \$ 126,452 |

- (i) The Company paid or accrued consulting services for \$50,460 (2010: \$32,960) to Merfin Management Limited, a private company controlled by the Chief Executive Officer and \$Nil (2010: \$17,500) to Panterra Capital, a company controlled by another director. At June 30, 2011 amounts of \$20,619 (2010: \$15,492) and \$30,135 (2010: \$18,375) were due to Merfin Management Limited and to Panterra Capital respectively. During the six months ended June 30, 2011, the Company also paid salaries of \$48,492 (2010: \$48,492) to the Chief Financial Officer. See also note on recovery of expenses below.
- (ii) Share based payments are the fair value of options granted to directors, vested 50% on grant date and 50% on the anniversary of the grant date.

During the six months ended June 30, 2011, an amount of \$66,242 due to Merfin Management with respect to accrued consulting fees was converted into a loan, repayable within three years and bears interest at 8.5% per annum.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
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9. RELATED PARTY TRANSACTIONS (Continued)

Other related party transactions

During the six months ended June 30, 2011, the Company charged, as a recovery of expenses from Golden Dawn Minerals Inc., and Nass Valley Gateway Ltd companies related by common directors and officers, a total amount of \$88,753 (2010: \$116,567) with respect to shared costs relating to salaries, office expenses and including rent in 2010..

The following were receivable from companies which are related by common directors:

| | June 30 2011 | December 31 2010 | January 1 2010 |
|--------------------------|-------------------------|-----------------------------|---------------------------|
| Island Gateway Ltd. | \$ 4,361 | \$ 4,361 | \$ 4,361 |
| Nass Valley Gateway Ltd. | - | 27,754 | 70,087 |
| | \$ 4,361 | \$ 32,115 | \$ 74,448 |

Advances received from related party

During the six months ended June, 2011, in addition to the conversion of payable into loans as mentioned above, the Company received advances of \$124,000 from Merfin Management Limited pursuant to a promissory note bearing interest at 8.5%per annum. An amount of \$2,853 (2010: \$Nil) was accrued as interest.

Subsequent to June 30, 2011, the Company received additional cash advances of \$56,758 from Merfin Management under similar terms.

10. CAPITAL AND RESERVES

a) Authorized share capital

At June 30, 2011, the authorized share capital comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

b) Issues of common shares

During the six months ended June 30, 2011, the Company issued common shares with respect to the Lithium properties in Quebec as described in Note 7.

During the six months ended June 30, 2011, the Company announced a private placement of up to 7,000,000 units at \$0.07 per unit for total proceeds of \$490,000. Each unit is comprised of one common share and one common share purchase warrant. Each warrant is exercisable into common share for two years at a price of \$0.12 per share in the first year and at \$0.18 per share in the second year. The Company has received \$47,000 with respect to this private placement. The private placement has not been closed due to unfavourable market conditions.

During the year ended December 31, 2010

On April 13, 2010, the Company completed a private placement of 1,140,000 flow-through common shares and 360,000 non flow-through common shares at a price of \$0.05 per unit for total proceeds of \$75,000. Each common share was issued with a warrant to purchase an additional common share at a price of \$0.10 within 5 years of the date of the issue.

On November 23, 2010, the Company completed a private placement of 2,200,000 common shares at a price of \$0.05 per common share for total proceeds of \$110,000.

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
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10. SHARE CAPITAL AND RESERVES (continued)

b) Stock options

The Company, in accordance with its modified stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 7,833,012 of currently issued and outstanding common stock. The exercise price of each option equals the closing market price of the Company's stock on the last trading day preceding the date of grant, less any discount permitted by the TSX Venture Exchange. The options can be granted for a maximum term of three years and are subject to vesting provisions as determined by the board of directors of the Company.

Stock option transactions are summarized as follows:

OPTIONS OUTSTANDING

| | Number of Options | Weighted Average Exercise price |
|---|------------------------------|--|
| Balance, January 1, 2010 | 2,587,700 | \$ 0.14 |
| Granted | 3,672,500 | 0.08 |
| Expired | (50,000) | 0.13 |
| Stock options outstanding at December 31, 2010 | 6,210,200 | 0.11 |
| Expired/cancelled | (469,500) | 0.10 |
| Granted | 50,000 | 0.10 |
| Stock options outstanding at June 30, 2011 | 5,790,700 | 0.10 |

Information regarding options outstanding and exercisable as at June 30, 2011

| Expiry Date | Exercise Price | Number of Options Outstanding | No of options Exercisable | Average Remaining life (yrs) |
|--------------------|-----------------------|--|--------------------------------------|---|
| June 25, 2012 | \$ 0.14 | 1,340,200 | 1,340,200 | 1.48 |
| September 9, 2012 | 0.13 | 21,000 | 21,000 | 1.69 |
| October 8, 2012 | 0.14 | 1,052,000 | 947,000 | 1.77 |
| January 28, 2013 | 0.055 | 1,252,500 | 1,252,500 | 2.08 |
| April 15, 2013 | 0.10 | 220,000 | 110,000 | 2.29 |
| November 4, 2013 | 0.10 | 1,855,000 | 582,500 | 2.85 |
| March 1, 2012 | 0.10 | 50,000 | - | 0.90 |
| | \$ 0.10 | 5,790,700 | 4,253,200 | 2.04 |

c) Stock-based compensation

The following weighted-average assumptions were used for the Black-Scholes method of valuation of the stock options granted during the six months ended June 30, 2011 and 2010:

| | 2011 | 2010 |
|--------------------------|-------------|-------------|
| Risk-free interest rate | 2.62% | 1.26% |
| Expected dividend yield | - | - |
| Annualized volatility | 156% | 133% |
| Expected life of options | 3 years | 3 years |

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
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10. SHARE CAPITAL AND RESERVES (continued)

d) Warrants

As at June 30, 2011, the Company had the following outstanding warrants to purchase common shares of the Company:

| Number of warrants | Exercise price | Expiry date |
|---------------------------|-----------------------|--------------------|
| 18,570,000 | \$ 0.10 | July 14, 2014 |
| 900,000 | 0.20 | December 3, 2011 |
| 1,500,000 | 0.10 | April 13, 2015 |
| 20,970,000 | \$ 0.10 | |

Warrant transactions are summarized as follows:

| | WARRANTS OUTSTANDING | |
|---|-----------------------------|--|
| | NUMBER OF WARRANTS | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance, January 1, 2010 | 24,165,377 | 0.08 |
| Issued | 1,500,000 | 0.10 |
| Exercised (Note 10(a)) | (1,280,000) | 0.05 |
| Expired | (3,415,377) | 0.21 |
| Balance, December 31, 2010 and June 30, 2011 | 20,970,000 | \$ 0.10 |

11. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

| | 2010 | 2009 |
|---|----------------|----------------|
| Loss for the year | \$ (2,325,912) | \$ (1,185,938) |
| Expected income tax recovery | \$ (662,885) | \$ (355,781) |
| Non-deductible items | 549,547 | 199,977 |
| Deductible items | (9,227) | (10,885) |
| Unrecognized benefits of non-capital losses | 122,565 | 166,689 |
| Total income tax expense (recovery) | \$ - | \$ - |

Mineral Hill Industries Ltd.
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11. INCOME TAXES (Continued)

Details of future income tax assets and liabilities are as follows:

| | 2010 | 2009 |
|---|--------------------|-------------|
| Future income tax assets: | | |
| Non-capital losses carried forward | \$ 632,700 | \$ 638,000 |
| Capital loss carry forward | 1,187,500 | 1,232,900 |
| Mineral properties and deferred exploration costs | 658,700 | 238,300 |
| Equipment | 51,400 | 45,600 |
| Share issuance costs | 13,500 | 21,600 |
| Marketable securities | 117,200 | 116,800 |
| | 2,661,000 | 2,293,200 |
| Valuation allowance | (2,661,000) | (2,293,200) |
| | \$ - | \$ - |

The Company has non-capital losses approximating \$2,530,000, which may be carried forward and applied against taxable income in future years. These losses, if not utilized, will expire through 2030. Subject to certain restrictions, the Company has further resource exploration and development expenditures totalling approximately \$3,037,000 available to reduce taxable income of future years. The future tax benefits of these non-capital losses, capital losses, resource expenditures and other assets in excess of future income tax liabilities have not been recognized in these financial statements and have been offset by a valuation allowance.

During fiscal 2010 the Company issued 1,140,000 common shares on a flow-through basis for gross proceeds of \$57,000. The flow-through shares were not issued at a premium. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants.

During the six months ended June 30, 2011 the Company filed the required documentation for the renunciation of the exploration expenditures of \$47,350, hence accrued a deferred tax liability of \$13,495, based on an income tax rate of 28.5%.

12. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition, exploration and development of resource property interests. Geographic information is as follows:

| | June 30 2011 | December 31 2010 | January 1 2010 |
|-----------------|-------------------|---------------------|---------------------|
| Capital assets: | | | |
| Canada | \$ 437,948 | \$ 350,732 | \$ 1,927,599 |
| U.S.A. | 137,556 | 92,458 | - |
| | \$ 575,504 | \$ 443,190 | \$ 1,927,599 |

Mineral Hill Industries Ltd.
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13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, marketable securities, receivables, due from related parties, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents and marketable securities with high-credit quality financial institutions.

Amounts due to and from related parties are discussed in Note 9.

Currency risk

The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Interest rate risk

The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

Fair value measurements of financial assets and liabilities

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

- Level 1 – quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e.: as prices) or indirectly (i.e.: derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data.

The fair values of cash and cash equivalents and marketable securities are determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of receivables, due to and from related parties and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

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13. FINANCIAL INSTRUMENTS (continued)

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of June 30, 2011 as follows:

| | Fair Value Measurements Using | | | June 30 2011 |
|----------------------|-------------------------------|---------|---------|-----------------|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Cash and equivalents | \$ 20,851 | – | – | \$ 20,851 |
| | \$ 20,851 | – | – | \$ 20,851 |

14. CAPITAL MANAGEMENT

The Company's capital structure consists of cash and shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the period ended June 30, 2011. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

15. COMMITMENT

The Company entered into a three year rental agreement for office space commencing December 31, 2010 for approximately \$5,044 per month until November 30, 2013. The agreement is subject to operating costs changes annually.

| | |
|-------|------------|
| 2011 | \$ 60,528 |
| 2012 | 60,528 |
| 2013 | 55,484 |
| Total | \$ 176,540 |

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As set out in Note 1, the Company has adopted IFRS for the year ending December 31, 2011. The significant accounting policies adopted are set out in Note 2. In preparing these interim consolidated financial statements, the Company has converted from Canadian GAAP to IFRS as at Transition Date and prepared an opening balance sheet under IFRS at that date. Changes in accounting policies and other restatements were required under IFRS 1 – *First Time Adoption of International Financial Reporting Standards* (IFRS 1) were made effective from that date. Accordingly, the Company restated its financial position as at January 1, 2010 and December 31, 2010 and its financial statements for the three and six months ended June 30, 2010, previously reported under Canadian GAAP. IFRS 1 requires that the same policies are applied for all periods presented in the first IFRS financial statements. The adjusted policies have been consistently applied on a full retrospective basis unless alternative treatment is permitted or required by an IFRS election or exception. These are discussed below.

Mineral Hill Industries Ltd.
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16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRS 1 allows exemption from the application of certain IFRS requirements to assist companies with the transition process.

Elections upon first-time adoption of IFRS

The IFRS 1 exemptions applied by the Company in the conversion from Canadian GAAP to IFRS are as follows:

(i) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 (2008) *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 (2008) to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

(ii) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

Mandatory Exceptions under IFRS

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

(iii) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRS as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follows represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

Mineral Hill Industries Ltd.

Notes to the consolidated financial statements

For the six months ended June 30, 2011 and 2010

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliations of statements of financial position

| | December 31, 2010 | | | June 30, 2010 | | | January 1, 2010 | | |
|--|-------------------|------------|--------------|---------------|------------|--------------|-----------------|------------|--------------|
| | GAAP | Adjustment | IFRS | GAAP | Adjustment | IFRS | GAAP | Adjustment | IFRS |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| ASSETS | | | | | | | | | |
| Current assets | | | | | | | | | |
| Cash and equivalents | 19,208 | - | 19,208 | 83,180 | - | 83,180 | 200,955 | - | 200,955 |
| Marketable securities | 3,068 | - | 3,068 | 4,149 | - | 4,149 | 4,725 | - | 4,725 |
| Receivables | 1,473 | - | 1,473 | 35,562 | - | 35,562 | 63,821 | - | 63,821 |
| Due from related parties | 32,115 | - | 32,115 | 74,448 | - | 74,448 | 74,448 | - | 74,448 |
| Prepaid expenses | 13,273 | - | 13,273 | 10,312 | - | 10,312 | 2,979 | - | 2,979 |
| | 69,137 | - | 69,137 | 207,651 | - | 207,651 | 346,928 | - | 346,928 |
| | | - | | | - | | | - | |
| Investments and loans | 31,350 | - | 31,350 | 31,350 | - | 31,350 | 31,350 | - | 31,350 |
| Equipment | 40,810 | - | 40,810 | 52,461 | - | 52,461 | 59,761 | - | 59,761 |
| Mineral properties | 223,566 | - | 223,566 | 1,480,607 | - | 1,480,607 | 1,340,402 | - | 1,340,402 |
| Deferred exploration costs | 178,814 | - | 178,814 | 529,101 | - | 529,101 | 527,436 | - | 527,436 |
| | 543,677 | - | 543,677 | 2,301,170 | - | 2,301,170 | 2,305,877 | - | 2,305,877 |
| Current liabilities | | | | | | | | | |
| Accounts payable and accrued liabilities | 130,793 | - | 130,793 | 173,191 | - | 173,191 | 110,859 | - | 110,859 |
| Due to related parties | 56,897 | - | 56,897 | 41,765 | - | 41,765 | 13,748 | - | 13,748 |
| | 187,690 | - | 187,690 | 214,956 | - | 214,956 | 124,607 | - | 124,607 |
| Shareholders' equity | | | | | | | | | |
| Share capital | 14,479,661 | - | 14,479,661 | 14,360,661 | - | 14,360,661 | 14,196,161 | - | 14,196,161 |
| Share subscriptions | - | - | - | - | - | - | - | - | - |
| Contributed surplus * | 1,093,295 | (329,785) | 763,510 | 1,034,801 | (329,785) | 705,016 | 876,166 | (329,785) | 546,381 |
| Warrants* | - | 329,785 | 329,785 | - | 329,785 | 329,785 | - | 329,785 | 329,785 |
| Deficit | (15,216,969) | - | (15,216,969) | (13,309,248) | - | (13,309,248) | (12,891,057) | - | (12,891,057) |
| | 355,987 | - | 355,987 | 2,086,214 | - | 2,086,214 | 2,181,270 | - | 2,181,270 |
| | 543,677 | - | 543,677 | 2,301,170 | - | 2,301,170 | 2,305,877 | - | 2,305,877 |

* See Explanatory note 1 below

Mineral Hill Industries Ltd.
Notes to the consolidated financial statements
For the six months ended June 30, 2011 and 2010

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

| | Year ended December 31, 2010 | | |
|---|------------------------------|------------|------------------|
| | GAAP* | Adjustment | IFRS |
| | \$ | \$ | \$ |
| Expenses | | | |
| General and administrative expenses | 397,679 | - | 397,679 |
| Amortization | 23,139 | - | 23,139 |
| Stock-based compensation | 217,129 | - | 217,129 |
| Impairment of mineral properties | 1,686,308 | - | 1,686,308 |
| Unrealized loss (gain) on marketable securities | 1,657 | - | 1,657 |
| | | - | |
| Total comprehensive loss for the period | (2,325,912) | - | (140,738) |
| Loss per share: | | | |
| Basic and diluted | (0,00) | | (0,00) |

* Certain GAAP figures have been reclassified to conform to the Company's IFRS financial statement presentation

| | Three months ended June 30, 2010 | | | Six months ended June 30, 2010 | | |
|---|----------------------------------|------------|------------------|--------------------------------|------------|------------------|
| | GAAP* | Adjustment | IFRS | GAAP* | Adjustment | IFRS |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Expenses | | | | | | |
| General and administrative expenses | 151,287 | - | 151,287 | 247,492 | - | 247,492 |
| Amortization | 5,652 | - | 5,652 | 11,488 | - | 11,488 |
| Stock-based compensation | 102,365 | - | 102,365 | 158,635 | - | 158,635 |
| Unrealized loss (gain) on marketable securities | 2,504 | - | 2,504 | 576 | - | 576 |
| | | - | | | - | |
| Total comprehensive loss for the period | (261,808) | - | (261,808) | (418,191) | - | (418,191) |
| Loss per share: | | | | | | |
| Basic and diluted | (0,01) | | (0,01) | (0,01) | | (0,01) |

* Certain GAAP figures have been reclassified to conform to the Company's IFRS financial statement presentation

Explanatory note

1. Reclassification within Equity section

Under Canadian GAAP, a balance within contributed surplus existed to record the issuance of warrants and equity-settled employee benefits. Upon adoption of IFRS, the balances in these accounts have been reclassified to "Reserves – Contributed Surplus" for Equity-settled employee benefit and "Reserves – Warrants".

Adjustment to statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flow.