
KOLA MINING CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

AUDITORS' REPORT

To the Shareholders of
Kola Mining Corp.

We have audited the consolidated balance sheets of Kola Mining Corp. as at May 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

November 16, 2010



KOLA MINING CORP.
CONSOLIDATED BALANCE SHEETS
AS AT MAY 31

	2010	2009
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash	653,697	928,929
Amounts receivable	58,370	8,837
Prepays	6,892	9,338
	<u>718,959</u>	<u>947,104</u>
DEPOSITS AND EXPLORATION ADVANCES	-	366,937
PROPERTY, PLANT AND EQUIPMENT (Note 5)	55,854	93,294
UNPROVEN MINERAL INTERESTS (Note 6)	2,938,814	33,189,225
	<u>3,713,627</u>	<u>34,596,560</u>
L I A B I L I T I E S		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	430,430	553,341
Loans and advances	21,143	41,027
Current portion of long-term debt (Note 7)	2,967,015	2,261,646
Convertible debentures (Note 8)	482,671	-
	<u>3,901,259</u>	<u>2,856,014</u>
NON-CURRENT PORTION OF LONG-TERM DEBT (Note 7)	-	519,064
FUTURE INCOME TAX LIABILITIES (Note 13)	589,000	5,725,355
	<u>4,490,259</u>	<u>9,100,433</u>
S H A R E H O L D E R S ' E Q U I T Y (D E F I C I T)		
SHARE CAPITAL (Note 9)	44,036,006	44,036,006
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES (Note 8)	25,000	-
CONTRIBUTED SURPLUS (Note 11)	3,260,876	3,257,376
DEFICIT	<u>(48,098,514)</u>	<u>(21,797,255)</u>
	<u>(776,632)</u>	<u>25,496,127</u>
	<u>3,713,627</u>	<u>34,596,560</u>

NATURE OF OPERATIONS AND GOING CONCERN (Note 1)

APPROVED BY THE DIRECTORS

“Mikhail Yuryev” , Director

“Sergei Dubovik” , Director

The accompanying notes and schedule are an integral part of these consolidated financial statements.

KOLA MINING CORP.
CONSOLIDATED STATEMENTS OF
LOSS AND COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED MAY 31

	2010 \$	2009 \$
EXPENSES		
Accounting and administrative	64,099	87,800
Amortization	27,850	70,442
Audit	87,746	97,020
Corporate development	-	56,544
General exploration	24,761	-
Investor relations	-	57,250
Legal	153,750	220,083
Office and miscellaneous	39,042	180,517
Professional fees	248,415	145,433
Regulatory fees	18,312	9,926
Rent	168,513	108,810
Salaries and benefits	148,461	675,352
Shareholder costs	6,385	20,757
Stock-based compensation (Note 10)	3,500	822,250
Transfer agent	6,113	7,120
Travel	92,764	160,853
	<u>1,089,711</u>	<u>2,720,157</u>
LOSS BEFORE OTHER ITEMS AND INCOME TAXES	<u>(1,089,711)</u>	<u>(2,720,157)</u>
OTHER ITEMS		
Interest and other income	20,674	17,923
Foreign exchange	480,128	(486,742)
Interest expense	(440,326)	-
Write-off of unproven mineral interests (Note 6)	(30,084,726)	(11,249,401)
Write-off of deposits and exploration advances (Note 6)	(323,653)	-
Write-off of equipment	-	(179,160)
	<u>(30,347,903)</u>	<u>(11,897,380)</u>
LOSS BEFORE INCOME TAXES	(31,437,614)	(14,617,537)
FUTURE INCOME TAX RECOVERY (Note 13)	<u>5,136,355</u>	<u>3,020,645</u>
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(26,301,259)	(11,596,892)
DEFICIT - BEGINNING OF YEAR	<u>(21,797,255)</u>	<u>(10,200,363)</u>
DEFICIT - END OF YEAR	<u>(48,098,514)</u>	<u>(21,797,255)</u>
 BASIC AND DILUTED LOSS PER COMMON SHARE	 <u>\$(0.30)</u>	 <u>\$(0.14)</u>
 WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	 <u>88,004,125</u>	 <u>83,698,189</u>

The accompanying notes and schedule are an integral part of these consolidated financial statements.

KOLA MINING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31

	2010	2009
	\$	\$
CASH PROVIDED FROM (USED FOR)		
OPERATING ACTIVITIES		
Loss for the year	(26,301,259)	(11,596,892)
Adjustments for items not involving cash		
Amortization	27,850	70,442
Write-off of unproven mineral interests	30,084,726	11,249,401
Write-off of deposits and exploration advances	323,653	-
Write-off of equipment	-	179,160
Stock-based compensation	3,500	822,250
Foreign exchange	(353,678)	575,249
Interest expense	440,326	-
Future income tax recovery	<u>(5,136,355)</u>	<u>(3,020,645)</u>
	(911,237)	(1,721,035)
(Increase) decrease in amounts receivable	(49,533)	18,225
Decrease in prepaids	2,446	130,193
Increase (decrease) in accounts payable and accrued liabilities	<u>(35,244)</u>	<u>32,344</u>
	<u>(993,568)</u>	<u>(1,540,273)</u>
INVESTING ACTIVITIES		
Acquisition of ASAPK	-	(889,323)
Cash assumed on acquisition of ASAPK	-	137
Proceeds on sale of equipment	-	46,601
Loan	211,360	-
Repayment of loan	(211,360)	-
Additions to equipment	(2,261)	(9,349)
Recoveries (additions) to unproven mineral interests, net	197,197	(1,732,269)
Deposits and exploration advances	<u>43,284</u>	<u>(109,949)</u>
	<u>238,220</u>	<u>(2,694,152)</u>
FINANCING ACTIVITIES		
Issuance of convertible debentures	500,000	-
Loans and advances	-	5,294
Issuance of common shares	-	10,000,000
Share issue costs	-	(291,980)
Repayment of loans and advances	(19,884)	(57,341)
Repayment of long-term debt	<u>-</u>	<u>(5,316,675)</u>
	<u>480,116</u>	<u>4,339,298</u>
(DECREASE) INCREASE IN CASH FOR THE YEAR	(275,232)	104,873
CASH - BEGINNING OF YEAR	<u>928,929</u>	<u>824,056</u>
CASH - END OF YEAR	<u><u>653,697</u></u>	<u><u>928,929</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION (Note 15)

The accompanying notes and schedule are an integral part of these consolidated financial statements.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

1. NATURE OF OPERATIONS AND GOING CONCERN

Kola Mining Corp. (the “Company”) is a junior mineral exploration company currently engaged in the sourcing, exploration and development of mineral property interests located in Russia.

The Company is in the process of exploring and evaluating its mineral properties. On the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The underlying value of the unproven mineral interests is entirely dependent on the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production. The amounts shown as unproven mineral interests represent net costs to date, less amounts written off, and do not necessarily represent present or future values.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business. During fiscal 2010 the Company incurred a loss of \$26,301,259 and, as at May 31, 2010, had an accumulated deficit of \$48,098,514 and a working capital deficiency of \$3,182,300. The Company will require additional financing to meet its ongoing levels of corporate overhead, retire existing liabilities and debt obligations and implement the required work programs on its mineral interests. The Company expects to generate the necessary financial resources through a combination of loans from its shareholders and sale of equity securities. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, it does not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

Subsequent to May 31, 2010 the Company did not repay its \$2,967,015 of long-term debt as they came due. The Company is currently negotiating the terms for settlement of these amounts. However, there are no assurances that the Company will be successful in renegotiations. See Note 7.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and include the accounts of the Company and its wholly-owned subsidiaries, 0724000 B.C. Ltd. (“724 BC”), a company continued into the Province of British Columbia, Magellan Holdings (BVI) Corp. (“Magellan Holdings”) and Magellan Gold (BVI) Inc. (“Magellan Gold”), both incorporated under the laws of the British Virgin Islands, Centrasia Mining Kazakhstan, a company formed under the laws of the Republic of Kazakhstan, Bulakashu Mining Company Ltd. (“BMC”), a company formed under the laws of the Kyrgyz Republic, R.P.I.M. Minerals Ltd. (“RPIM”), a company formed under the laws of Cyprus, Zao Rudprominvest (“RPI”) and OOO Artel Staratelei Angarskaya Proizvodstvennaya Kompania (“ASAPK”) both formed under the laws of the Russian Federation. Inter-company balances and transactions are eliminated on consolidation. See also Note 3.

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Significant areas requiring the use of management estimates relate to the estimation of stock-

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

based compensation, the determination of environmental and asset retirement obligations, impairment of mineral claims and deferred exploration expenditures, the related rates of amortization and the determination of future income tax assets and liabilities. Actual results could differ from these estimates.

Unproven Mineral Interests

Acquisition and exploration costs directly relating to unproven mineral interests are deferred until the mineral interests to which they relate are placed into production, sold or abandoned. The deferred costs will be amortized over the life of the orebody following commencement of production or written off if the property is sold or abandoned. Administration costs and other exploration costs that do not relate to any specific property are expensed as incurred.

On a periodic basis, management reviews the carrying values of deferred unproven mineral interest acquisition and exploration expenditures with a view to assessing whether there has been any impairment in value. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or interest will be abandoned or its carrying value has been impaired, a provision is made for any expected loss on the project or interest.

Although the Company has taken steps to verify title to mineral interests in which it has an interest, according to the usual industry standards for the stage of exploration of such interests, these procedures do not guarantee the Company's title. Such interests may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of interests pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral interests costs or recoveries when the payments are made or received.

The Company also accounts for foreign value added taxes as part of deferred costs. These amounts are treated as a reduction in the carrying costs of mineral property interests as they are recovered.

Property, Plant and Equipment

Property, plant and equipment, are recorded at cost less accumulated amortization. The equipment, which is comprised of office furniture and equipment, is amortized using the straight-line method over their estimated useful lives of between three to five years. The building is amortized using the straight-line method over its estimated useful life of seven years.

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 assets.

As at May 31, 2010 and 2009 the Company does not have any significant asset retirement obligations.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of Long-Lived Assets

Long-lived assets are assessed for impairment when events and circumstances warrant. The carrying value of a long-lived asset is impaired when the carrying amount exceeds the estimated undiscounted net cash flow from use and fair value. In that event, the amount by which the carrying value of an impaired long-lived asset exceeds its fair value is charged to earnings.

Stock-Based Compensation

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. The estimated fair value of awards of stock-based compensation are charged to expense as awards vest, with offsetting amounts recognized as contributed surplus.

Translation of Foreign Currencies

Integrated foreign operations are translated using the temporal method. Under this method, the Company translates monetary items at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at rates in effect during the period in which they were realized. Revenues and expenses are translated at average rates in effect during the period except for depreciation and amortization which are translated at historical rates. Gains and losses resulting from the fluctuation of foreign exchange rates have been included in the determination of income (loss).

Future Income Taxes

Future income tax assets and liabilities are recognized for the estimated future income tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted income tax rates. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Future income tax assets are recognized to the extent that they are considered more likely than not to be realized.

Loss Per Share

Loss per share is computed by dividing loss to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings (loss) per share by application of the treasury stock method.

Financial Instruments

Under Section 3855, *Financial Instruments - Recognition and Measurement*, all financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of a change in

KOLA MINING CORP.
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

the fair value of financial instruments depends on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet. Loans and receivables, held- to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, derecognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financing will be expensed in the period incurred.

The Company has designated its cash as held-for-trading, which is measured at fair value. Amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, loans and advances and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

Comprehensive Income

Section 1530, *Comprehensive Income*, provides standards for the reporting and presentation of comprehensive income, which is defined as the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with generally accepted accounting principles. A statement of comprehensive income has not been presented as no components of comprehensive income have been identified and therefore have not affected the current or comparative period balances on the consolidated financial statements.

Assessing Going Concern

Section 1400 was amended to include requirements for management to assess and disclose an entity's ability to continue as a going concern. The Company has included the required disclosures recommended by Section 1400 in Note 1 of these consolidated financial statements.

Convertible Debentures

The Company's convertible debentures are financial liabilities consisting of a liability with an embedded conversion feature. As such, the debentures are segregated between liabilities and equity based on the residual value method, where the liability is first measured using a discount rate without the conversion feature and the remaining amount is allocated to equity. Therefore, the debenture liabilities are presented at less than their eventual maturity values. The liability and equity components are further reduced for issuance costs initially incurred. The discount of the liability component as compared to maturity value is accreted by the "effective interest" method over the debenture term and expensed accordingly. As debentures are converted to shares, an appropriate portion of the liability and equity components are transferred to share capital.

Adoption of New Accounting Standards

Goodwill and Intangible Assets

Effective June 1, 2009 the Company adopted the new recommendations of CICA Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of Section 3064 did not have a material impact on the Company's financial position and results of operations.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value and Liquidity Risk

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

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

Other than additional disclosure in Note 16, the adoption of this revised section did not result in a material impact on the Company's consolidated financial statements.

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. The Company does not expect the adoption of these accounting policies to have a material impact on its consolidated financial statements.

3. ACQUISITION

On March 31, 2009 the Company entered into an agreement with AS APK Holdings Limited ("APK"), under which the Company acquired a 100% interest in ASAPK whose sole significant asset is a 100% interest in the Bogunay Gold Property, located near Krasnoyarsk, Krasnoyarsk Territory, Russia. Under the terms of the agreement the Company paid \$858,550 (US \$700,000) to APK. The Company also paid a finder's fee of US \$25,000 to a third party.

In addition, as a result of differences in the book value and tax value of the mineral property interests acquired, the Company recorded a future income tax liability of \$589,000 with a corresponding amount capitalized to mineral property interests.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

3. ACQUISITION (continued)

The ASAPK Acquisition was accounted for as an acquisition of the net assets of ASAPK, as follows:

	\$
Cash payments (US \$700,000)	858,550
Finder's fee (US \$25,000)	<u>30,773</u>
Net purchase price	<u><u>889,323</u></u>

The assets and liabilities acquired are as follows:

	\$
Cash	137
Amounts receivable	2,028
Prepays	235
Property, plant and equipment	53,538
Unproven mineral interests	2,596,724
Accounts payable and accrued liabilities	(4,168)
Loans and advances	(13,185)
Long-term debt, discounted	(1,156,986)
Future income tax liability	<u>(589,000)</u>
Net assets acquired	<u><u>889,323</u></u>

4. LOAN

On February 1, 2010 the Company entered into a loan agreement with Domurs Management Ltd. ("Domurs") under which the Company provided a loan of \$211,360 (US \$200,000) to Domurs. The loan was unsecured, bore interest at 4% per annum and was to be repaid on demand after December 31, 2011.

In May 2010 Domurs repaid the loan plus accrued interest of \$2,028 (US \$1,950).

5. PROPERTY, PLANT AND EQUIPMENT

	2010 \$	2009 \$
Building	48,364	48,364
Office furniture and equipment	<u>91,163</u>	<u>285,597</u>
	139,527	333,961
Less accumulated amortization	<u>(83,673)</u>	<u>(240,667)</u>
	<u><u>55,854</u></u>	<u><u>93,294</u></u>

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

6. UNPROVEN MINERAL INTERESTS

		<u>2010</u>			
		Acquisition Costs \$	Exploration Expenditures \$	Impairment \$	Total \$
Bogunay		2,774,341	164,472	-	2,938,813
Souker		<u>35,620,783</u>	<u>4,963,944</u>	<u>(40,584,726)</u>	<u>1</u>
		<u><u>38,395,124</u></u>	<u><u>5,128,416</u></u>	<u><u>(40,584,726)</u></u>	<u><u>2,938,814</u></u>
		<u>2009</u>			
		Acquisition Costs \$	Exploration Expenditures \$	Impairment \$	Total \$
Bogunay		2,620,073	12,767	-	2,632,840
Souker		<u>35,620,783</u>	<u>5,435,602</u>	<u>(10,500,000)</u>	<u>30,556,385</u>
		<u><u>38,240,856</u></u>	<u><u>5,448,369</u></u>	<u><u>(10,500,000)</u></u>	<u><u>33,189,225</u></u>

(a) **Bogunay Gold Property**

The Company acquired a 100% interest in a license (the “the Bogunay License”), located near Krasnoyarsk, Krasnoyarsk Territory, Russia (Note 3). The Bogunay License, which is valid until December 31, 2026, provides for the right to conduct detailed prospecting and subsequent production of gold.

During fiscal 2010 the Company wrote-off deposits and exploration advances of \$323,653 due to the uncertainty of the Company’s ability to recover these deposits and advances.

(b) **Souker, Tsaga and Uleeta Properties**

On July 24, 2007 the Company acquired 100% interests in three nickel-copper sulphide properties in Russia.

i) *Souker Property*

The Souker Property consists of a license (the “Souker License”) located in the Pechanga District of Murmansk Oblast, Russia. The Souker License grants the Company the right to explore, develop and produce the deposit subject to the following obligations:

- exploration must be completed and a reserve calculation, as defined in the Souker License, submitted to the government for approval no later than December 31, 2009;
- submission of mine plans sustaining a production rate of 300,000 tonnes per annum for approval by the government no later than June 30, 2010;
- commence mining operation no later than December 31, 2010; and
- attain minimum production of 300,000 tonnes per annum no later than December 31, 2011.

KOLA MINING CORP.
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6. UNPROVEN MINERAL INTERESTS (continued)

During fiscal 2009, in light of current market conditions and a decline in the Company's stock price relative to the original share purchase consideration, the Company recorded a write-down of \$10,500,000 as an impairment charge. During fiscal 2010 the Company completed its submission to the government which showed that the Souker Property was uneconomic at current metal prices. Although the Company continues to hold the license management has determined to record a further impairment charge of \$30,084,726 to a nominal amount of \$1.

ii) *Tsaga Property*

The Tsaga Property consisted of a license (the "Tsaga License") located in the Lovoserky District of Murmansk Oblast, Russia. During fiscal 2009 the Company terminated the license and wrote-off \$572,139 in exploration costs.

iii) *Uleeta Property*

The Uleeta Property consisted of a license (the "Uleeta License") located in the Kolsk District of Murmansk Oblast, Russia. During fiscal 2009 the Company terminated the license and wrote-off \$177,262 in exploration costs.

7. LONG-TERM DEBT

	2010 \$	2009 \$
Due to Stargate (a)	1,754,619	1,616,337
Due to DBM (a)	87,731	80,817
Due to NH Ltd. (b)	<u>1,124,665</u>	<u>1,083,556</u>
	2,967,015	2,780,710
Less: current portion	<u>(2,967,015)</u>	<u>(2,261,646)</u>
Non-current portion	<u><u>-</u></u>	<u><u>519,064</u></u>

- (a) The amounts due are unsecured and non-interest bearing. The fair values of these debts were initially based on a discount rate of 12% per annum, and were accreted to their face values over the term of the debts by recording additional interest costs.

During fiscal 2010 the due date of the final repayment date was extended by one year to July 24, 2010 and the amounts due to Stargate Solutions Ltd. ("Stargate") and DBM Capital Partners Ltd. ("DBM") were increased from US \$1,500,000 to US \$1,700,000 and from US \$75,000 to US \$85,000, respectively. In addition, in the event that the amounts due are not repaid by July 24, 2010 then the outstanding amounts would commence bearing interest, until paid, at an annual interest rate of 10% and the amounts due to Stargate and DBM will increase to US \$1,800,000 and US \$90,000 respectively. The fair values of the revised principal amounts are now based on a discount rate of 10% per annum. Accordingly, the Company has recorded an additional \$228,396 as finance charge for the revised principal amounts which have been expensed.

During fiscal 2010 the Company accreted \$178,522 as interest costs, which have been expensed.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

7. LONG-TERM DEBT (continued)

On July 24, 2010, the Company did not repay the amounts due to Stargate and DBM as contemplated by the extension. The Company is currently negotiating the terms for settlement of the outstanding debt to Stargate and DBM.

- (b) As part of the acquisition of ASAPK (Note 3), the Company had debt due to Newhudson Oaks Trading & Investments Limited (“NH Ltd.”) of US \$1,100,000 of which US \$550,000 was due on January 15, 2010 and the remaining US \$550,000 is due on October 15, 2010. The amount payable is unsecured and non-interest bearing. The fair value of this debt was based on a discount rate of 12% per annum, and was accreted to the face value over the term of the debt by recording additional interest costs.

On January 11, 2010 the Company and NH Ltd. agreed to amend the repayment terms of the US \$1,100,000 debt. Pursuant to the amending agreement, US \$25,000 was paid on March 25, 2010 and US \$1,075,000 will be due on October 15, 2010. In addition, commencing January 15, 2010, the debt now bears interest at a rate of 5% per annum, payable quarterly. During fiscal 2010 the Company recorded interest of \$21,203 which is included in accounts payable and accrued liabilities and have been capitalized to unproven mineral interests.

During fiscal 2010 the Company accreted \$133,065 (2009 - \$23,349) as interest costs, which have been capitalized to unproven mineral interests.

On October 15, 2010, the Company did not repay the amounts due to NH Ltd. The Company is currently negotiating the terms for settlement of the outstanding debt to NH Ltd.

8. CONVERTIBLE DEBENTURES

	\$
Liability Component	
Issued	475,000
Accretion of discount	<u>7,671</u>
Balance, May 31, 2010	<u><u>482,671</u></u>
Equity Component	
Issued and balance, May 31, 2010	<u><u>25,000</u></u>

On February 8, 2010 the Company issued 14% convertible debentures for \$500,000 proceeds. The debentures mature on February 8, 2011 and are convertible into common shares of the Company at the option of the holder at a conversion price of \$0.10 per share. Interest on the debentures is payable on maturity and is convertible at the option of the holder at the trading price of the common shares at the time of maturity.

As at May 31, 2010 the Company recorded interest expense of \$25,737, which has been included in accounts payable and accrued liabilities, and accreted \$7,671 which has been recorded as part of interest expense.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

9. SHARE CAPITAL

Authorized - unlimited common shares without par value

Issued:	2010		2009	
	Number of Shares	Amount \$	Number of Shares	Amount \$
Balance, beginning of year	88,004,125	44,036,006	53,837,457	34,327,986
Issued for cash				
Private placement	-	-	33,333,334	10,000,000
Issued for finder's fee	-	-	833,334	250,000
	-	-	34,166,668	10,250,000
Share issue costs	-	-	-	(541,980)
	-	-	34,166,668	9,708,020
Balance, end of year	<u>88,004,125</u>	<u>44,036,006</u>	<u>88,004,125</u>	<u>44,036,006</u>

(a) During fiscal 2009 the Company completed a non-brokered private placement of 33,333,334 units, at a price of \$0.30 per unit, for gross proceeds of \$10,000,000. Each unit comprised one common share and one-half share purchase warrant, with each full warrant entitling the holder to acquire an additional common share at \$0.45 per share on or before July 15, 2010. The Company paid a finder's fee of \$250,000 in cash and issued 833,334 common shares at a fair value of \$250,000 in respect of the private placement. The Company also incurred \$41,980 in legal and filing fees associated with the private placement.

(b) A summary of the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2010 and 2009 and the changes for the years ended on those dates is as follows:

	2010		2009	
	Number	Weighted Average Exercise Price \$	Number	Weighted Average Exercise Price \$
Balance, beginning of year	22,856,667	0.78	7,898,750	1.47
Issued	-	-	16,666,667	0.45
Expired	<u>(840,000)</u>	1.50	<u>(1,708,750)</u>	0.75
Balance, end of year	<u>22,016,667</u>	0.75	<u>22,856,667</u>	0.78

The following table summarizes information about the number of common shares reserved pursuant to the Company's outstanding warrants at May 31, 2010:

Number	Exercise Price \$	Expiry Date
5,350,000	1.70	July 10, 2010
<u>16,666,667</u>	0.45	July 15, 2010
<u>22,016,667</u>		

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

9. SHARE CAPITAL (continued)

On July 10, 2010 warrants to purchase 5,350,000 common shares at \$1.70 per share expired without exercise and on July 15, 2010 warrants to purchase 16,666,667 common shares at \$0.45 per share expired without exercise.

10. STOCK OPTIONS AND STOCK-BASED COMPENSATION

The Company has established a stock option plan (the "Plan") which allows the Company to grant a maximum number of 17,600,800 stock options.

During fiscal 2010 the Company did not grant any stock options. During fiscal 2009 the Company granted stock options to its directors, officers, employees and consultants to purchase 3,100,000 common shares of the Company resulting in stock-based compensation expense of \$812,000.

During fiscal 2010 the Company recorded compensation expense of \$3,500 (2009 - \$10,250) on previously granted stock options which vested during the year.

The fair value of stock options granted and vested is estimated using the Black-Scholes option pricing model with the following assumptions used for the grants and vesting made during fiscal 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	2.30%	1.77% - 3.46%
Estimated volatility	128%	103% - 128%
Expected life	4 years	4 years - 5 years
Expected dividend yield	0%	0%

The average fair value of stock options granted during fiscal 2009 was \$0.26 per option.

Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the Company's outstanding stock options at May 31, 2010 and 2009 and the changes for the years ended on those dates is as follows:

	<u>2010</u>		<u>2009</u>	
	Options Outstanding	Weighted Average Exercise Price \$	Options Outstanding	Weighted Average Exercise Price \$
Balance, beginning of year	8,740,000	0.63	6,175,000	0.79
Granted	-	-	3,100,000	0.36
Cancelled / Expired	<u>(1,830,000)</u>	0.59	<u>(535,000)</u>	0.91
Balance, end of year	<u>6,910,000</u>	0.64	<u>8,740,000</u>	0.63

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

10. STOCK OPTIONS AND STOCK-BASED COMPENSATION (continued)

The following table summarizes information about the stock options outstanding and exercisable at May 31, 2010:

Number	Exercise Price \$	Expiry Date
1,525,000	0.20	September 14, 2010
100,000	0.73	February 17, 2011
335,000	0.70	September 14, 2011
100,000	0.73	March 14, 2012
200,000	1.71	May 18, 2012
250,000	1.20	July 3, 2012
500,000	1.20	July 24, 2012
1,310,000	1.20	October 26, 2012
<u>2,590,000</u>	0.36	July 24, 2013
<u><u>6,910,000</u></u>		

On September 14, 2010, stock options to purchase 1,525,000 common shares at \$0.20 per share expired without exercise.

11. CONTRIBUTED SURPLUS

A summary of the Company's contributed surplus for fiscal 2010 and 2009 is as follows:

	2010 \$	2009 \$
Balance, beginning of year	3,257,376	2,435,126
Stock-based compensation on stock options (Note 10)	<u>3,500</u>	<u>822,250</u>
Balance, end of year	<u><u>3,260,876</u></u>	<u><u>3,257,376</u></u>

12. RELATED PARTY TRANSACTIONS

(a) During fiscal, 2010 and 2009 the Company incurred fees to its directors and officers or corporations controlled by current and former directors or officers, as follows:

	2010 \$	2009 \$
Legal	-	59,795
Accounting and administrative	64,099	87,800
Professional	99,704	147,536
Rent	<u>9,600</u>	<u>1,600</u>
	<u><u>173,403</u></u>	<u><u>296,731</u></u>

As at May 31, 2010, \$9,636 (2009 - \$92,510) remained outstanding and was included in accounts payable and accrued liabilities.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

12. RELATED PARTY TRANSACTIONS (continued)

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

- (b) During fiscal 2009 the Company shared its office premises with other companies, some of which had directors who were also directors of the Company. During fiscal 2009 the Company received \$58,842 from these companies for shared premises and overhead costs.

13. INCOME TAXES

Future income tax assets and liabilities of the Company as at May 31, 2010 and 2009 are as follows:

	2010 \$	2009 \$
Future income tax assets		
Loss carry forwards	3,054,800	2,258,900
Other	<u>219,600</u>	<u>341,100</u>
	3,274,400	2,600,000
Valuation allowance	<u>(3,274,400)</u>	<u>(2,600,000)</u>
Net future income tax asset	<u>-</u>	<u>-</u>
Future income tax liabilities		
Mineral properties	<u>589,000</u>	<u>5,725,355</u>

The recovery of income taxes shown in the consolidated statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes as follows:

	2010 \$	2009 \$
Income tax rate reconciliation		
Combined federal and provincial income tax rate	<u>29.38%</u>	<u>30.00%</u>
Expected income tax recovery	9,236,400	4,407,300
Effect of income tax rate change	(53,200)	(191,200)
Foreign income tax rate differences	(77,800)	(303,600)
Non-deductible stock-based compensation	(1,000)	(246,700)
Other	283,800	(10,600)
Unrecognized benefit of income tax losses	<u>(4,251,845)</u>	<u>(634,555)</u>
Future income tax recovery	<u>5,136,355</u>	<u>3,020,645</u>

As at May 31, 2010 the Company has non-capital losses of approximately \$7,600,000 and accumulated tax pools of approximately \$881,500 carried forward for Canadian income tax purposes and are available to reduce taxable income of future years. The non-capital losses expire commencing in 2011 through 2030.

Through its subsidiaries the Company also has cumulative losses of approximately \$3,150,000 which are available to reduce taxable income of the subsidiaries in future years.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

14. SEGMENTED INFORMATION

The Company operates solely within the mineral exploration industry in Russia. The Company's capital assets are located geographically as follows:

	2010		2009	
	Canada \$	Russia \$	Canada \$	Russia \$
Property, plant and equipment	3,034	52,820	5,192	88,102
Unproven mineral interests	-	2,938,814	-	33,189,225
	3,034	2,991,634	5,192	33,277,327

15. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash activities were conducted by the Company during fiscal 2010 and 2009 as follows:

	2010 \$	2009 \$
Operating activities		
Amortization	11,851	2,059
Decrease in accounts payable and accrued liabilities	(87,667)	(220,974)
	(75,816)	(218,915)
Financing activities		
Issuance of common shares for corporate finance fee	-	250,000
Share issue costs	-	(250,000)
Accretion of discount on debt	133,065	291,134
Interest on convertible deventures	(25,737)	-
	107,328	291,134
Investing activities		
Additions to unproven mineral interests	(31,512)	(661,219)
Future income tax liabilities	-	589,000
	(31,512)	(72,219)
Other supplemental cash flow information:		
	2010 \$	2009 \$
Interest paid in cash	-	-
Income taxes paid in cash	-	-

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of amounts receivable, loan, accounts payable and accrued liabilities, loans and advances, long-term debt and convertible debentures approximate their fair value because of the short-term nature of these instruments. Cash is measured at fair value using level 1 fair value inputs.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivable. The Company's cash is primarily held in large financial institutions. Management believes that the credit risk concentration with respect to cash and amounts receivable is remote.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that it will have sufficient liquidity to meet its obligations. The Company intends to settle its accounts payable and accrued liabilities from existing working capital. The Company will be required to secure additional debt or equity financing to repay its long-term debt or renegotiate the terms of repayment of these instruments. See also Note 7.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. These fluctuations may be significant.

(a) Interest Rate Risk

The Company is exposed to interest rate risk to the extent that its cash bears floating rates of interest. The interest rate risk on cash and on the Company's obligations are not considered significant. As at May 31, 2010 the Company has \$1,842,350 (US \$1,785,000) of debt which was non-interest bearing. The Company's debt to NH Ltd. and convertible debentures have fixed interest rates and, therefore, are not subject to interest rate fluctuations.

(b) Foreign Currency Risk

The Company has operations in Canada and Russia subject to foreign currency fluctuations. The Company's operating expenses are incurred in Canadian Dollars and Russian Rubles. In addition the Company also has long-term debt denominated in US Dollars. The fluctuation of the Canadian Dollar in relation to these other currencies will have an impact upon the operations of the Company and may also affect the value of the Company's assets and the amount of shareholders' equity. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks. At May 31, 2010, 1 Canadian Dollar was equal to 29.62 Russian Rubles and \$0.96 US Dollar.

KOLA MINING CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Balances are as follows:

	Russian Rubles	US Dollar	Canadian Dollar Equivalent
Cash	9,396,631	268,821	597,261
Amounts receivable	1,475,724	-	49,822
Accounts payable and accrued liabilities	(1,627,302)	(176,705)	(239,007)
Loan and advances	(616,296)	-	(21,143)
Long-term debt	-	<u>(2,860,000)</u>	<u>(2,967,015)</u>
	<u>8,628,757</u>	<u>(2,767,884)</u>	<u>(2,580,082)</u>

Based on the net exposures as of May 31, 2010 and assuming that all other variables remain constant, a 1% fluctuation of the Canadian Dollar against the Russian Ruble and US Dollar would result in the Company's net loss to be approximately \$224,000 higher (or lower).

17. MANAGEMENT OF CAPITAL

The Company manages its common shares, long-term debt, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, pursue the development of mineral resource interests and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company does not expect its current capital resources will be sufficient to meet all of its future exploration plans, operating requirements and debt retirement obligations and is dependant upon future equity or debt transactions to meet these obligations.

18. SUBSEQUENT EVENTS

See Notes 7, 9 and 10.

KOLA MINING CORP.
CONSOLIDATED SCHEDULE OF UNPROVEN MINERAL INTERESTS
FOR THE YEARS ENDED MAY 31, 2010 AND 2009

	2010			2009
	Souker \$	Bogunay \$	Total \$	Total \$
BALANCE				
- BEGINNING OF YEAR	<u>30,556,385</u>	<u>2,632,840</u>	<u>33,189,225</u>	<u>40,037,414</u>
EXPENDITURES				
EXPLORATION COSTS				
Amortization	-	11,851	11,851	-
Drilling	-	-	-	208,610
Ecology	-	-	-	46,207
Engineering	-	-	-	85,748
Exploration site costs	-	8,222	8,222	22,922
Feasibility study	94,637	-	94,637	138,165
Fuel	-	6,819	6,819	-
Geohydrology	-	-	-	326,725
Geological	-	67,887	67,887	398,064
Laboratory and sampling	-	-	-	75,999
Metallurgical testing	12,983	-	12,983	-
Production management	-	-	-	92,856
Salaries	-	51,442	51,442	-
VAT tax (recovery)	(579,278)	5,484	(573,794)	118,058
	<u>(471,658)</u>	<u>151,705</u>	<u>(319,953)</u>	<u>1,513,354</u>
ACQUISITION COSTS				
Interest on debt	-	21,203	21,203	-
Acquisition of ASAPK (Note 3)	-	-	-	2,596,724
Accretion of debt	-	133,065	133,065	291,134
	<u>-</u>	<u>154,268</u>	<u>154,268</u>	<u>2,887,858</u>
	<u>(471,658)</u>	<u>305,973</u>	<u>(165,685)</u>	<u>4,401,212</u>
BALANCE BEFORE WRITE-OFF AND IMPAIRMENT	30,084,727	2,938,813	33,023,540	44,438,626
WRITE-OFF AND IMPAIRMENT	<u>(30,084,726)</u>	<u>-</u>	<u>(30,084,726)</u>	<u>(11,249,401)</u>
BALANCE - END OF YEAR	<u><u>1</u></u>	<u><u>2,938,813</u></u>	<u><u>2,938,814</u></u>	<u><u>33,189,225</u></u>

KOLA MINING CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MAY 31, 2010

Background

This discussion and analysis of financial position and results of operation is prepared as at November 16, 2010 and should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the years ended May 31, 2010 and 2009, of Kola Mining Corp. ("Kola" or the "Company"). Those consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Except as otherwise disclosed, all dollar figures included therein and in the following management discussion and analysis ("MD&A") are quoted in Canadian dollars. Additional information relevant to the Company's activities, can be found on SEDAR at www.sedar.com.

Company Overview

The Company currently is a reporting issuer in British Columbia and Alberta. The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "KM", the Frankfurt Stock Exchange Open Market under the trading symbol "C8M" and on the Pink Sheets under the symbol "KMNFF".

In September 2010, the Company agreed to a management cease trade order to be put in place due to its inability to file its audited financial statements for the year ended May 31, 2010 within the prescribed time. The management cease trade order prohibits the directors, officers and insiders of the Company from trading in the securities of the Company until the Company's regulatory filings are current.

The Company is a junior mineral exploration company which is actively engaged in the acquisition, exploration and development of mineral properties located in Russia.

Change of Officers

On March 9, 2010 Mr. Nick DeMare resigned as Chief Financial Officer ("CFO") of the Company and Mr. Sergei Dubovik was appointed the new CFO. Mr. DeMare remains Corporate Secretary and a director of the Company.

Mr. Sergei Dubovik, a former officer of the Company, is a partner of AGA Management Ltd., a leading Moscow based consulting company specializing in the Russian Merger & Acquisition market and management consulting and played an instrumental role in acquisition of Rudprominvest in 2007. Before joining AGA Management Ltd. in 2006 he had fourteen years of experience as a businessman, consultant and manager with KPMG (Moscow-Bahrain), JSFC Systema, Regional Development Company, etc. His major focus is mergers and acquisitions and business restructuring. Mr. Dubovik has a Master Diploma in Applied Math (Moscow Institute of Physics and Technology, 1991). On July 26, 2010, Mr. Cary Pinkowski resigned as a director of the Company and on August 4, 2010 Mr. Dubovik was appointed a director of the Company.

Forward Looking Statements

Certain information included in this discussion may constitute forward-looking statements. Forward-looking statements are based on current expectations and entail various risks and uncertainties. These risks and uncertainties could cause or contribute to actual results that are materially different than those expressed or implied. The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Exploration Update

On May 11, 2007 the Company announced that it had signed a share purchase agreement to acquire three Russian Properties. The transaction was completed on July 24, 2007.

Souker is located approximately 180 kilometres west of Murmansk in the Kola Peninsula of northwestern Russia. The main highway from Murmansk to the Norwegian border lies on the north edge of the property. Graded gravel roads give access to the center of the property and there is excellent access to power, water and a local work force. Two Norilsk-owned nickel smelters are located 12 kilometres to the west of the property in the town of Nickel, and 14 kilometres to the east of the property in the town of Zapolyarny.

The Souker Deposit was discovered in 1947 and sporadically drilled from 1950 until 1982. In 1985, a Soviet classified resource was calculated using 0.3%, 0.4%, 0.5% Ni cutoff grades to the maximum drilled depth of 1,000 metres.

Upon closing of the acquisition of the Souker Deposit, the Company implemented a drill program to verify and convert the historic Soviet resource to a NI 43-101 compliant resource. The previous operator had initiated a drill program designed to infill the historic soviet resource on 100 metre centers in order to convert the historic estimate from a C2 to C1 category. The Company modified this program so that the ore body will be drilled at spacing sufficient to convert the historic estimate into either CIMM or JORC compliant resource categories.

A NI 43-101 compliant resource has been estimated for the Souker project of 103,000,000 tonnes at a grade of 0.26% Ni and 0.06% Cu classified as Indicated Mineral Resources and an additional 261,000,000 tonnes at a grade of 0.24% Ni and 0.06% Cu classified as Inferred Mineral Resources. SRK Consulting (Canada) Inc. audited the resource prepared by Kola and completed the NI 43-101 Technical Report on July 25, 2008. A summary of the resource report follows:

The Mineral Resource Statement for the project in the table below is based on an open pit optimization that utilized a nickel price of US \$8.00/lb, a 70% metallurgical recovery, and a smelter payable of 70%. Copper was not used in the pit optimization.

Mineral Resource Statement* for the Souker Nickel-Copper Deposit, Murmansk Oblast, Russian Federation, SRK Consulting, June 10, 2008.

Resource Classification	Quantity (million tonnes)	Grade Contained Metal			
		Nickel %	Copper %	Nickel (million pounds)	Copper (million pounds)
Indicated†	103	0.26	0.06	590	132
Inferred†	261	0.24	0.06	1,387	346

* Mineral resources are not mineral reserves and do not have demonstrated economic viability. All figures have been rounded to reflect the relative accuracy of the estimates. The cut-off grades are based on metal price assumptions of US \$8.00 per pound of nickel, and a metallurgical recovery of seventy percent for nickel, 70% smelter payable, unit mining costs US\$1.75 per tonne, processing cost US\$7.00 per tonne, G and A US\$1.20, slope angle 50 degrees. Copper was not used in the pit optimization.

† Reported at a cut-off grade of 0.131% Nickel contained within a potentially economic open pit.

Data used for this estimate included past Soviet era drilling and all finalized drilling results from the 2007-2008 Kola drill programs up until May 15, 2008. These data have been audited by SRK in accordance with "CIM Estimation of Mineral Resources Best Practices Guidelines." The resource model was interpolated using ordinary kriging with all of the assay data available. The drilling data is summarized below.

Summary of Data Provided by Kola for the Souker Nickel-Copper Deposit, Russian Federation, as of May 15, 2008.

Drilling Period	No. of Holes	Metres Drilled	Metres Assayed for Ni	Metres Assayed for Cu
Soviet, 1970's and 1980's	97	27,989.6	6,978.3	6,975.0
Kola, 2007-2008	68	8,630.3	8,168.4	7,965.8
Total	165	36,619.9	15,146.7	14,940.8

Assay values in the intervals reported were remarkably consistent and none of the averages were unduly influenced by higher grade intervals.

The mineralized intervals reported above were all associated with disseminated sulphide mineralization (pentlandite, chalcopyrite, and pyrrhotite) within layered, medium to coarse grained peridotite and pyroxenite. The hosting stratigraphy dips variably to the south. The ore body outcrops at surface and has excellent geometry for open pit mining.

Assay results for drill holes completed since preparation of the Resource Report are presented below. These holes were not included in the resource calculation. The results from the latest drilling are consistent with the orebody model developed to date. Results of the drill program will be incorporated into new resource estimates, mine plans and feasibility updates at appropriate intervals.

Hole ID	From (m)	To (m)	Length (m)	Ni (%)
cp-17	67.8	93.3	25.5	0.38
cp-33	2.4	185	182.6	0.30
cp-44	2.7	47.5	44.8	0.36
cp-84	226.9	253.1	26.2	0.47
cp-84	28.9	259.2	230.3	0.28
cp-87	205	335	130	0.30
cp-92	216	276	60	0.58
cp-92	128	276.9	148.9	0.40
cp-93	196	312	116	0.30
cp-97	97	120	23	0.31
cp-97	233	248	15	1.25
cp-97	182	251	69	0.28

In addition to the infill drilling, two hydrological test wells were completed and monitoring equipment installed. Five geotechnical holes for infrastructure planning and pit design have been completed. Preliminary metallurgical and rock mechanics test work is in progress.

A preliminary two-stage engineering and ecological study has been completed at Souker, resulting in the collection of data and implementation of environmental monitoring programs. This data will be included into an EIA (Environment Impact Assessment) in accordance with Western standards. Environmental monitoring has been in place for one year and will remain in place through the potential development of the Souker Deposit. The conclusion from the preliminary report indicated that future development and production from the Souker deposit will not have an additional, negative impact on the existing environment. A positive conclusion was made with regard to the socio-economic impact the potential development of the Souker Deposit would have on the Pechenga region.

In January 2009 the following reports were sent to GKZ as a part of materials which are necessary for the Russian feasibility study (TEO Konditsiy) and the Russian resource calculation approval:

1. Hydrogeological conditions of the Souker deposit (OAO Central Kolskaya Expedition).
2. Engineering and ecological surveys at the Souker deposit (Institute of North Industrial Ecology Problems, Kolskiy Centre of Sciences RAN).
3. Definition of the physical-mechanical characteristics of the enclosing rock, assessment of the pit wall and rock debris stability for the TEO design of the open pit mining at the Souker deposit. (Mining Institute of the Kolskiy Centre of Sciences RAN).
4. Ore mining and processing enterprise for the nickel-copper ore processing with the annual production program of 6 million tones of ore at the Souker deposit. (Eco-service, Bishkek).
5. Development of the efficient enrichment technology of nickel-copper ores at the Souker deposit.

In order to deal with the comments of the state agencies on the study filed, the Company has retained a local consulting firm, NBL Gold, to prepare an updated Due Diligence study (TEO Konditsiy) on the Souker project. NBL Gold will be responsible for the development of ore enrichment technologies and will be working on the economic study of the project.

NBL Gold is a group of engineering companies with one UK-based and three Russia-based offices totaling 100 employees, including geologists, geotechnical, mining and mineral processing engineers, as well as engineers of other related disciplines, environmental scientists, mineral economists and mineral commodity market analysts, with over 15 years of continuous experience in Russian and international engineering studies.

The Company received preliminary results of the metallurgical tests for the Souker Nickel deposit. The preliminary results indicate that the recovery of nickel in the deposit is much lower than anticipated. These tests were conducted by Moscow Steel and Alloys Institute. At this time additional follow up work is required, however if there is no improvement in recovery rates, the Company believes the project to be uneconomical at today's nickel prices.

The Company continues working on enrichment technologies. Up to date, enrichment test results using traditional methods such as flotation, magnetic separation, ammonia leaching, acid leaching etc. were not successful; recovery rate varies from 20% to less than 40%. It appears that the Souker ores by their composition are unique by its type and composition; there are no comparable ores in the world. The ores are unique by high content of a harmful components such as chrysotile asbestos (5 to 50% content in different samples), talcum (10-to 40% content in different samples), magnetite and biotite. However management believes that the new technology could be created.

The Company continues working on enrichment technology, the additional tests work program include the full chemical analysis of initial ore for the control of mineral structure, Granulometric analysis of ore to find out a marks of distribution of the basic and passing valuable and harmful components gravimagnetic fractionation by grain-size category, concentration of low grade minerals for mineralogical diagnostics and definition of their chemical compound by X-ray spectroscopic analysis, definition of the favorable and adverse factors for enrichment of ore, definition of the possibility of the use of dry ore pre-concentration. The results of this test are expected to be delivered by the end of November 2010 or early December 2010.

The Company is considering its options for the project and will apply to the State Resource Committee (the GKZ) in order to extend the license term and to keep the property until, and in the event that, technical advances are made that would allow for better metallurgical recoveries. The Company recorded an impairment charge of \$30,084,726 to the carrying value of the Souker project in its financial statements and is carrying the Souker Project at a nominal value of \$1.00.

Bogunay Project

Effective March 31, 2009 the Company entered into an agreement with ASAPK Holdings Limited ("APK"), under which the Company acquired a 100% interest in OOO Artel Staratelei Angarskaya Proizvodstvennaya Kompania ("ASAPK"), a private Russian company. Under the terms of the agreement the Company paid APK US \$700,000 (22,987,092 Russian Rubles). As amended ASAPK also has an outstanding loan with a third party for US \$1,100,000, of which US \$25,000 was paid on March 25, 2010 and the balance of US \$1,075,000 by October 31, 2010. The Company also paid a finder's fee of US \$25,000 to a third party. ASAPK's sole significant asset is a 100% interest in the Bogunay Gold Property, located 196 kilometres from Krasnoyarsk, center of Krasnoyarsk Territory, South Siberia, Russia.

Based on non-compliant (and therefore not disclosable) Russian resource estimates and other historic information the Company has estimated a potential target ranging in tonnage from 5,800,000 to 9,400,000 tonnes, at grades ranging from 2 to 10 g/t Au, for total contained gold ranging from 22.2 tonnes to 40.1 tonnes or 648,000 ounces to 1,171,000 ounces. The area includes the Bogunay mine area, old mine tailings and other exploration targets within the property boundary.

Investors are cautioned that the potential quantity and grade is conceptual in nature and that there has been insufficient exploration to define a mineral resource. It is uncertain if further exploration will result in the confirmation or discovery of a mineral resource. In addition, the Company cautions investors that the Soviet classified resources are not NI 43-101 compliant and that CIMM and JORC resource categories do not directly conform to, nor recognize the Soviet A, B, C1, P1 and P2 resource categories. A Qualified Person as defined by NI 43-101 has not done sufficient work to classify the estimates as current mineral resources and the estimates should not be relied upon. The Company does not consider the estimates to be current mineral resources, but it does consider the estimates to be a significant indication of the overall mineral potential, as discussed above.

The Bogunay Property is located 196 km from Krasnoyarsk, center of Krasnoyarsk Territory, South Siberia, Russia. It is accessed via graded gravel road (12 km) and is 16 km to the nearest railway station. The project has excellent access to power, water and a qualified local workforce.

The Bogunay mine was in operation from 1936 to 1951 and is reported to have run at an average grade of 8.5 g/t Au. The area had been closed due to its proximity to a Soviet strategically sensitive location until 2002, at which time a

license to conduct exploration and subsequent production of gold was issued. It is in effect until 2026. Since the issuance of the license, more than US \$2 million has been invested in exploration of the licenses. This work has included drilling, ground and airborne geophysics, trenching and chip sampling, environmental and as well as several other studies. This work has led to the estimation of potential gold summarized above.

The gold at Bogunay occurs in gold rich quartz veins within shear zones or as gold sulphide mineralization in altered gneisses and schists. They may also be rich in copper and silver. The deposit was previously mined both from underground and by open pit. The Krasnoyanskaya zone is located along the south flank of the Bogunay deposit. The gold here occurs in stockworks of sulphide mineralization, which may also contain copper and silver. The true thickness of the mineralized zone ranges from 7 to 26 metres. It has been well delineated with a series of trenches, adits, shafts and diamond drilling.

In August 2009 the Company completed a due diligence study (TEO Konditsiy) at the Bogunay Gold Prospect. The Company has met the requirements of the license agreement and received permits for further exploration and bulk-sample gold production. The Company is working on development of an exploration program and plans to conduct mineralized material enrichment tests in the next quarter. Depending on the results from these tests the Company will decide when, or if, to drill 9,600 metres of exploration drill holes.

The Company will be looking either for financing of the exploration program or for the sale of the property.

Selected Financial Data

The following selected financial information is derived from the audited annual consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Year Ended May 31,		
	2010 \$	2009 \$	2008 \$
Operations:			
Revenues	Nil	Nil	Nil
Expenses	(1,089,711)	(2,720,157)	(4,102,354)
Other items	(30,347,903)	(11,897,380)	(2,483,871)
Future income tax recovery	5,136,355	3,020,645	Nil
Net income (loss)	(26,301,259)	(11,596,892)	(6,586,225)
Basic and diluted earnings (loss) per share	(0.30)	(0.14)	(0.13)
Dividends per share	Nil	Nil	Nil
Balance Sheet:			
Working capital (deficiency)	(3,182,300)	(1,908,910)	(4,612,942)
Total assets	3,713,627	34,596,560	41,611,457
Total long-term liabilities	Nil	519,064	1,290,380
Future income tax liabilities	589,000	5,725,355	8,157,000

The following selected financial information is derived from the unaudited interim consolidated financial statements of the Company prepared in accordance with Canadian GAAP.

	Fiscal 2010				Fiscal 2009			
	May 31/10 \$	Feb 28/10 \$	Nov 30/09 \$	Aug 31/09 \$	May 31/09 \$	Feb 28/09 \$	Nov 30/08 \$	Aug 31/08 \$
Operations:								
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expenses	(281,443)	(167,567)	(307,695)	(333,006)	(394,835)	(477,974)	(617,136)	(1,230,212)
Other Items	(30,272,986)	312,543	(350,809)	(36,651)	(11,539,748)	190,389	(365,123)	(182,898)
Future income tax recovery	5,136,355	Nil	Nil	Nil	3,020,645	Nil	Nil	Nil
Net income (loss)	(25,418,074)	144,976	(658,504)	(369,657)	(8,913,938)	(287,585)	(982,259)	(1,413,110)
Basic and diluted earnings (loss) per share	(0.28)	0.00	(0.01)	(0.01)	(0.11)	(0.00)	(0.01)	(0.02)
Dividends per share	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

	Fiscal 2010				Fiscal 2009			
	May 31/10 \$	Feb 28/10 \$	Nov 30/09 \$	Aug 31/09 \$	May 31/09 \$	Feb 28/09 \$	Nov 30/08 \$	Aug 31/08 \$
Balance Sheet:								
Working capital (deficiency)	(3,182,300)	(3,645,208)	(2,813,328)	(2,531,089)	(1,908,910)	245,754	831,600	2,351,642
Total assets	3,713,627	34,892,014	33,718,197	34,412,162	34,596,560	44,420,702	44,613,581	45,186,981
Total long-term liabilities	Nil	Nil	531,050	535,068	519,064	Nil	Nil	Nil
Future income tax liabilities	589,000	5,7525,355	5,725,355	5,725,355	5,725,355	8,157,000	8,157,000	8,157,000

Results of Operations

Three Months Ended May 31, 2010 Compared to Three Months Ended May 31, 2009

During the three months ended May 31, 2010 (the “2010 Quarter”) the Company reported a loss of \$25,418,074, compared to a loss of \$8,913,938 for the three months ended May 31, 2009 (the “2009 Quarter”), an increase in loss of \$16,504,136. The primary factors for the fluctuation were the write-off of unproven mineral interests at the end of the 2009 Quarter of \$11,249,401 which resulted in a future income tax recovery of \$3,020,645 compared to the write-off at the end of the 2010 Quarter of \$30,084,726 which resulted in a future income tax recovery of \$5,136,355.

Year Ended May 31, 2010 Compared to Year Ended May 31, 2009

During fiscal 2010, the Company recorded a loss of \$26,301,259 (\$0.30 per share) compared to a loss of \$11,596,892 (\$0.14 per share) for fiscal 2009, an increase in loss of \$14,704,367. The increase in the loss in fiscal 2010 is mainly attributed to the write-off of unproven mineral interests during fiscal 2009 of \$11,249,401 which resulted in a future income tax recovery of \$3,020,645 compared to the write-off during fiscal 2010 of \$30,084,726 which resulted in a future income tax recovery of \$5,136,355. Other factors for the fluctuation were the reduction of overall costs by management in Russia and the termination of office arrangements in Kazakhstan and Kyrgyz Republic. In addition, stock-based compensation decreased by \$818,750 from \$822,250 in fiscal 2009 to \$3,500 in fiscal 2010.

General and administrative expenses of \$1,089,711 were incurred during fiscal 2010, a decrease of \$1,630,446, from \$2,720,157 in fiscal 2009. Specific expenses of note during fiscal 2010 are as follows:

- accounting and administrative fees of \$64,099 (2009 - \$87,800) were charged by Chase Management Ltd. (“Chase”), a private company controlled by Mr. Nick DeMare, a director of the Company;
- legal fees of \$153,750 (2009 - \$220,083) were incurred for services provided in preparing and reviewing property agreements and on-going legal matters;
- the Company incurred travel costs of \$92,764 (2009 - \$160,853) for review of properties in Russia;
- the Company incurred office expenses of \$39,042 (2009 - \$180,517). During fiscal 2010 the Company maintained offices only in Canada and Russia. During fiscal 2009, the Company maintained four offices in Canada, Russia, the Kyrgyz Republic and Kazakhstan;
- during fiscal 2009, the Company recorded \$57,250 for investor relations fees. These fees were paid to Mr. Andrew Fedak and on December 31, 2008, the Company terminated its arrangement with Mr. Fedak.
- rent totalling \$168,513 were paid for rental of office space in Canada and Russia compared to \$108,810 paid in fiscal 2009;
- during fiscal 2009, the Company incurred corporate development expenses totalling \$56,544 for an ongoing market awareness and promotional campaign. During fiscal 2010 there were no market awareness or promotional campaigns.
- salaries totalling \$148,461 (2009 - \$675,352). During fiscal 2009 there were increased administrative staff employed in the offices in the Kyrgyz Republic, Kazakhstan, Canada and Russia. In addition \$158,000; was paid to the Company’s former President, during fiscal 2009;
- professional fees of \$248,415 (2009 - \$145,433) were paid for services provided by consultants of which \$99,704 (2009 - \$147,536) were paid to directors and officers of the Company;
- audit fees of \$87,746 (2009 - \$97,020) were recorded for the year end audit ; and
- recognition of \$3,500 (2009 - \$822,250) in non-cash stock based compensation on the granting and vesting of stock options.

As the Company is in the exploration stage of investigating and evaluating its unproven mineral interests, it has no revenue. Interest income is generated from cash held with the Company's financial institution. During fiscal 2010, the Company reported interest income of \$20,674 compared to \$17,923 in fiscal 2009.

During fiscal 2010 the Company wrote-off deposits and exploration advances of \$323,653 due to the uncertainty of the Company's ability to recover these deposits and advances.

Effective July 15, 2009 the Company and Stargate amended the Share Purchase Agreement whereby the final repayment date was extended by one year to July 24, 2010 and the amounts due to Stargate and DBM were increased to US \$1,700,000 and US \$85,000, respectively. In addition, in the event that the amounts due are not repaid by July 24, 2010 then the outstanding amounts would commence bearing interest, until paid, at an annual interest rate of 10% and the amounts due to Stargate and DBM will increase to US \$1,800,000 and US \$90,000 respectively. The fair values of the revised principal amounts are now based on a discount rate of 10% per annum. Accordingly, the Company has recorded an additional \$228,396 as a finance charge for the revised principal amounts which have been expensed. During fiscal 2010 the Company accreted \$178,522 as interest costs, which have been expensed. On July 24, 2010, the Company did not repay the amounts due to Stargate and DBM as contemplated by the extension. The Company is currently negotiating the terms for settlement of the outstanding debt to Stargate and DBM.

As part of the acquisition of ASAPK, the Company now has a debt due to Newhudson Oaks Trading & Investments Limited ("NH Ltd.") of US \$1,100,000 of which US \$550,000 is due on January 15, 2010 and the remaining US \$550,000 is due on October 15, 2010. The amount payable is unsecured and non-interest bearing. The fair value of this debt is based on a discount rate of 12% per annum, and is accreted to the face value over the term of the debt by recording additional interest costs.

On January 11, 2010 the Company and NH Ltd. agreed to amend the repayment terms of the US \$1,100,000 debt. Pursuant to the amending agreement, US \$25,000 was paid on March 25, 2010 and US \$1,075,000 will be due on October 15, 2010. In addition, commencing January 15, 2010, the debt will bear interest at a rate of 5% per annum, payable quarterly. During fiscal 2010 the Company recorded interest of \$21,203 which is included in accounts payable and accrued liabilities and have been capitalized to unproven mineral interests.

During fiscal 2010 the Company accreted \$133,065 (2009 - \$23,349) as interest costs, which have been capitalized to unproven mineral interests.

On October 15, 2010, the Company did not repay the amounts due to NH Ltd. The Company is currently negotiating the terms for settlement of the outstanding debt to NH Ltd.

Financial Condition / Capital Resources

During fiscal 2010 the Company incurred a net loss of \$26,301,259 and, as at May 31, 2010, had an accumulated deficit of \$48,098,514 and a working capital deficit of \$3,182,300. The Company will require additional financing to meet its ongoing levels of corporate overhead, retire existing liabilities and debt obligations and implement the required work programs on its mineral interests. The Company expects to generate the necessary financial resources through a combination of loans from its shareholders and the sale of equity securities. While the Company has been successful in securing financings in the past, there can be no assurance that it will be able to do so in the future. Accordingly, it does not give effect to adjustments, if any that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities in other than the normal course of business and at amounts which may differ from those shown in the consolidated financial statements.

Subsequent to May 31, 2010 the Company did not repay its \$2,964,015 of long-term debts as they came due. The Company is currently negotiating the terms for settlement of these advances. However, there are no assurances that the company will be successful in renegotiations.

Risks and Uncertainties

An investment in the Company's common shares is highly speculative and subject to a number of risks and uncertainties. Only those persons who can bear the risk of the entire loss of their investment should consider investing in the Company's common shares. An investor should carefully consider the risks described below and

the other information filed on www.sedar.com before investing in the Company's common shares. The risks described below are not the only ones faced. Additional risks that the Company currently believes are immaterial may become important factors that affect the Company's business. If any of the following risks occur, or if others occur, the Company's business and financial condition could be seriously harmed and investors may lose all of their investment.

No Known Bodies of Commercial Ore

There are no known bodies of commercial ore on the Company's properties. The exploration programs undertaken and proposed constitute an exploratory search for ore or programs to qualify identified mineralization as ore reserves or resources. There is no assurance that the Company will be successful in its search for ore or in its more advanced programs.

Exploration and Development Risks

Exploration and development risks for the business of exploring for minerals and mining are high. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site. It is impossible to ensure that exploration programs planned by the Company will result in a profitable commercial mining operation.

Title to Properties, Political and Legal Uncertainty

Although the Company believes it has exercised commercially reasonable due diligence with respect to determining title to properties it owns or controls, there is no guarantee that title to such mineral property interests will not be challenged or impugned. Kola's mineral property interests may be subject to prior unregistered interests and title may be affected by undetected defects. There may be valid challenges to the title of the mineral property interests which, if successful, could impair development and/or operations.

The Company's mining exploration activities are affected in varying degrees by political stability and government regulations relating to foreign investment, social unrest, corporate activity and the mining business in the Russian Federation. Operations may also be affected in varying degrees by terrorism, military conflict or repression, crime, extreme fluctuations in currency rates and high inflation in Central Asia and the former Soviet Union. The relevant governments have entered into contracts with the Company or granted permits or concessions that enable it to conduct operations or development and exploration activities. Notwithstanding these arrangements, the Company's ability to conduct operations or exploration and development activities is subject to renewal of permits or concessions, changes in government regulations or shifts in political attitudes beyond the Company's control. There can be no assurance that industries deemed of national or strategic importance like mineral production will not be nationalized. Government policy may change to discourage foreign investment, re-nationalization of mining industries may occur or other government limitations, restrictions or requirements not currently foreseen may be implemented. There can be no assurance that the Company's assets will not be subject to nationalization, requisition or confiscation, whether legitimate or not, by any authority or body.

Similarly, the Company's operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, export controls, income taxes, expropriation of property, environmental legislation, labour legislation, mine safety, and annual fees to maintain mineral properties in good standing. There can be no assurance that the laws in these countries protecting foreign investments will not be amended or abolished or that these existing laws will be enforced or interpreted to provide adequate protection against any or all of the risks described herein.

With respect to the Company's Russian properties, the current legal environment in the Russian Federation is characterized by poorly-drafted and inconsistent legislation, gaps where legislation is not yet available, and uncertainty in application due to frequent policy shifts and lack of administrative experience. Russian laws often provide general statements of principles rather than specific guide to operations and government officials may be delegated or exercise broad authority to determine matters of significance to the operations and business of the Company. Such authority may be exercised in an unpredictable way and effective appeal processes may not be available. In addition, breaches of Russian law may involve severe penalties and consequences regarded as disproportionate to the offence. Exploration for and extraction of minerals in the Russian Federation is governed by the Law on Subsoil, the Licensing Regulations, the Precious Metals Law and other laws. Given the fact that the

legislative scheme and the regulatory bodies governing this scheme are of relatively recent origin, the law has been subject to varying interpretations and inconsistent application. Therefore, it can be difficult to determine with certainty in any given instance the exact nature of legal rights possessed by persons using the subsoil. There are uncertainties in conclusively determining all necessary information about required permits, approvals and licenses, and there is no comprehensive index or system for determining all relevant legislation. As well, the Russian legal system is a civil law system, and legal precedents are not of the same determinative nature as in a common law system. Additionally, officials often interpret regulations in an arbitrary or unpredictable way, and this extends to most areas of regulation. There can be no assurance that the Company has complied with all applicable laws or obtained all necessary approvals in Russia. There can be no assurance that laws, orders, rules, regulations and other Russian legislation currently relating to the Company's investment in the Russian Federation will not be altered, in whole or in part, or that a Russian court or other authority will not interpret existing Russian legislation, whether retroactively or otherwise, in such a way that would have an adverse impact on the Company. In general, there remains great uncertainty as to the extent to which Russian parties and entities, particularly governmental agencies, will be prepared to respect the contractual and other rights of the non-Russian parties with which they deal and also as to the extent to which the rule of law has taken hold and will be upheld in the Russian Federation. Procedures for the protection of rights, such as the taking of security, the enforcement of claims and proceedings for injunctive relief or to obtain damages are still relatively undeveloped in the Russian Federation. Accordingly, there may be greater difficulty and uncertainty in respect of the Company's abilities to protect and enforce its rights (including contractual rights). There can be no assurance that this will not have a material adverse effect upon the Company.

Russian corporate law is not extensively developed and is still very much evolving from the former Soviet times. There are corporate law requirements of a technical nature that are not complied with by significant numbers of Russian corporations, which rarely result in action being taken by the authorities. There is a risk, however, of arbitrary action being taken against any of such Russian corporations, including the Company's Russian subsidiary, RPI, due to these technical irregularities, and the result of such action could be materially adverse to RPI and the Company. In addition, the Souker Licence confers upon RPI the right to explore, develop and mine the Souker Deposit and the Souker Licence area. As with many Russian mineral properties affected by the transitory nature of the legal system, there are certain issues relating to the Souker Project which may adversely affect RPI's interest. RPI is taking and will continue to take all appropriate steps to protect its interest.

Additional Funding Requirements

The Company will require additional financing to continue its operations. There can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financing will be favourable, for further exploration and development of its projects. Failure to obtain such additional financing could result in delay or indefinite postponement of further exploration and development and the property interests of the Company with the possible dilution or loss of such interests.

Conflicts of Interest

Certain officers and directors of the Company are officers and/or directors of, or are associated with or have significant shareholdings in, other natural resource companies that acquire interests in mineral properties. Such associations may give rise to conflicts of interest from time to time. The directors are required by law, however, to act honestly and in good faith with a view to the best interests of the Company and its shareholders and to disclose any personal interest which they may have in any material transaction which is proposed to be entered into with the Company and to abstain from voting as a director for the approval of any such transaction.

Metal Prices

Metal prices may be unstable. The mining industry in general is intensely competitive and there is no assurance that, even if commercial quantities of a mineral resource are discovered, a profitable market will exist for the sale of it. Factors beyond the control of the Company may affect the marketability of any substances discovered. The price of various metals has experienced significant movements over short periods of time, and is affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any metal will be such that any of the Company's properties can be mined at a profit.

Environmental and other Regulatory Requirements

The Company's current exploration activities are subject to various laws and regulations governing land use, the protection of the environment, prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, toxic substances, mine safety and other matters. Such exploration activities are also subject to substantial regulation under these laws by governmental agencies and may require that the Company obtain permits from various governmental agencies. There can be no assurance that all permits which the Company may require for its exploration activities or for the future construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake.

Failure to comply with applicable laws, regulations, and permitting requirements may result in enforcement actions, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions.

Price Fluctuations: Share Price Volatility

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility and the market price of securities of many mineral exploration companies 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 fluctuations in price will not occur.

Reliance upon Management

The success of the Company depends to a large extent upon its ability to retain the services of its senior management and key personnel. The loss of their services may have a material, adverse effect on the Company.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Proposed Transactions

The Company has no proposed transactions.

Critical Accounting Estimates

A detailed summary of all the Company's significant accounting policies is included in Note 2 to the May 31, 2010 audited consolidated financial statements.

Changes in Accounting Policies

Adoption of New Accounting Standard

Goodwill and Intangible Assets

Effective June 1, 2009 the Company adopted the new recommendations of CICA Section 3064, *Goodwill and Intangible Assets*, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The adoption of Section 3064 did not have a material impact on the Company's financial position and results of operations.

Fair Value and Liquidity Risk

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

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

Effective June 1, 2009 the Company adopted the new recommendations.

Future Accounting Policies

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

The CICA issued three new accounting standards in January 2009: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011.

Section 1582 replaces Section 1581, *Business Combinations*, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, *Consolidated and Separate Financial Statements*, and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

International Financial Reporting Standards

In 2006 the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year.

The Company has commenced the scoping and planning phase of its changeover plan. The Company has designated the appropriate resources to the project to develop an effective plan and will continue to assess resource and training requirements as the project progresses. The Company has identified the following four phases of its conversion plan: scoping and planning, detailed assessment, operations implementation and post implementation. The scoping and planning phase involves establishing a project management team, mobilizing organizational support for the conversion plan, identifying major areas affected and developing an implementation plan. The Company expects to complete the scoping and planning phase during the 2010 fiscal year. The detailed assessment phase ("Phase 2") will result in accounting policies and transitional exemptions decisions, quantification of financial statement impact, preparation of shell financial statements and identification of business processes and resources impacted. The operations implementation phase ("Phase 3") includes the design of business, reporting and system processes to support the compilation of IFRS compliant financial data for the opening balance sheet at June 1, 2010 and thereafter. Phase 3 also includes ongoing training, testing of the internal control environment and updated processes for disclosure controls and procedures. Post implementation ("Phase 4") will include sustainable IFRS compliant financial data and processes for fiscal 2011 and beyond. The Company will continue to monitor changes in IFRS throughout the duration of the implementation process and assess their impacts on the Company and its reporting

Transactions with Related Parties

- (a) During fiscal 2010 and 2009 the Company incurred fees to its directors and officers or corporations controlled by current and former directors or officers, as follows:

	2010 \$	2009 \$
Legal	-	59,795
Accounting and administrative	64,099	87,800
Professional	99,704	147,536
Rent	9,600	1,600
	<u>173,403</u>	<u>296,731</u>

As at May 31, 2010, \$9,636 (2009 - \$92,510) remained outstanding and was included in accounts payable and accrued liabilities.

- (b) During fiscal 2009 the Company shared its office premises with other companies, some of which had directors who were also directors of the Company. During fiscal 2009 the Company received \$58,842 from these companies for shared premises and overhead costs.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Investor Relations Activities

The Company maintains a website at www.kolamining.com and updates it on a continuous basis. During fiscal 2010 the Company did not have any investor relations arrangements.

During fiscal 2009, the Company retained Mr. Andrew Fedak as an investor relations representative for a monthly fee of \$7,500. During fiscal 2009 the Company paid Mr. Fedak a total of \$57,250.

Outstanding Share Data

The Company's authorized share capital is unlimited common shares without par value. As at November 16, 2010 there were 88,004,125 issued and outstanding common shares and 5,385,000 stock options outstanding at exercise prices ranging from \$0.36 to \$1.71 per share.