

Confederation Minerals Ltd.

Consolidated Financial Statements

June 30, 2012 and 2011

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Confederation Minerals Ltd. were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 to the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the years presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date and for the periods presented by the audited consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists that Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)
"Lawrence Dick"
CEO

(signed)
"Savio Chiu"
CFO

Independent Auditors' Report

To the Shareholders of Confederation Minerals Ltd.:

We have audited the accompanying consolidated financial statements of Confederation Minerals Ltd., which comprise the consolidated statements of financial position as at June 30, 2012, June 30, 2011 and July 1, 2010, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended June 30, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Confederation Minerals Ltd. as at June 30, 2012, June 30, 2011 and July 1, 2010, and its financial performance and its cash flows for the years ended June 30, 2012 and 2011 in accordance with International Financial Reporting Standards.

Vancouver, British Columbia
October 25, 2012


Chartered Accountants

CONFEDERATION MINERALS LTD.
Consolidated Statements of Financial Position

As at	Notes	June 30, 2012	June 30, 2011	July 1, 2010
		\$	\$	\$
			Note 18	Note 18
ASSETS				
Current assets				
Cash and cash equivalents		96,899	685,229	44,297
Short-term investment	3	8,962,775	10,532,493	-
Prepaid expenses		35,417	14,161	2,500
HST/GST receivable		123,133	301,662	5,446
Current assets held for sale	4	-	383,911	136,171
Loan receivable	7	-	70,000	-
Total current assets		9,218,224	11,987,456	188,414
Non-current assets				
Exploration and evaluation assets	5	8,706,134	2,358,837	724,648
Intangible assets	6	455,422	-	-
Total non-current assets		9,161,556	2,358,837	724,648
Total assets		18,379,780	14,346,293	913,062
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities		514,391	1,078,963	83,040
Income tax payable	16	518,223	-	-
Current liabilities held for sale	4	-	75,121	16,653
Premium on flow-through shares		-	275,000	-
Total current liabilities		1,032,614	1,429,084	99,693
Long-term liabilities				
Long term debt	8	-	-	36,800
Deferred income tax liability	4,16	-	8,222	-
Total long-term liabilities		-	8,222	36,800
Total liabilities		1,032,614	1,437,306	136,493
EQUITY				
Equity attributable to shareholders				
Share capital	9	19,581,335	14,792,879	1,762,511
Reserves		3,078,871	1,209,800	296,387
Deferred share based payment		(39,838)	(64,998)	-
Accumulated deficit		(6,221,380)	(3,009,535)	(1,282,329)
Accumulated other comprehensive income (loss)		(3,442)	(19,159)	-
Non-controlling interest		951,620	-	-
Total equity		17,347,166	12,908,987	776,569
Total liabilities and equity		18,379,780	14,346,293	913,062

These consolidated financial statements are authorised for issue by the Board of Directors on October 25, 2012. They are signed on the Company's behalf by:

On behalf of the Board:

 "Brian Bapty" Director
 Brian Bapty

 "Lawrence Dick" Director
 Lawrence Dick

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

CONFEDERATION MINERALS LTD.

Consolidated Statements of Operation and Comprehensive Loss

	Notes	Years Ended June 30	
		2012	2011
		\$	\$
			Note 17
General and administrative expenses			
Accounting and audit fees		71,874	18,720
Bank charges and interest		1,359	921
Consulting fees	9	963,492	393,087
Filing fees		48,573	35,654
Foreign exchange loss/(gain)		60	-
Insurance		14,808	-
Legal fees		58,886	29,699
License and permits		4,897	-
Meals and entertainment		32,860	2,553
Office expenses		42,350	14,095
Project investigation		148,191	-
Rent		4,327	-
Shareholder information		60,520	12,872
Share-based payments		2,002,804	614,868
Transfer agent fees		15,877	14,673
Travel and accommodation		115,806	8,250
Wages		88,025	-
Website development		5,725	21,720
		(3,680,434)	(1,167,112)
Gain (loss) on marketable securities		(18,234)	-
Interest and miscellaneous income		104,620	45,208
Write-off of exploration and evaluation assets		-	(661,334)
Other income	5	254,927	-
Net loss before tax		(3,339,121)	(1,783,238)
Income tax (expenses) recovery		(233,578)	-
Net loss from continuing operation		(3,572,699)	(1,783,238)
Net loss from discontinued operations		-	56,032
Net loss for the year		(3,572,699)	(1,727,206)
Loss attributable to:			
Shareholders		(3,211,845)	(1,727,206)
Non-controlling interest		(360,854)	-
Net loss for the year		(3,572,699)	(1,727,206)
Other comprehensive income (loss)			
Foreign currency translation		27,831	(19,159)
Total comprehensive loss		(3,544,868)	(1,746,365)
Net comprehensive loss attributable to:			
Shareholders		(3,196,128)	(1,746,365)
Non-controlling interest		(348,740)	-
Total comprehensive loss		(3,544,868)	(1,746,365)
Loss per share, basic and diluted		(0.07)	(0.07)
Weighted average common shares outstanding-basic and diluted		49,282,028	26,084,782

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

CONFEDERATION MINERALS LTD.
Consolidated Statements of Cash Flows

	Years Ended June 30	
	2012	2011
	\$	\$
		Note 18
Cash provided by (used in):		
Operating activities		
Net loss for the year	(3,572,699)	(1,727,206)
Items not involving cash:		
Share-based payments	2,002,804	614,868
Loss/(gain) on disposal of short-term investment	18,280	(58,290)
Gain on disposal of exploration and evaluation assets	-	(14,248)
Discounted interest on loan	-	3,200
Deferred income tax expense (recovery)	(283,553)	8,523
Write-off of exploration and evaluation assets	-	661,334
Changes in non-cash working capital:		
Receivables	190,941	(296,216)
Prepaid expenses	(16,078)	(11,662)
Accounts payable and accrued liabilities	(1,333,452)	47,477
Income tax payable	517,112	-
Loan receivable	70,000	(70,000)
Proceeds from discontinued operation	-	8,028
	(2,406,645)	(834,192)
Investing activities:		
Business acquisition (net of cash acquired)	(29,532)	-
Sale (purchase) of short-term investment	1,656,018	(10,532,493)
Payment from Passport Potash Inc.	-	-
Exploration and evaluation assets and intangible assets	(4,458,492)	(1,225,549)
Proceeds from discontinued operation	-	(69,418)
	(2,832,006)	(11,827,460)
Financing activities:		
Proceeds from shares issued	4,632,885	13,341,665
Repayment of long term debt	-	(40,000)
	4,632,885	13,301,665
Net change in cash and cash equivalents	(605,766)	640,013
Effect of exchange rate changes on cash	5,297	919
Cash and cash equivalents, beginning of year	697,368	44,297
Cash and cash equivalents, end of year	96,899	685,229

Supplementary cash flow information (Note 11)

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

CONFEDERATION MINERALS LTD.
Consolidated Statements of Changes in Equity

	Common Shares		Reserves		Deferred Share Based Payment	Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Shareholder's Equity
	Number of Shares	Amount	Option Reserve	Warrant Reserve					
		\$	\$	\$	\$	\$	\$	\$	\$
Balance on July 1, 2010	15,589,667	1,762,511	185,000	111,387	-	(1,282,329)	-	-	776,569
Common shares issued:									
Private placement	26,668,614	13,943,196	-	-	-	-	-	-	13,943,196
Finders shares issued in private placement	479,392	134,230	-	-	-	-	-	-	134,230
Share issuance costs	-	(1,475,579)	-	-	-	-	-	-	(1,475,579)
Premium on flow-through shares issued	-	(275,000)	-	-	-	-	-	-	(275,000)
Issuance of shares for Newman Property	225,000	131,000	-	-	-	-	-	-	131,000
Issuance of shares for the finders fee for Newman Property	228,448	66,250	-	-	-	-	-	-	66,250
Share-based payment	-	-	679,866	-	(64,998)	-	-	-	614,868
Fair value on agents warrants issued	-	-	-	355,668	-	-	-	-	355,668
Exercise of agent's warrants	172,000	77,400	-	-	-	-	-	-	77,400
Exercise of purchase warrants	587,000	206,750	-	-	-	-	-	-	206,750
Reallocation of fair value on agents warrants exercised	-	23,582	-	(23,582)	-	-	-	-	-
Residual value applied on exercise of warrants	-	11,480	-	(11,480)	-	-	-	-	-
Exercise of stock options	400,000	187,059	(87,059)	-	-	-	-	-	100,000
Loss for the year	-	-	-	-	-	(1,727,206)	-	-	(1,727,206)
Other comprehensive income (loss)	-	-	-	-	-	-	(19,159)	-	(19,159)
Balance on June 30, 2011	44,350,121	14,792,879	777,807	431,993	(64,998)	(3,009,535)	(19,159)	-	12,908,987
Common shares issued:									
Issuance of shares for Newman Property	100,000	47,000	-	-	-	-	-	-	47,000
Exercise of agent's warrants	980,192	243,792	-	-	-	-	-	-	243,792
Exercise of purchase warrants	9,698,219	4,389,092	-	-	-	-	-	-	4,389,092
Reallocation of fair value on agents warrants exercised	-	74,092	-	(74,092)	-	-	-	-	-
Residual value applied on exercise of warrants	-	34,480	-	(34,480)	-	-	-	-	-
Share-based payment	-	-	1,977,643	-	25,160	-	-	-	2,002,803
Business acquisition (Note 4)	-	-	-	-	-	-	-	1,300,360	1,300,360
Loss for the year	-	-	-	-	-	(3,211,845)	-	(360,854)	(3,572,699)
Other comprehensive income (loss)	-	-	-	-	-	-	15,717	12,114	27,831
Balance on June 30, 2012	55,128,532	19,581,335	2,755,450	323,421	(39,838)	(6,221,380)	(3,442)	951,620	17,347,166

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

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements
For the years ended June 30, 2012 and 2011
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

The Company was incorporated on November 3, 2005 under the Business Corporations Act (British Columbia) as "Medina Ventures Inc.", changed its name to "Sienna Minerals Ltd." on April 26, 2006 and changed its name to Confederation Minerals Ltd. on April 11, 2007. The Company's principal business activity is the exploration of exploration and evaluation assets.

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether its exploration and evaluation assets contain mineral reserves that are economically recoverable. The Company's continuing operations, and the recoverability of the amounts shown for exploration and evaluation assets are entirely dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its exploration and evaluation assets, and on future profitable production or proceeds from the disposition of the exploration and evaluation assets.

The business of exploring for and mining of exploration and evaluation assets involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

The financial information is presented in Canadian Dollars (CDN\$), which is the functional currency of the Company.

The head office and principal address of the Company are located at Suite 1980, 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS").

This is the Company's first consolidated financial statements prepared in accordance with IFRS. The 2012 consolidated financial statements include an opening balance sheet as at July 1, 2010, date at which the impact of IFRS transition were recorded against equity, in accordance with the provisions of IFRS 1 First Time Adoption of International Financial Reporting Standards and the comparative consolidated financial statements for the year ended June 30, 2011 were prepared using the same basis of accounting. A detailed reconciliation of the consolidated financial statements prepared under Canadian GAAP ("CGAAP") and the IFRS for the year ended June 30, 2011 is presented in Note 18.

Basis of Preparation

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit or loss have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available on June 30, 2012, the Company's first annual reporting date.

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent consolidated financial statements prepared under CGAAP.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements
For the years ended June 30, 2012 and 2011
(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS balance sheet at July 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from CGAAP to IFRS is explained in Note 18.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its controlled entities. Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation. Details of controlled entities are as follows:

	Country of Incorporation	Percentage owned as at June 30,		Principal activity
		2012	2011	
Magna Resources Ltd. ("Magna")	Canada	56.47%	Nil	Exploration
American Potash LLC ("American Potash")	United States	56.47%	50%	Exploration

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. Non-controlling interests consists of the non-controlling interest at the date of the original business combination plus the non-controlling interest's share in changes in equity since the date of acquisition. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Business Combination

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase consideration and the non-controlling interests in the acquire, over the acquisition-date fair value of net assets acquired, is recorded as goodwill and allocated to cash generating units. If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in the consolidated statements of operations and comprehensive loss.

Acquisition related costs are expensed during the period in which they are incurred.

Non-controlling interests are recorded at their proportionate share of the fair value of net identifiable assets acquired at the acquisition date. Goodwill results as the excess of the fair value of the total consideration transferred by the Company, including contingent consideration, and the non-controlling interests in the acquiree, over the fair value of net assets acquired.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Interest in Joint Venture**

A joint venture is an entity in which the Company holds a long-term interest and over whose strategic, financial and operating decisions the Company shares joint control with one or more other venturers under a contractual arrangement. The Company recognizes its interest in a joint venture in the financial statements using the proportionate consolidation method. Prior to January 19, 2012, the date the Company acquired control of Magna (Note 4), the consolidated financial statements included the accounts of the Company and a 50% interest in American Potash.

Interest Income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Foreign Currencies Translation and Transaction

The functional currency of each of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional currency. The functional currency of the Company and Magna is Canadian dollars and the functional currency of American Potash is US dollars.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of loss in the period in which they arise.

The financial statements of the entities that have a functional currency different from that of the parent company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Financing Costs

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of operations and comprehensive loss.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short term money market instruments with an original maturity of three months or less when acquired, which are readily convertible into a known amount of cash. The cash and cash equivalents are all denominated in Canadian dollars. There were no cash equivalents as at June 30, 2012, June 30, 2011 and July 1, 2011.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Short-Term Investment**

Short term investment, which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value.

Exploration and Evaluation Assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. Costs incurred before the Company has obtained the legal right to explore an area are recognized in profit or loss. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

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

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

Decommissioning and Rehabilitation Liabilities

The Company recognizes the fair value of a decommissioning and restoration liability 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 decommissioning and restoration liability 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 and comprehensive loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any significant decommissioning and restoration obligations at June 30, 2012, June 30, 2011 and July 1, 2010.

Intangible assets

Intangible assets consist of potash prospecting permit applications costs. These assets have indefinite lives and as such, are not subject to amortization but are tested annually for impairment.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Impairment of long lived assets**

Exploration and evaluation assets, intangibles and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level, which there are separately identifiable cash flows ("cash-generating units" or "CGU"). The Company evaluates the impairment losses other than goodwill, for potential reversal, when events and changes in circumstances warrant such consideration.

Share-based payments

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees the fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the options granted at the date the Company receives the goods or the services using the Black-Scholes option pricing model.

Warrants issued in Equity Financing Transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

Comprehensive Loss

Comprehensive loss is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported all outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

Income Taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

(b) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit of loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Flow-Through Instruments

Under Canadian income tax legislation, a company is permitted to issue flow-through shares whereby the Company agrees to incur qualifying expenditures and renounce the related income tax deductions to the investors.

The increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds or "premium" are recorded as a deferred premium liability. When expenditures are renounced, a deferred tax liability is recognized and the deferred premium liability is reversed. The net amount is recognized as a deferred income tax recovery.

Financial Instruments – recognition and measurement

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value but through profit and loss are measured at amortized cost using the effective interest rate method. The Company has implemented the following classifications for its financial instruments:

- a) Cash and cash equivalents and short term investments as financial assets at FVTPL.
- b) Accounts payable and accrued liabilities have been classified as other financial liabilities.

Impairment of Financial Assets

The Company assesses at the end of each reporting period whether a financial asset is impaired.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

De-recognition of Financial Assets and Financial Liabilities

Financial assets are derecognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Impairment of Non-Financial Assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations and comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities are not recognised in the financial statements and are disclosed in the notes to the financial statements unless their occurrence is remote. Contingent assets are not recognised in the financial statements, but are disclosed in the notes to the financial statements if their recovery is deemed probable.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Significant Accounting Judgements and Estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (a) The purchase price allocation. Business acquisitions are accounted for by the acquisition method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired, if any, is goodwill. The determination of fair value often requires management to make assumptions and estimates. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment. Changes in the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill, if any, in the purchase price allocation.
- (b) The inputs used in accounting for share purchase option expense in the consolidated statements of operations and comprehensive loss.

CONFEDERATION MINERALS LTD.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2012 and 2011

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(c) The provision for income taxes which is included in the consolidated statements of operations and comprehensive loss and composition and quantification of deferred income tax assets and liabilities included in the consolidated statements of financial position.

(d) The recoverability of exploration and evaluation assets in the consolidated statements of financial position.

New Accounting Standards and Interpretations

The following standards have been issued but are not yet effective. They may result in future changes to accounting policies and other note disclosures.

(a) IFRS 9, Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015.

(b) IFRS 10, Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(c) IFRS 11, Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. . The Company is yet to assess the full impact of IFRS 11 is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. . The Company is yet to assess the full impact of IFRS 12 is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(e) IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. . The Company is yet to assess the full impact of IFRS 13 is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

(f) IAS 1, Presentation of Financial Statements

Amendments to IAS 1, provides guidance on the presentation of items contained in other comprehensive income (OCI) and their classification within OCI. This is required to be applied beginning on or after July 1, 2012 with earlier adoption permitted.

(g) IFRS 7, Financial Instruments: Disclosures

Amendments to IFRS 7, provides disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

(h) IAS12 (revised) - Income Taxes

In December 2010, the IASB issued amendments to IAS 12 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendments introduce a presumption that entities will assess whether the carrying value of an asset will be recovered through the sale of the asset. These amendments are effective for annual periods beginning on or after January 1, 2012. The Company is currently evaluating the impact of these amendments to its Consolidated Financial Statements, but the impact, if any, is not expected to be material.

(i) IAS 19 – Employee Benefits

Amendments to IAS 19 provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company does not believe the adoption of IAS 19 will materially affect its financial performance or its financial position.

(j) IAS 32 – Financial Instruments: Presentation

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

3. SHORT-TERM INVESTMENT

As at June 30, 2012, the Company has short term investment of \$7,440,000 of principal and \$40,005 of interest due on January 17, 2013 with an annual yield of prime minus 1.8% (June 30, 2011 - \$10,532,493, July 1, 2010 – \$Nil).

As at June 30, 2012, the Company's subsidiary Magna has short term investment of \$1,475,000 of principal and \$7,770 of interest due on January 18, 2013 with an annual yield of prime minus 1.8% (June 30, 2011 - \$Nil, July 1, 2010 - \$Nil).

4. BUSINESS ACQUISITION

On November 21, 2011, The Company and Magna signed an agreement in respect of the acquisition of the Magna's 50% interest ("Purchase and Sale Transaction"). Under the terms of the agreement, Magna completed a 2 for 1 subdivision of its outstanding common shares, resulting in Magna having 22,420,000 common shares being issued and outstanding.

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4. BUSINESS ACQUISITION (cont'd...)

The purchase price for the Magna's 50% interest is comprised of the Company's 50% interest in American Potash and in exchange, Magna issued 22,420,000 common shares and 2,400,000 common share purchase warrants of Magna ("Purchase Shares"). Each warrant entitles the Company to purchase a further common share at a price of \$0.10 until February 25, 2016.

On January 19, 2012 the Purchase and Sale Transaction was completed. . As a result of the Purchase and Sale Transaction, the Company effectively controlled Magna and Magna holds a 100% interest in American Potash, which holds potash leases and an option in respect of potash lease applications in the State of Utah.

The Purchase and Sale Transaction was accounted for in accordance with IFRS 3, Business Combination, and the Company is considered to be the accounting acquirer. The purchase price allocation is listed below:

Consideration	\$
Fair value of 50% interest in American Potash	1,299,200
	<u>1,299,200</u>
Fair Value of Net Asset Acquired	
Receivables	12,413
Prepaid	10,095
Bank indebtedness	(27,648)
Trade and other payables	(223,132)
Loan	(296,611)
Exploration and evaluation costs	2,801,633
Intangible assets	322,810
Non-controlling interest	(1,300,360)
	<u>1,299,200</u>

The fair value of the 50% interest of American Potash is determined based on the fair value of the Purchase Shares on January 19, 2012. Any goodwill recognized on acquisition is attributed to the expected value of the potash properties held by American Potash and is included in exploration and evaluation assets. The non-controlling interest is measured based on the fair value of shares of Magna held by non-controlling shareholders right after this transaction.

Magna contributed to revenue of \$Nil and loss of \$859,817 to the Company's result from January 20, 2012 to June 30, 2012.

Acquisition related cost of \$86,000 is reported as legal expenses in the consolidated statements of operation and comprehensive loss.

In addition to Purchase and Sale Transaction, the Company subscribed for 6,666,666 common shares of Magna at \$0.30 per share for gross proceeds to Magna of \$2,000,000. As at June 30, 2012, Magna has an aggregate of 51,506,666 common shares and 4,800,000 common share purchases warrants exercisable at \$0.10 per share issued and outstanding (on a non-diluted basis) and the Company holds 56.47% of the shares and 50% of the warrants in Magna.

Prior to the completion of the Purchase and Sale Transaction on January 19, 2012, the assets and liabilities relating to the 50% interest in American Potash are presented as assets and liabilities held for sale by the Company. The assets and liabilities held for sale as of June 30, 2011 are as follows:

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4. BUSINESS ACQUISITION (cont'd...)

As at June 30,	2011	2010
ASSETS		
Cash and cash equivalents	\$ 12,139	\$ 2,914
Marketable securities	100,546	-
Mineral properties	197,863	-
Intangible assets	73,363	133,257
	<u>\$ 383,911</u>	<u>\$ 136,171</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 75,121	\$ 16,653
	<u>\$ 75,121</u>	<u>\$ 16,653</u>

5. EXPLORATION AND EVALUATION ASSETS**Confederation Lake (Mitchell & Belanger) Claims, Ontario**

On February 10, 2006, as amended on August 31, 2006, December 14, 2006, February 10, 2009 and March 23, 2010, the Company entered into an option agreement to acquire a 100% interest in 26 mining claims (184 units) located in the Red Lake Mining District of Ontario by making cash payments of \$70,500 (paid) and issuing 430,000 shares (issued) to Rubicon Minerals Corporation and Perry English.

Although the Company still holds the claims, during the year ended June 30, 2011, management decided to abandon these claims for accounting purposes and wrote off \$660,583 costs incurred to date.

Matless Lake South Claims, Ontario

On March 14, 2006, as amended on February 2, 2007 and, March 14, 2007, the Company entered into an Option Agreement to acquire a 100% interest in 19 mining claims (184 units) located in the Red Lake Mining District of Ontario by making cash payments of \$76,000 (paid), issuing 200,000 (issued) shares of the Company and transferring 30,000 common shares of Shoreham Resources Ltd. (transferred) to Rubicon Minerals Corporation and Perry English.

On September 4, 2007, as amended March 12, 2009, the Company entered into a property option agreement (the "Shoreham Option Agreement") with Shoreham that granted Shoreham the right to acquire up to a 70% working interest in the Matless Lake South Claims. Under the Shoreham Option Agreement, Shoreham could acquire a 70% working interest in consideration for total cash payments of \$80,000 and issuing 400,000 common shares.

On April 30, 2011, Shoreham decided not to proceed further with the Shoreham Option Agreement and as such the Agreement was terminated.

Although the Company still holds the claims, during the year ended June 30, 2011, management decided to abandon these claims for accounting purposes and wrote off \$751 costs incurred to date. The Company abandoned the ownership interest in the claims on February 3, 2012.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Green River Potash Project

In May 2009, and amended on December 6, 2011, American Potash entered into an option agreement with Sweetwater River Resources LLC ("Sweetwater"), John Glasscock and Kent Ausburn (the "Sweetwater Option Agreement") (collectively called the "Optionors"), to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at June 30 2012, the applications in Utah are pending approval from the United States Bureau of Land Management (see Note 6 for further details).

In year 2011, American Potash acquired 160 Federal lithium placer mining claims totally 1,295 hectares (3,200 acres) in northwestern Paradox Basin, southeast Utah, USA. These claims are located on BLM administered Federal lands and are staked over a portion of existing American Potash BLM pending potash prospecting permit areas.

In year 2011, American Potash acquired eleven non-contiguous Utah State trust land potash lease units in the potashbearing Paradox Basin in Grand County, Utah. The eleven lease units total 2,853 hectares (7,050 acres) and are all within the border of a large block of contiguous BLM potash prospecting permit applications held exclusively by American Potash, separated into contiguous north and south blocks by a proposed BLM Known Potash Lease Area.

Arizona Property

On November 2, 2010, American Potash agreed to amend the Sweetwater Option Agreement to remove the Arizona permits and Arizona properties from the agreement because Sweetwater wanted to grant the option to Passport Potash Inc. ("Passport") to acquire 100% of Sweetwater's rights and interest in the Arizona properties, subject to a 2% royalty, in consideration of payments. In return, Sweetwater agreed to compensate American Potash for the expenditures already incurred by allocating a portion of the option payments from Passport to American Potash. The allocation is based on a pre-determined formula. As a result, American Potash is entitled to 70.70% of the following:

- i) 500,000 free trading shares (received) of Passport (the "Passport Shares") on the earlier of December 15, 2010 or within five business days of the date of receipt of the TSX Exchange acceptance of the option agreement (the "Acceptance Date"); and
- ii) Three cash payments of \$30,000 each within 12 (received), 18 (received) and 24 months (received) of the Acceptance Date.

Under the Agreement, the Arizona permits are subject to a 2% NSR royalty in favour of Sweetwater and American Potash, with Passport retaining the option to buy one-half of the royalty for \$150,000 USD and the remaining one-half of the royalty for an additional \$150,000 USD.

The allocation of the payments and the royalty to Sweetwater and American Potash is according to each of their respective percentage of total expenses incurred by them on the Arizona permits.

During the year ended June 30, 2012, Passport paid the US\$60,000 due for option payments to acquire a 100% interest in five Arizona State Land Department exploration permits and US\$300,000 to obtain 100% of the 2% NSR royalties. American Potash's share of the received payment is US\$254,484 (CAD \$254,927), which is recorded as other income on the consolidated statements of operations and comprehensive Loss.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

During the year ended June 30, 2011 the Company received as consideration a 50% proportionate interest in 353,450 Passport shares for a total of \$91,897. The market value of 50% of the 353,450 common shares of Passport Potash Inc., being 176,725 shares held by the Company, as of June 30, 2011, was \$104,268. During the year ended June 30, 2012, the American Potash sold all the shares for gross proceeds of \$173,718 (USD \$172,084).

Newman Todd Project

Pursuant to an option agreement dated November 19, 2010 with Redstar Gold Corp. ("Redstar"), the Company was granted an option to acquire up to 70% of Redstar's Newman Todd project (the "Newman Todd Project"), located in the Red Lake Mining District of Northern Ontario.

To exercise the option to earn an initial 50% interest, the Company is required to incur a cumulative of \$5,000,000 of work expenditures on the Property, issue to Redstar a total of 500,000 shares of the Company and make payments to Redstar totalling \$250,000 in the following manner:

- (a) 100,000 shares (issued) and a \$50,000 payment (paid) within 10 business days of approval of the Agreement by the TSX Venture Exchange (December 22, 2010);
- (b) work expenditures of \$2,000,000 (incurred), 100,000 shares (issued) and a further \$50,000 payment (paid) on or before the first anniversary of the Agreement;
- (c) further work expenditures of \$1,500,000 (incurred), a further 150,000 shares and a further \$75,000 payment on or before the second anniversary of the Agreement; and
- (d) further expenditures of \$1,500,000 (incurred), a further 150,000 shares and a further \$75,000 payment on or before the third anniversary of this Agreement.

To exercise the option to earn a further 20% interest, thereby increasing its overall interest to 70%, the Company will be required to produce, at its own cost, a preliminary assessment of the Property and issue a further 500,000 shares to Redstar on or before the sixth anniversary of the Agreement, subject to minimum annual expenditures of \$250,000 during the last three years of the option period. The parties also have agreed to form a joint venture following the exercise of the option by the Company. The Property is subject to a two percent net smelter return and a fifteen percent net carried interest. The latter interest does not receive payment until capital expenditures have been recovered with interest. A finder's fee of \$132,500 was paid with respect to the Newman Todd project by cash of \$66,250 and issuance of 228,448 shares at a fair value of \$0.29.

On April 14, 2011, the Company and Redstar entered into a purchase agreement with Ronald Gangloff ("Gangloff") to purchase a fifty percent (50%) interest in 18 mineral claims immediately adjacent to the Newman Todd Project. Of the 50% interest acquired, the Company has acquired an undivided 35% interest in the claims for a sum of \$50,000 (paid May 25, 2011) and 125,000 shares (issued May 12, 2011) and Redstar acquired an undivided 15% interest in the claims for the sum of \$70,000.

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5. EXPLORATION AND EVALUATION ASSETS (cont'd...)

Expenditure related to the properties can be summarized as follows:

	Arizona Property	Green River Potash	Matless Lake Claim	Confederation Lake Claim	Newman Todd Property	Total
	\$	\$	\$	\$	\$	\$
Mineral acquisition						
Opening balance, June 30, 2010	74,909	-	1	131,329	-	206,239
Cash Payments	-	-	-	-	166,250	166,250
Shares issued for mineral property	-	-	-	-	197,250	197,250
Reclassified to assets held for sale	-	-	-	-	-	-
	<u>74,909</u>	<u>-</u>	<u>1</u>	<u>131,329</u>	<u>363,500</u>	<u>569,739</u>
Deferred exploration expenditure						
Opening balance, June 30, 2010	-	-	640	517,769	-	518,409
Advance Payment	-	-	-	-	200,000	200,000
Assays and reports	-	-	-	-	114,354	114,354
Camp construction	-	-	-	-	38,662	38,662
Drilling	-	-	-	-	659,160	659,160
Equipment installation	-	-	-	-	101,950	101,950
Field expenses	-	-	-	-	366,700	366,700
General administration	-	-	-	1,935	5,597	7,532
Geological surveys	-	-	110	9,550	7,068	16,728
Geological consulting	-	-	-	-	422,483	422,483
Permitting	-	-	-	-	686	686
Travel and Accommodation	-	-	-	-	78,677	78,677
Reclassified to assets held for sale	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>750</u>	<u>529,254</u>	<u>1,995,337</u>	<u>2,525,341</u>
Net costs for the year	74,909	-	751	660,583	2,358,837	3,095,080
Write down in mineral property	-	-	(751)	(660,583)	-	(661,334)
Disposal of property	(74,909)	-	-	-	-	(74,909)
Total as at June 30, 2011	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,358,837</u>	<u>2,358,837</u>
Mineral acquisition						
Cash Payments	-	25,815	-	-	50,000	75,815
Shares issued for mineral property	-	-	-	-	47,000	47,000
	<u>-</u>	<u>25,815</u>	<u>-</u>	<u>-</u>	<u>97,000</u>	<u>122,815</u>
Deferred exploration expenditure						
Assays and reports	-	-	-	-	717,252	717,252
Camp construction	-	-	-	-	65,394	65,394
Drilling	-	-	-	-	2,100,468	2,100,468
Field expenses	-	7,814	-	-	387,380	395,194
General administration	-	-	-	-	23,736	23,736
Surveys	-	16,572	-	-	-	16,572
Geological consulting	-	137,953	-	-	1,011,963	1,149,916
Permitting	-	-	-	-	1,237	1,237
Travel and Accommodation	-	-	-	-	213,225	213,225
Reclamation	-	-	-	-	10,000	10,000
	<u>-</u>	<u>162,339</u>	<u>-</u>	<u>-</u>	<u>4,530,655</u>	<u>4,692,994</u>
Exploration and evaluation asset acquired through business acquisition (Note 5)	<u>-</u>	<u>1,531,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,531,488</u>
Total as at June 30, 2012	<u>-</u>	<u>1,719,642</u>	<u>-</u>	<u>-</u>	<u>6,986,492</u>	<u>8,706,134</u>

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6. INTANGIBLE ASSETS

	June 30, 2012	June 30, 2011	July 1, 2010
	\$	\$	\$
Potash Prospects Application	455,422	-	-
	455,422	-	-

Green River Potash Project

In May 2009, and amended on December 6, 2011, American Potash entered into an option agreement with Sweetwater River, John Glasscock and Kent Ausburn, to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at June 30 2012, the applications in Utah are pending approval from the United States Bureau of Land Management.

The option agreement entitles American Potash to acquire a 100% interest in permits, subject to a 2% royalty to the Optionors which may be bought back for \$2,000,000 USD. The option may be exercised by having Magna pay a total of \$270,000 USD and issue in aggregate, 4,000,000 shares of Magna to the Optionors upon receiving grants of exploration permits for not less than 25,000 acres of Utah property, as follow:

- \$70,000 USD upon signing the option agreement (paid);
- 400,000 shares of Magna upon grant of the permits representing not less than 25,000 acres;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the first anniversary date;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the second anniversary date;
- \$50,000 USD cash and 1,200,000 shares of Magna on or before the third anniversary date; and
- \$50,000 USD cash on or before the fourth anniversary date.

The option period is the earlier of the fourth anniversary of the grant date or December 31, 2018. Magna will pay a finder's fee in connection with this acquisition. The fee will be US \$7,000 and 40,000 shares of Magna, payable on the grant date, and thereafter 10% of the cash and stock payments made under the option agreement, payable as and when such payments are made.

7. LOAN RECEIVABLE

On May 16, 2011, the Company through a promissory note, agreed to lend \$70,000 to Redstar Gold Corp. ("Redstar"). Interest was payable on the promissory note, from the date of grant, at a rate equal to the prime lending rate of the Bank of Montreal, compounded annually not in advance. The principal sum and interest owing were due and payable on the date which is the earlier of the first anniversary of the promissory note or the date that Redstar completed its next equity financing.

On September 15, 2011, Redstar repaid the principal sum and interest in full.

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8. LONG TERM DEBT

Long term debt represents a verbal agreement with a third party to repay a loan amount on December 31, 2011 or should the Company complete a major financing, repayment is required prior to December 31, 2011. The loan was interest free and unsecured. During the year ended June 30, 2010, the maturity date was extended from December 31, 2010 to December 31, 2011. Based on a market interest rate of 5.5%, the amortized cost was \$36,800 as at June 30, 2010. Based on the completion of a major financing in December 2010, the original debt in the amount of \$40,000 became current and was repaid in full on February 2, 2011.

9. SHARE CAPITAL

a) Authorized:

Unlimited common shares with no par value

b) Issued Share Capital:

On June 30, 2012, there were 55,128,532 common shares issued and outstanding (June 30, 2011 – 44,350,121, July 1, 2010 – 15,589,667).

c) Common Shares:

On November 19, 2010, the Company issued 228,448 common shares as the finder's fee for Newman Todd project at fair value of \$0.29 per share. See Note 5 for details.

On December 9, 2010, the Company issued 150,000 common shares upon the exercise of warrants, for cash proceeds in the amount of \$37,500 and transferred from reserves an additional \$6,000 previously recognized as the residual value of those share purchase warrants.

On December 22, 2010, The Company issued 1,527,857 flow-through units pursuant to a non-brokered private placement at a price of \$0.35 per unit for gross proceeds of \$534,750. Each unit consists of one flow-through common share and one share purchase warrant entitling the holder to acquire an additional non-flow-through common share of the Company on or before December 22, 2011 at \$0.45 per share. The securities were subject to a 4 month hold period until April 24, 2011. Under a finder's fee agreement, the Company was obligated to pay \$11,200 cash and issue 32,000 warrants. As agreed with the finder, the Company settled the \$11,200 by issuance of 40,000 units, with each consisting of one non flow-through share and one warrant exercisable at \$0.45 per share on or before December 22, 2010. The fair value of the 32,000 warrants issued, using the Black Scholes valuation model was \$3,929.

On January 6, 2011, the Company issued 100,000 common shares for the Newman Todd project at fair value of \$0.41 per share. See also Note 5 for detail.

On January 17, 2011, the Company issued 9,643,257 units pursuant to a non-brokered private placement at a price of \$0.28 per unit for gross proceeds of \$2,700,112. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire an additional common share of the Company on or before January 17, 2012 at \$0.45 per share. The securities were subject to a 4 month hold period until May 18, 2011. In respect of this placement, the Company paid a finder's fee of \$196,538 in cash and issue 701,920 warrants. The fair value of the 701,920 warrants issued to the finder, using the Black Scholes Valuation Model, was \$96,235.

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9 SHARE CAPITAL (cont'd...)**c) Common Shares (cont'd...)**

As agreed with the finder, the Company paid a total of \$73,508 in cash and the balance of \$123,030 by the issuance of 439,392 units at a deemed value of \$0.28 (fair value of \$123,030). Each unit consisted of one common share and one warrant exercisable at \$0.45 per share on and before January 17, 2012. On May 16, 2011 and June 8, 2011, the Company issued 100,000 and 200,000 upon the exercise of such warrants for cash proceeds of \$135,000 at \$0.45 per share. Additionally, on Jun 1, 2011, the Company issued 172,000 common shares upon exercise of such warrants for cash proceeds of \$77,400 at \$0.45 per share and transferred from reserves an additional \$23,582 previously recognized.

On March 3, 2011, the Company issued 2,500,000 flow-through shares at a price of \$0.80 per share and 12,997,500 units at a price of \$0.67 per unit pursuant to a brokered private placement for gross proceeds of \$10,708,325. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of \$1.00 per common share until July 3, 2012. \$1,725,000 was recorded as share capital and \$275,000 was recorded as the premium liability paid for flow-through units. The securities were subject to a 4 month hold period ending July 4, 2011. The Company paid a finder's fee consisting of \$642,499 in cash and 779,849 warrants at a fair value of \$255,503 by using the Black Scholes valuation model. In March 2012, the exploration expenditure associated with the flow-through units was renounced and \$275,000 was transferred out of the premium liability and \$275,000 deferred income tax recovery income was recorded.

On March 15, 2011, the Company issued 137,000 common shares at \$0.25 per share upon the exercise of warrants for cash proceeds in the amount of \$34,250 and transferred from reserves an additional \$5,480 previously recognized as the residual value of those share purchase warrants.

On April 25, 2011 and May 6, 2011, the Company issued 100,000 and 300,000 common shares respectively upon the exercise of options at \$0.25 per share for cash proceeds in the amount of \$100,000. A total of \$87,059 in share-based payment was reallocated from reserves to share capital for these options.

On May 12, 2011, the Company issued 125,000 common shares for the Newman Todd project at a fair value of \$0.72 per share. See Note 5 for details.

On October 27, 2011, the Company issued 100,000 common shares for the Newman Todd project at a fair value of \$0.47 per share. See Note 5 for details.

During the year ended June 30, 2012, a total of 9,816,411 share purchase warrants were exercised at a price of \$0.45 for gross proceeds of \$4,417,385. A total amount of \$74,092 was transferred out of reserves and into share capital for these warrants.

During the year ended June 30, 2012, a total of 862,000 share purchase warrants were exercised at a price of \$0.25 for gross proceeds of \$215,500. A total amount of \$34,480 was transferred out of reserves and into share capital for these warrants.

d) Escrow Shares

As at June 30, 2012, all shares have been released from escrow (June 30, 2011 – 1,186,251 shares are held in escrow; July 1, 2010 – 3,029,751 shares are held in escrow).

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9 SHARE CAPITAL (cont'd...)**e) Stock Options**

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option will not be less than the discounted market price of the common shares as permitted by the TSX Venture Exchange policies. The options can be granted for a maximum term of 5 years.

On November 17, 2010, 300,000 incentive stock options were granted to a director, exercisable at \$0.25 per share on or before November 17, 2015, 100% vesting immediately. A total of \$47,214 of share-based payment was recorded during the year ended June 30, 2011 for these options. The exercise price is greater than the market price at the date of grant.

On February 4, 2011, 840,000 incentive stock options were granted to directors, exercisable at \$0.45 per share on or before February 4, 2016, 100% vesting immediately. A total of \$301,928 of share-based payment was recorded during the year ended June 30, 2011 for these options. The exercise price is greater than the market price at the date of grant.

On February 4, 2011, 200,000 incentive stock options were granted to a consultant, exercisable at \$0.45 per share on or before February 4, 2016, with 25% vesting every 3 months. The exercise price is greater than the market price at the date of grant. Using the graded vesting method, a total of \$97,107 of share-based payment was recorded to date.

On February 4, 2011, 210,000 incentive stock options were granted to a consultant vesting immediately at \$0.45 per share on or before February 4, 2016. On February 1, 2011, the Company entered into a consulting agreement with the consultant for corporate consulting service for a period of three years for \$7,500 per month. In addition to the cash payment, the stock options granted were part of the compensation package. Therefore, the Company recorded a total fair value of \$75,482 as deferred share-based payment and will amortize this amount over the term of the agreement. As of June 30, 2012, the Company expensed \$35,644 of share-based payment. The exercise price is greater than the market price at the date of grant.

On February 25, 2011, 250,000 incentive stock options were granted to a director, exercisable at \$0.69 per share on or before February 25, 2016, 100% vesting immediately. A total of \$138,420 of share-based payment was recorded during the year ended June 30, 2011 for these options. The exercise price is greater than the market price at the date of grant.

On April 18, 2011, 100,000 incentive stock options were granted to a consultant, exercisable at \$1.04 per share on or before April 18, 2013, with 25% vesting every 8 months. The exercise price is greater than the market price at the date of grant. Using the graded vesting method, a total of \$18,705 of share-based payment was recorded to date.

On June 13, 2011, 250,000 incentive stock options were granted to a consultant, exercisable at \$0.60 per share on or before June 13, 2013, with 25% vesting every 8 months. The exercise price is greater than the market price at the date of grant. Using the graded vesting method, a total of \$42,558 of share-based payment was recorded to date.

On July 25, 2011, 150,000 incentive stock options were granted to an officer, exercisable at \$0.84 per share on or before July 25, 2016, 100% vesting immediately. A total of \$99,049 of share-based payment was recorded during the year ended June 30, 2012 for these options.

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9 SHARE CAPITAL (cont'd...)**e) Stock Options (cont'd...)**

On January 1, 2012, the Company engaged a consultant to perform investor relations services. The Company granted the consultant 150,000 options, exercisable at \$0.47 per share on or before January 1, 2014, with 8.33% vesting each month. The investor relation agreement was terminated on May 1, 2012 and the entire 150,000 options were forfeited on June 1, 2012. A total of \$17,266 of share-based payment was recorded during the year ended June 30, 2012 for these options.

On January 30, 2012, the Company granted stock options, exercisable to purchase up to an aggregate of 2,000,000 shares of the Company, to directors and consultants of the Company. The options are all exercisable at the price of \$0.57 per share until January 30, 2017. All options were vested immediately at grant date. A total of \$947,925 of share-based payment was recorded during the year ended June 30, 2012 for these options.

On March 16, 2012, 400,000 incentive stock options were granted to an officer, exercisable at \$0.54 per share on or before March 16, 2017, 100% vesting immediately. A total of \$183,445 of share-based payment was recorded during the year ended June 30, 2012 for these options.

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

The continuity of stock options for the year ended June 30, 2012 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price (\$)
Balance June 30, 2010	750,000	0.25
Granted, exercisable on or before November 17, 2015	300,000	0.25
Granted, exercisable on or before February 4, 2016	1,250,000	0.45
Granted, exercisable on or before February 25, 2016	250,000	0.69
Granted, exercisable on or before April 18, 2013	100,000	1.04
Granted, exercisable on or before June 13, 2013	250,000	0.60
Exercised	(400,000)	0.25
Balance, June 30, 2011	2,500,000	0.46
Granted, exercisable on or before July 25, 2016	150,000	0.84
Granted, exercisable on or before January 1, 2014	150,000	0.47
Granted, exercisable on or before January 30, 2017	2,000,000	0.57
Granted, exercisable on or before March 16, 2017	400,000	0.54
Forfeited	(150,000)	0.47
Balance June 30, 2012	5,050,000	0.52

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9 SHARE CAPITAL (cont'd...)**e) Stock Options (cont'd...)**

The options outstanding and exercisable at June 30, 2012, are as follows:

Outstanding Options			Exercisable Options		
Number Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)	Number Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Contractual Life (Years)
350,000	0.25	1.04	350,000	0.25	1.04
300,000	0.25	3.38	300,000	0.25	3.38
1,250,000	0.45	3.60	1,250,000	0.45	3.60
250,000	0.69	3.66	250,000	0.69	3.66
100,000	1.04	0.80	50,000	1.04	0.80
250,000	0.60	0.95	125,000	0.60	0.95
150,000	0.84	4.07	150,000	0.84	4.07
2,000,000	0.57	4.59	2,000,000	0.57	4.59
400,000	0.54	4.71	400,000	0.54	4.71
5,050,000	0.52	3.72	4,875,000	0.51	3.82

The fair value of share options awarded to officers, directors and consultants was estimated on the dates of award using the Black-Scholes option pricing model with the following assumptions:

	2012	2011
Risk-free interest rate (%)	1.03 - 1.74	1.46 - 2.14
Expected dividend yield (%)	-	-
Expected stock price volatility (%)	121.91-141.76	102.32 - 149.32
Expected life (years)	3 - 5	1.8 - 3
Weighted average grant date fair value (\$)	0.48	0.36

f) Warrants

The continuity of warrants for the year ended June 30, 2012 is as follows:

	Number of Warrants	Weighted Average Exercise Price (\$)
Balance, June 30, 2010	2,004,666	0.25
Expired, unexercised	(320,000)	0.25
Exercised	(759,000)	0.37
Issued, exercisable on or before December 22, 2011	1,599,857	0.45
Issued, exercisable on or before January 17, 2012	10,784,569	0.45
Issued, exercisable on or before July 3, 2012	7,278,599	0.67
Balance, June 30, 2011	20,588,691	0.62
Exercised	(10,678,411)	0.43
Expired	(2,631,681)	0.41
Balance June 30, 2012	7,278,599	0.96

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9 SHARE CAPITAL (cont'd...)

Full share equivalent warrants outstanding and exercisable at June 30, 2012 are as follows:

Expiry Date	Price per Share	Warrants Outstanding
July 3, 2012 *	\$ 1.00	6,498,750
July 3, 2012 *	\$ 0.67	779,849
		7,278,599

*Warrants expired subsequent to year end.

10. RELATED PARTY TRANSACTIONS

The aggregate value of transactions and outstanding balances relating to key management personnel and entities which they have control or significant influence were as follows:

Services provided by:	Notes	2012	2011
		\$	\$
Lawrence Dick	(a)	120,000	71,500
Brian Bapty	(b)	46,981	-
Primarius Capital Corp.	(c)	120,000	71,500
Pineview Enterprises	(d)	-	24,750
Baron Global Financial Canada Ltd.	(e)	137,593	70,957
Compensation benefits to key management	(f)	633,709	412,081
St. Cloud Mining Services Inc.	(g)	120,000	56,750

(a) Lawrence Dick, the CEO of the Company provided management services throughout the year.

(b) Brian Bapty, the President of the Company received management salaries for the year.

(c) Primarius Capital Corp. is a privately held corporation controlled by a director, which provides consulting services to the Company.

(d) Pineview Enterprises is a privately held corporation controlled by the former Chief Financial Officer and director, Peter Bryant, who provided consulting services to the Company.

(e) Pursuant to a management and advisory agreement with Baron Global Financial Canada Ltd. ("Baron"), Baron agreed to act as corporate advisor and Chief Financial Officer of the Company in return for a monthly fee. During the year, the Company paid \$120,000 in management fees (2011 - \$50,000) and \$17,593 (2011 - \$20,957) in geological consulting fees to Baron.

(f) Compensation benefits to key management personnel consists of share-based payments made during the year.

(g) St. Cloud Mining Services Inc. is a privately held corporation controlled by a director of Magna, who provided consulting services to the Company.

Related party payables:

	June 30, 2012	June 30, 2011	July 1, 2010
Lawrence Dick	\$ 926	\$ 2,000	\$ 8,663
Brian Bapty	18,082	-	-
Baron Global Financial Canada Ltd.	2,563	1,663	-
Kenneth Holmes	-	-	49,088
Peter Bryant	-	-	8,663

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11. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the years year ended June 30 2012 and 2011 were as follows:

	2012	2011
Net loss	\$ (3,572,699)	\$ (1,727,206)
Weighted average number of common shares outstanding	49,282,028	26,084,782
Loss per share	\$ (0.07)	\$ (0.07)

12. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS:

Supplementary disclosure of non-cash investing and financing activities during the year ended June 30, 2012 and 2011, were as follows:

	2012	2011
Reallocation of fair value on warrants exercised	\$ 108,572	\$ 23,582
Shares issued for exploration and evaluation asset payment	\$ 47,000	\$ 197,250

13. COMMITMENTS

On February 1, 2011, the Company entered into a consulting agreement with a third party to provide corporate communication services. The term of the agreement will be for 36 months expiring on February 28, 2014 and the consultant will be paid a monthly fee of \$7,500. Approved by the board of the directors on July 1, 2011, the monthly fee increased to \$10,000.

On February 1, 2011, the Company entered into a consulting agreement with a third party to provide business consulting services. The consultant will be paid a monthly fee of \$7,500. Approved by the board of the directors on July 1, 2011, the monthly fee increased to \$10,000.

On February 1, 2011, the Company entered into a consulting agreement with a third party to provide corporate communications services. The term of the agreement would be for 3 months and may be renewed at the option of the Company by giving 30 days written notice prior the expiry of the term. The agreement has been renewed. The consultant will be paid a monthly fee of \$4,000 and was granted 200,000 stock options.

On May 15, 2011, the Company entered into a consulting agreement with a third party to provide corporate communications services for \$15,000 per month. The term of the agreement was for 6 months but has been continued on a month to month basis.

14. FINANCIAL INSTRUMENTS**(a) Fair Values**

Financial instruments recognized at fair value on the consolidated statement of financial position must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;

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14. FINANCIAL INSTRUMENTS (cont'd...)

Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability; or

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statements of financial position are as follows:

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2012	\$	\$	\$
Cash and cash equivalents	\$ 96,899	\$ -	\$ -
Short term investment	\$ 8,962,775	\$ -	\$ -
Total	\$ 9,059,674	\$ -	\$ -

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2011	\$	\$	\$
Cash and cash equivalents	\$ 685,229	\$ -	\$ -
Short term investment	\$ 10,532,493	\$ -	\$ -
Total	\$ 11,217,722	\$ -	\$ -

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2010	\$	\$	\$
Cash and cash equivalents	\$ 47,211	\$ -	\$ -

The fair values of other financial instruments, which include loan receivable, current assets held for sale, accounts payable and accruals, current liabilities held for sale, and premium on flow-through shares, approximate their carrying values due to the relatively short-term maturity of these instruments.

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14. FINANCIAL INSTRUMENTS (cont'd...)

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The functional currency of the Company's subsidiary American Potash is the US dollar. At June 30, 2012, the assets and liabilities of the American Potash subsidiary have been converted at the year-end exchange rate.

At June 30, 2012, June 30, 2011 and July 1, 2010 the US dollar denominated assets and liabilities of the Company's subsidiary American Potash are as follows:

		June 30, 2012	June 30, 2011	July 1, 2010
		US\$	US\$	US\$
Monetary assets				
Cash and cash equivalents	\$	21,965	\$ 12,588	\$ 2,747
Marketable securities		-	104,268	-
Reclamation bond		-	-	7,500
	\$	21,965	\$ 116,856	\$ 10,247
Monetary liabilities				
Accounts payable and accruals	\$	79,777	\$ 77,902	\$ 15,701
	\$	79,777	\$ 77,902	\$ 15,701

The following table discusses the Company's sensitivity to a 10% increase or decrease in the Canadian dollar against the US dollar denominated assets and liabilities above. The sensitivity analysis measures the effect from recalculation of these items as at the balance sheet date by using adjusted foreign exchange rates.

		CDN appreciation by 10%	CDN depreciation by 10%
June 30, 2012			
Increase (decrease) comprehensive Income	\$	5,892	\$ (5,892)
June 30, 2011			
Increase (decrease) comprehensive Income	\$	(3,756)	\$ 3,756
July 1, 2010			
Increase (decrease) comprehensive Income	\$	578	\$ (578)

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14. FINANCIAL INSTRUMENTS (cont'd...)

(d) Liquidity Risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual maturity analysis is as follows:

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2012	\$	\$	\$
Cash and cash equivalents	\$ 96,899	\$ -	\$ -
Short term investment	\$ 8,962,775	\$ -	\$ -
Total	\$ 9,059,674	\$ -	\$ -

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2011	\$	\$	\$
Cash and cash equivalents	\$ 685,229	\$ -	\$ -
Short term investment	\$ 10,532,493	\$ -	\$ -
Total	\$ 11,217,722	\$ -	\$ -

	Fair Value Measurements Using		
	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs Level 3
As at June 30, 2010	\$	\$	\$
Cash and cash equivalents	\$ 47,211	\$ -	\$ -

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14. FINANCIAL INSTRUMENTS (cont'd...)

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
	\$	\$	\$	\$	\$
June 30, 2012					
Payables	513,000	1,391	-	-	514,391
June 30, 2011					
Payables	1,078,963	-	-	-	1,078,963
July 1, 2010					
Payables	99,693	-	-	-	99,693

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

(f) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest bearing assets in relation to cash at banks carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. As at June 30, 2012, the Company and its subsidiaries have in total \$8,962,775 (June 30, 2011: \$10,532,493, July 1, 2010: \$Nil) in guaranteed investment certificates.

The policies to manage interest rate risk have been followed by the Company during prior periods and are considered to be effective.

15. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

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15. CAPITAL MANAGEMENT (cont'd...)

The Company has not generated any revenues since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

16. SEGMENTAL INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets. Geographical information of the Company's capital assets comprising exploration properties and equipment is as follows:

	<u>June 30, 2012</u>	<u>June 30, 2011</u>	<u>July 1, 2010</u>
Mineral properties			
- Canada	\$ 6,986,492	\$ 2,358,837	\$ 649,739
- United States	1,719,642	271,226	119,518
	<u>\$ 8,706,134</u>	<u>\$ 2,630,063</u>	<u>\$ 769,257</u>

17. DEFERRED INCOME TAXES

Income tax expenses comprise the following:

	<u>2012</u>	<u>2011</u>
Current tax	517,111	-
Deferred tax (recovery)	<u>(283,533)</u>	<u>8,524</u>
	233,578	8,524

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 25.75% (2011: 26.5%). The one of Company's subsidiary is subject to US taxes.

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended June 30, 2012 and 2011:

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17. DEFERRED INCOME TAXES (cont'd...)

	2012	2011
Income (Loss) Before Taxes	(3,339,121))	(1,783,278)
Statutory tax rate	25.75%	26.50%
Expected income tax (recovery)	(859,824)	(472,568)
Non-deductible items	659,071	329,788
Change in estimates	47,812	-
Flow Through Share Renouncement	-	141,303
Flow Through Share Renounce Impact on Deferred		
Flow Through Share Premium	240,000	-
Foreign Tax Rate Difference	5,842	-
Change Enacted tax rate	13,467	(6,540)
Others	333,019	(60,060)
Change in Deferred tax asset not recognized	(205,809)	76,601
Total income taxes	<u>233,578</u>	<u>8,524</u>

Deferred income taxes are base on between the accounting and tax values of assets and liabilities and consist of the following:

	2012	2011	2010
Non capital loss carryforwards	725,930	381,588	211,439
Capital loss carryforwards	471	-	-
Financial Instruments	-	(8,435)	-
Financing Costs	160,299	211,889	23,458
Exploration and Evaluation Assets	(323,567)	176,636	-
	563,132	761,678	234,897
Deferred tax asset not recognized	(563,132)	(769,900)	(234,897)
Deferred income tax assets (liabilities)	<u>-</u>	<u>(8,222)</u>	<u>-</u>

The Company has net operating loss carryforwards of approximately \$2,114,499 which may be carried forward to apply against future year income tax for Canadian income tax purposes subject to the final determination by taxation authorities, expiring in the following years:

	2012
2026	9,646
2027	109,824
2028	102,344
2029	327,848
2030	243,436
2031	544,069
2032	777,332
Total	<u>2,114,499</u>

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18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended June 30, 2012, the comparative information for the year ended June 30, 2011, the statement of financial position as at June 30, 2011 and the opening IFRS statement of financial position on July 1, 2010, the "Transition Date."

In preparing the opening IFRS statement of financial position including comparative information for the year ended June 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company has applied the following mandatory exceptions and optional exemptions outlined by IFRS 1.

Mandatory exceptions

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

Optional exemptions

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" for cumulative foreign currency translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative foreign currency translation difference and adjusted deficit by the same.

Furthermore, IFRS 1 allows first-time adopters to apply IFRS 2 Share-based Payment only to equity instruments which had not fully vested at the transition date. The Company has elected to apply this exemption and will not apply IFRS 2 to share-based payments that were fully vested at July 1, 2010.

An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

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18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)

Reconciliation of Assets, Liabilities and Equity

	Notes	As at July 1, 2010			As at June 30, 2011		
		GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current Assets							
Cash and cash equivalents		44,297	-	44,297	685,229	-	685,229
Short term investment		-	-	-	10,532,493	-	10,532,493
Prepaid expenses		2,500	-	2,500	14,161	-	14,161
HST/GST Receivables		5,446	-	5,446	301,662	-	301,662
Current assets held for sale	(c)	137,686	(1,515)	136,171	404,585	(20,674)	383,911
Loan receivable		-	-	-	70,000	-	70,000
Total current assets		189,929	-	188,414	12,008,130	(20,674)	11,987,456
Non-Current Assets							
Exploration and evaluation assets	(c)	724,648	-	724,648	2,358,837	-	2,358,837
Intangible assets		-	-	-	-	-	-
Total non-current assets		724,648	-	724,648	2,358,837	-	2,358,837
TOTAL ASSETS		914,577	(1,515)	913,062	14,366,967	(20,674)	14,346,293
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		83,040	-	83,040	1,078,963	-	1,078,963
Current liabilities held for sale		16,653	-	16,653	75,121	-	75,121
Premium on flow through shares	(a)	-	-	-	-	275,000	275,000
		99,693	-	99,693	1,154,084	275,000	1,429,084
Long-term liabilities							
Long term debt		36,800	-	36,800	-	-	-
Deferred income tax liability		-	-	-	8,222	-	8,222
Total liabilities		136,493	-	-	1,162,306	275,000	1,437,306
EQUITY							
Share capital	(a)	1,762,511	-	1,762,511	14,926,576	(133,697)	14,792,879
Contributed surplus	(b)	296,387	(296,387)	-	1,209,800	(1,209,800)	-
Reserves	(b)	-	296,387	296,387	-	1,209,800	1,209,800
Deferred share based payment		-	-	-	(64,998)	-	(64,998)
Accumulated deficit	(a), (c)	(1,280,814)	(1,515)	(1,282,329)	(2,866,717)	(142,818)	(3,009,535)
Accumulated other comprehensive income (loss)	(c)	-	-	-	-	(19,159)	(19,159)
Total equity		778,084	(1,515)	776,569	13,204,661	(295,674)	12,908,987
TOTAL EQUITY & LIABILITIES		914,577	(1,515)	913,062	14,366,967	(20,674)	14,346,293

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18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)**Reconciliation of Loss and Comprehensive Loss**

		<u>Year ended June 30, 2011</u>		
	Notes	GAAP	Effect of transition to IFRS	IFRS
		\$	\$	\$
Accounting fees		18,720	-	18,720
Bank charges and interest		921	-	921
Consulting fees		393,087	-	393,087
Filing fees		35,654	-	35,654
Legal fees		29,699	-	29,699
Meals and entertainment		2,553	-	2,553
Office expenses		14,095	-	14,095
Shareholder information		12,872	-	12,872
Share-based payment		614,868	-	614,868
Transfer agent fees		14,673	-	14,673
Website development		8,250	-	8,250
Travel and accommodation		21,720	-	21,720
		<u>(1,167,112)</u>	<u>-</u>	<u>(1,167,112)</u>
Interest income		45,208	-	45,208
Write down in mineral property		(661,334)	-	(661,334)
Net loss before tax		<u>(1,783,238)</u>	<u>-</u>	<u>(1,783,238)</u>
Deferred income tax	(a)	141,303	(141,303)	-
Net loss from continuing operation		<u>(1,641,935)</u>	<u>(141,303)</u>	<u>(1,783,238)</u>
Net loss from discontinued operation	(c)	56,032	-	56,032
Net loss for the year		<u>(1,585,903)</u>	<u>-</u>	<u>(1,727,206)</u>
Other comprehensive income (loss)				
Foreign currency translation	(c)	-	(19,159)	(19,159)
Total comprehensive loss		<u>(1,585,903)</u>	<u>(19,159)</u>	<u>(1,746,365)</u>

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18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)**Reconciliation of Cash Flows**

		<u>Year ended June 30, 2011</u>		
	Notes	GAAP \$	Effect of transition to IFRS \$	IFRS \$
Operating				
Net Loss	(a),(c)	(1,585,903)	(141,303)	(1,727,206)
Adjustments for:				
Future income tax expense (recovery)	(a)	(132,780)	141,303	8,523
Share-based payment		614,868	-	614,868
Write-down of mineral property		661,334	-	661,334
Discounted interest on term loan		3,200	-	3,200
(Gain)/Loss on marketable securities		(58,290)	-	(58,290)
(Gain)/Loss on disposal of mineral property		(14,248)	-	(14,248)
Foreign exchange loss (income)	(c)	919	(919)	-
Changes in non-cash working capital:				
Accounts receivable		(296,216)	-	(296,216)
Prepaid expenses		(11,662)	-	(11,662)
Loan receivable		(70,000)	-	(70,000)
Accounts payable and accrued liabilities		47,477	-	47,477
Proceeds from discontinued operations	(c)	8,028	-	8,028
Total Operating		(833,273)	(919)	(834,192)
Investing activities				
Purchase of short term investment		(10,532,493)	-	(10,532,493)
Mineral property investment		(1,225,549)	-	(1,225,549)
Proceeds used in discontinued operations		(69,418)	-	(69,418)
Total Investing		(11,827,460)	-	(11,827,460)
Financing activities				
Proceeds from the issuance of common stock		13,341,665	-	13,341,665
Repayment of long term debt		(40,000)	-	(40,000)
Total Financing		13,301,665	-	13,301,665
Net increase (decrease) in cash and cash equivalents		640,932	(919)	640,013
Effect of exchange rate changes on cash		-	919	919
Cash and cash equivalents, beginning of year		44,297	-	44,297
Cash, end of year		685,229	-	685,229

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18. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)

Notes to Reconciliations:

(a) Flow-through Shares and Deferred Taxes

IFRS requires a liability to be recognized for the difference in the amount received for flow-through shares in excess of the fair value of the shares at the time of the issuance. A deferred income tax liability is recognized for the effect of the renunciation, as the Company will no longer receive a tax deduction for those expenses. IFRS requires the corresponding amount to be recorded as a deferred income tax expense in the statement of operations and comprehensive loss, whereas Canadian GAAP required a reduction to share capital. When the related expenses are renounced, the liability is removed and the premium is recorded as a recovery of deferred income taxes.

The effects of the transitional change are as follows:

(1) Premium on flow-through shares:

For the flow-through shares issued in March 2011, the Company recorded a decrease in share capital and an increase in other liabilities of \$275,000 as at June 30, 2011 to recognise the premium paid for the flow-through shares in excess of the market value of the shares issued without the flow-through feature.

(2) Renouncement of flow-through tax credits:

For the flow-through shares issued in December 2010 but renounced in March 2011, the Company recorded an increase in share capital of \$141,303 as at June 30, 2011 and a correlating decrease in deferred tax expenses by the same amount as a result of the renunciation.

(b) Reserves

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. Under IFRS, "Reserves" has taken the place of "Contributed Surplus" and as such the Company has examined its contributed surplus account and separated those components relating to share purchase warrants and stock options.

(c) Adjustment on translation of foreign currency entity

Under Canadian GAAP, all the Company's subsidiaries were integrated foreign operations. Therefore, monetary items were translated at year-end rates and non-monetary items were translated at historic rates with all foreign currency gains and losses recognized in statements of operations and comprehensive loss. IFRS requires that the functional currency of each subsidiary of the Company be determined separately.

It was determined that, as at the transition date, the functional currency of the Company is Canadian dollars and the functional currency of its joint venture is USD. This results in adjustment to the carrying value of the joint venture's non-monetary assets as of the transition date.

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18 TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd...)

In accordance with the IFRS 1 optional exemptions, on transition date the Company has elected to transfer the currency translation differences recognized as a separate component of equity, to deficit. Subsequent adjustments for the non-monetary assets are charged to cumulative translation adjustment (included in other comprehensive income). The net impact of this change in policy was as follows:

- At July 1, 2010, a decrease to exploration and evaluation asset of \$1,515 with the offsetting charge to deficit.
- At June 30, 2011, a decrease to exploration and evaluation asset of \$19,159 and a cumulative charge of \$19,159 to other comprehensive income.

(d) Reclassification from exploration and evaluation assets to intangible assets

IFRS 6 excludes pre-license expenditures from the scope of exploration and evaluation assets, as a result, the Company's pending permit applications are excluded from exploration and evaluation assets. However, since the nature of the asset meet the definition of intangible under IAS 38, the costs associated to the Company's pending permit applications have been reclassified to intangible asset as of the transition date and \$35,107 and \$73,365 was reclassified from exploration and evaluation assets to intangible assets as of July 1, 2010 and June 30, 2011, respectively.

19. EVENTS AFTER THE REPORTING YEAR

Subsequent to the year ended June 30, 2012, 7,278,599 warrants expired unexercised.

20. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform with the presentation adopted in the current year.