

# **WASECO RESOURCES INC.**

## **Financial Statements**

**Six months ended August 31, 2010**

**(Prepared by Management)**

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

Under National Instrument 51-102, Part 4, subsection 4.3(3) a, if an auditor has not performed a review of the interim financial statements: they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanied un-audited interim financial statements have been prepared by and are the responsibility of the Company's management.

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

---

**Waseco Resources Inc.****Balance Sheet****(Unaudited - Prepared by Management)**

	<b>Aug. 31, 2010</b>	Feb. 28, 2010
	<b>(Unaudited)</b>	(Audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 358,663	\$ 457,310
Refundable provincial exploration tax credit	789,572	789,572
GST recoverable	2,198	900
Accounts and advances receivables	4,326	4,326
	<u>1,154,759</u>	<u>1,252,108</u>
Mineral Properties and Deferred Costs (Note 3)	319,779	258,639
	<u>1,474,538</u>	<u>1,510,747</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	\$ 70,061	\$ 49,400
Exploration Deposits Received, net	118,546	118,546
	<u>188,607</u>	<u>167,946</u>
<b>Shareholders' Equity</b>		
Share capital (Note 4)	5,800,662	5,800,662
Contributed surplus (Note 5)	128,902	128,902
Deficit	(4,643,632)	(4,586,763)
	<u>1,285,932</u>	<u>1,342,801</u>
	<u>\$ 1,474,538</u>	<u>\$ 1,510,747</u>

Nature of operations (Note 1)

*The accompanying notes are an integral part of these interim financial statements*

Approved on behalf of the board of directors:

"James Richardson"

James Richardson, Director

"Richard Williams"

Richard Williams, Director

**Waseco Resources Inc.**

**Interim Statements of Income and Comprehensive Income and Deficit  
(Unaudited - Prepared by Management)**

	Six Months Ended 31-Aug 2010	Six Months Ended 31-Aug 2009	Three Months Ended 31-Aug 2010	Three Months Ended 31-Aug 2009
<b>Revenue:</b>				
Management fees	\$ -	\$ 27,596	\$ -	\$ 14,420
Income from option payments	-	213,876	-	90,018
	-	241,472	-	104,438
<b>Expenses</b>				
Professional fees	7,953	14,153	7,453	9,153
Shareholder relations and regulatory fees	20,376	32,403	5,664	27,102
Miscellaneous	1,542	3,397	447	1,686
Management fees	27,000	18,000	18,000	9,000
	56,870	67,953	31,563	46,941
Profit (Loss) before other income	(56,870)	173,519	(31,563)	57,497
Other income: Interest	-	3,125	-	-
Income (loss) for the period before income taxes	(56,870)	176,644	(31,563)	57,497
Provision for income tax (Note 6)	-	-	-	-
Future tax recovery (Note 6)	-	-	-	-
Net income and comprehensive income (loss) for the period	(56,870)	176,644	(31,563)	57,497
Deficit at the beginning of the year	(4,586,762)	(4,932,553)	(4,612,069)	(4,813,406)
Deficit at the end of the Period	\$ (4,643,632)	\$ (4,755,909)	(4,643,632)	(4,755,909)
Net income (loss) per share - basic	\$ (0.0019)	0.0058	(0.0008)	0.0019
Net income (loss) per share - fully diluted	\$ (0.0019)	0.0056	(0.0008)	0.0018
Weighted average number of shares outstanding - fully diluted	31,311,115	31,311,115	31,311,115	31,311,115

*The accompanying notes are an integral part of these interim financial statements*

**Waseco Resources Inc.**  
**Interim Statements of Cash Flow**  
**(Unaudited - Prepared by Management)**

	<b>Six Months Ended 31-Aug 2010</b>	Six Months Ended 31-Aug 2009	<b>Three Months Ended 31-Aug 2010</b>	Three Months Ended 31-Aug 2009
Operating activities:				
Net profit (loss) for the period	\$ (56,870)	\$ 176,644	\$ (31,563)	\$ 57,497
Items not affecting cash:				
Stock based compensation		-		-
	(56,870)	176,644	(31,563)	57,497
Changes in non-cash working capital items:				
GST recoverable	(1,298)	13,297	(1,110)	(2,049)
Accounts payable and accruals	20,661	552,370	17,642	305,952
Exploration - provincial tax credit	-	(213,876)	-	(90,018)
Accounts receivable	-	(591,030)	5,000	(299,636)
Cash flows ( used in) provided by operating activities	(37,507)	(62,595)	(10,031)	(28,254)
Financing				
Issuance of common shares, net of issuance costs	-	-	-	-
Cash Flow From Financing Activities	-	-	-	-
Investing				
Expenditures relating to interest in Mineral Properties, net of recovery	(61,140)	-	(55,608)	-
Cash Flow From (Used In) Investing Activities	(61,140)	-	(55,608)	-
Increase (decrease) in Cash and Cash Equivalen during the period	(98,647)	(62,595)	(65,639)	(28,254)
Cash and Cash Equivalents at the beginning of period	457,310	566,873	424,302	532,532
<b>Cash and Cash Equivalents at End of Period</b>	<b>358,663</b>	<b>504,278</b>	<b>358,663</b>	<b>504,278</b>

*The accompanying notes are an integral part of these interim financial statements*

**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

**1. NATURE OF OPERATIONS**

The reader is directed to the notes of the February 28, 2010 audited financial statements for a full description of the nature of operations of Waseco Resources Inc. (the "Company") and more comprehensive notes to the Financial Statements generally. This and other useful information on the Company are available on the Company's web site at [www.wasecoresources.com](http://www.wasecoresources.com) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

Waseco Resources Inc. (the "Company") is incorporated under the laws of Ontario. The Companies principal business activity is mineral exploration in Canada and Indonesia as more particularly described in Note 3.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN**

The accounting policies followed in preparing these financial statements are those used by the Company as set out in the notes on the February 28, 2010 audited financial statements. For further information see the Company's February 28, 2010 audited financial statements.

**3. MINERAL PROPERTIES AND DEFERRED COSTS**

	August 31, 2010	May 31, 2010
<b>Acquisition Costs</b>		
Balance at beginning of period	\$ 337,292	\$ 331,760
Acquisition costs	55,608	5,532
	<b>392,900</b>	<b>337,292</b>
<b>Deferred Exploration Expenditures</b>		
Balance at beginning of period	(73,121)	(73,121)
	<b>(73,121)</b>	<b>(73,121)</b>
<b>Balance at End of Period</b>	<b>319,779</b>	<b>264,171</b>

The following is a summary of the mineral properties and deferred costs at August 31, 2010 by area of interest:

<b>Property</b>	<b>Acquisition</b>	<b>Exploration</b>	<b>Total</b>
James Bay Lowlands (Northern Ontario)	#	120,324	170,324
Uranium Properties ( Labrador Trough, Quebec)	-	9,256	9,256
Kalimantan properties (Indonesia)	#	-	140,199
	#	129,580	\$ 319,779

**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

**3. Mineral Properties (Cont'd.)**

***Uranium Properties***

In 2007, the Company entered into an option agreement whereby a third party, UraMin Inc. ("UraMin"), could acquire a 70% ownership interest in 331 Labrador Trough mining claims. To acquire a 50% interest during stage one, UraMin paid Waseco \$150,000 on signing of the agreement and was to pay another \$800,000 within one year to fund exploration on the property. During stage two, UraMin paid \$150,000 to Waseco and within two years from signing the agreement, was to pay an additional \$800,000 to fund further exploration. The \$300,000 cash payments were received and the amount of funding for exploration expenses was subsequently revised as described below. To acquire an additional 20% (total of 70%) UraMin would need to notify Waseco by election within three months after completing the exploration expenditures of their intention to increase its interest to 70% and, complete a work program approved by the technical committee, leading to a bankable feasibility study on or before 2 years from the election.

After signing of the initial agreement, UraMin was acquired by the AREVA Group ("AREVA"). On June 3, 2008, the option agreement with AREVA was amended. In consideration of granting and maintaining the 50% option, Areva was to provide \$2,000,000 of funding towards the Company's exploration expenditures on the property on or before the expiration of the amended option agreement period, being June 28, 2010. In the event that AREVA elected not to fund the entire program, it would have no further obligations, and would retain no interest in the property. As at February 28, 2010, AREVA had met its expenditure requirements to obtain a 50% interest in the project and has elected to exercise the option. Waseco anticipates entering into a Joint Venture agreement with AREVA once the 50:50 joint-venture is formally recognized.

***Kalimantan Properties***

The Company has made application for certain mining rights on the island of Kalimantan that include portions of the river course and surrounding terraces which were previously held by a subsidiary as the Tewah alluvial gold property. Certain of these property interests are identified as general survey permits ("SKIP's") and are in the process of being converted to the more permanent Kuasa Pertambangan ("KP's) form of exploration tenement.

Substantially all of the property so held has been included in the bankable feasibility study which was completed on the Tewah property in 1998. The costs of such study have all been written off in the accounts of the Company. The amount now recorded represent the regulatory and administrative costs of registering the claims, commencing the process of transformation from SKIP's to KP's and compliance costs associated with the exploration permit.

***James Bay Lowlands***

In 2003, the Company acquired an option to earn up to a 40% interest in a 2,440 acre claim block in the Attawapiskat Region of the James Bay Lowlands in Northern Ontario, together with a right of first refusal to purchase an additional 9% interest

The Company made a payment of \$50,000 to enter into the agreement. Pursuant to an amended agreement, the Company earned a 5% interest by completing \$100,000 in cumulative expenditures by September 30, 2004, which includes mapping, sampling, magnetic ground surveying and drilling. The Company could have earned up to an additional 20% interest (thereby increasing the total interest to 25%) by spending an additional \$620,000 by July 30, 2005. The Company having elected not to proceed in this fashion currently retains a 5% interest.

**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

The property is subject to a 2% net smelter return ("NSR") with the Company and its joint venture partners having a right of first refusal to buy out 1% of the NSR.

**4. Capital Stock**

**Share Capital**

Waseco is authorized to issue an unlimited number of common shares. The issued and outstanding share capital consists of common shares as follows:

	Shares		Amount
<b>Balance at February 28, 2009</b>	30,311,155	\$	5,800,662
Issuance of shares for cash	-		-
Stock options exercised	-		-
Fair value transfer on exercised options	-		-
<b>Balance at August 31 and February 28, 2010 and 2009</b>	30,311,155		5,800,662

**Stock-Based Compensation Plan**

Waseco established a stock option plan to provide additional incentive to its directors, officers, employees, service providers, or consultants in their efforts on behalf of the Company in the conduct of its affairs. The total number of shares which may be issued thereunder shall not exceed 10% of the then issued and outstanding shares of the Company. Under the terms of the plan, options shall vest immediately except those options granted to consultants or persons employed in investor relations activities, which are to vest over a twelve month period. All options expire on the fifth anniversary from the grant date, unless specified otherwise in a director's resolution. The exercise price of each option issued shall not be less than the closing market price of the Company's stock on the day immediately preceding the date of grant.

The following table summarizes the continuity of stock options issued:

	May 2010		February 2010	
	Weighted Average Exercise Price	No. of Options	Weighted Average Exercise Price	No. of Options
Outstanding at beginning of period	\$0.25	1,000,000	\$0.25	1,000,000
Transactions during the period				
Granted	-			
Exercised	-			
Expired	-			
Outstanding at end of period	\$0.25	1,000,000	\$0.25	1,000,000
Exercisable at end of period	\$0.25	1,000,000	\$0.25	1,000,000

**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

**4. Capital Stock (Continued)**

All outstanding stock options expire June 27 – August 29, 2011.

The fair value of the options granted has been estimated at the date of grant using the Black-Scholes option pricing model as previously reported:

	August 31, 2010	May 31, 2010
Risk free interest rate	-	-
Dividend yield	-	-
Volatility factor of the future expected market price of common shares	-	-
Expected life of the options	-	-
Weighted average fair value of options granted during the period	-	-

**5. Contributed Surplus**

	August 31, 2010	May 31, 2010
Balance, beginning of period	<b>128,902</b>	128,902
Value of options issued	-	-
Exercised options and warrants	-	-
<b>Balance, end of Period</b>	<b>128,902</b>	128,902

**6. Related Party Transactions**

The financial statements include no balances and transactions with directors and/or officers of the Company other than management fee payments and reimbursements of out of pocket amounts paid by them on behalf of the company. These transactions are measured and recorded at their exchange amounts, being the amounts agreed to by the related parties which are not in excess of fair market values.

During the period, the company paid \$18,000 (August 2009 - \$9,000) to officers of the Company for management fees. Included in accounts payable is \$Nil (February 2010 - \$9,350) owed to directors and officers of the Company for management fees.

**7. Income Taxes**

The Company has \$85,300 (2009 - \$60,400) in non-capital losses carried forward for which no benefit has been recognized in the accounts. If these losses are not utilized, they will expire between 2028 and 2030.

The Company also has \$3,074,000 (2009 - \$2,336,000) of unused CCEE, CCDE, FEDE and CFRE expenses and capital losses of \$312,400 (2009 - \$312,400). The tax benefits pertaining to these expenses are available to carry forward indefinitely.



**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

**7. Income taxes (cont'd.)**

***Future Income Taxes Recoverable***

The Canadian statutory income tax rate of 32% (2009 - 33%) is comprised of the federal income tax rate of approximately 18% (2009 - 19%) and the provincial income tax rate of approximately 14% (2009 - 14%). The income tax provision differs from that computed using the statutory tax rates for the following reasons:

<b>Three months ended August 31</b>	<b>2010</b>	2009
Expected income tax expense (recovery) at federal and provincial statutory rates	(18,000)	(10,000)
Valuation allowance: Exploration pools	18,000	10,000
<b>Income tax provision</b>	<b>\$ -</b>	<b>\$ -</b>

***Future Income Tax Asset***

The tax effect of temporary differences that give rise to the future tax assets and liabilities are:

<b>August 31,</b>	<b>2010</b>	2009
<b>Future Tax Assets</b>		
<b>Loss carry forwards</b>	28,000	40,000
<b>Temporary differences</b>	956,000	731,000
<b>Less: valuation allowance</b>	(984,000)	(770,880)
<b>Net Future Tax Assets</b>	-	-
<b>Future Tax Liabilities</b>	-	-
<b>Net Future Income taxes Recoverable</b>	<b>\$ -</b>	<b>\$ -</b>

**8. Financial Instrument Risk Exposures**

***Fair Value of Financial Instruments***

The carrying value of the financial instruments primarily exploration tax credits receivable approximates their fair value due to the relatively short periods to maturity of these vehicles.

Fair value estimates are made at a specific point in time, based on relevant market information and information about financial instruments. These estimates are subject to and involve uncertainties and matters of significant judgment, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

A summary of the Company's risk exposures as they relate to financial instruments is reflected below:

***Credit Risk***

The Company is not exposed to credit risk attributable to customers. Additionally, the Company's cash and cash equivalents are held with Schedule A Canadian Chartered banks.

**Waseco Resources Inc.**  
**Notes to the Interim Financial Statements**  
**For the Six Month Period Ended August 31<sup>st</sup>, 2010**  
**(Unaudited- Prepared by Management)**

**8. Financial Instrument Risk Exposures (cont'd)**

***Interest Rate Risk***

The Company invests cash surplus to its operational needs in investment-grade short term deposit certificates issued by the bank where it keeps its Canadian Bank accounts. The Company periodically assesses the quality of its investments with this bank and is satisfied with the credit rating of the bank and the investment grade of its short term deposit certificates. A change in the interest rate of 1% would cause annual interest income to change annually by under \$4,000 given its August 31, 2010 certificate holdings.

***Political Risk***

The properties are located in Canada and Indonesia; accordingly, the Company is subject to risks normally associated with exploration and development of mineral properties in these countries. The Company's ability to conduct future exploration and development activities is subject to changes in government regulations and shifts in political attitudes over which the Company has no control.

***Business Risk***

There are numerous business risks involved in the mineral exploration industry, some of which are outlined below. Waseco's current or future operations, including development activities, are subject to environmental regulations which may make operations not economically viable or prohibit them altogether. The success of the operations and activities is dependent to a significant extent on the efforts and abilities of its management, outside contractors, experts and other advisors. Investors must be willing to rely to a significant degree on management's discretion and judgment, as well as the expertise and competence of the outside contractors, experts and other advisors. The Company does not have a formal program in place for succession of management and training of management. The loss of one or more of the key employees or contractors, if not replaced on a timely basis, could adversely affect the Company's operations and financial performance.

***Liquidity Risk***

The Company's approach to managing liquidity risk is to attempt to ensure that it will have sufficient liquidity to meet its liabilities when due. As at August 31, 2010, the Company had working capital of \$1,084,698. All of the Company's financial liabilities are subject to normal trade terms.

***Commodity Price Risk***

The price of the common shares in the capital the Company ("Common Shares"), its financial results, exploration and development activities have been, or may in the future be, adversely affected by declines in the price of uranium, gold and/or other commodities. Gold and uranium prices fluctuate widely and are affected by numerous factors beyond the Company's control such as the sale or purchase of commodities by various central banks, financial institutions, expectations of inflation or deflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, international supply and demand, speculative activities and increased production due to new mine developments, improved mining and production methods and international economic and political trends. The Company's revenues, if any, are expected to be in large part derived from mining and sale of commodities or interests related thereto. The effect of these factors on the prices of commodities, and therefore the economic viability of any of the Company's exploration projects, cannot accurately be predicted.