



**MONETA PORCUPINE MINES INC.**

Interim Consolidated Financial Statements

For the six month periods ended June 30, 2012 and 2011

**Q2 2012**

**THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED BY MANAGEMENT AND  
HAVE NOT BEEN REVIEWED BY THE COMPANY'S AUDITOR**



**MONETA PORCUPINE MINES INC.**

Interim Consolidated Statements of Financial Position

**Unaudited**

| As at                                    | Notes | (Unaudited)<br>June 30,<br>2012<br>\$ | (Audited)<br>December 31,<br>2011<br>\$ |
|--|-------|---------------------------------------|---|
| <b>Current assets</b>                    |       |                                       |   |
| Cash and equivalents                     |       | 3,025,255                             | 2,120,138                               |
| Prepaid expenses                         |       | 16,322                                | 16,743                                  |
| Sales taxes recoverable                  |       | 43,974                                | 307,296                                 |
| Interest receivable                      |       | -                                     | 21,704                                  |
| <b>Total current assets</b>              |       | <b>3,085,551</b>                      | <b>2,465,881</b>                        |
| Investments held for trading             |       | 1,861                                 | 1,861                                   |
| Exploration and evaluation assets        | 3     | 1,668,901                             | 1,650,268                               |
|  |       | <b>4,756,313</b>                      | <b>4,118,010</b>                        |
| <b>Current liabilities</b>               |       |                                       |   |
| Accounts payable and accrued liabilities |       | 463,608                               | 384,196                                 |
| Deferred premium on flow-through shares  | 4     | -                                     | 1,600,000                               |
| <b>Total current liabilities</b>         |       | <b>463,608</b>                        | <b>1,984,196</b>                        |
| <i>Going Concern</i>                     | 1     |                                       |   |
| <i>Contingent liabilities</i>            | 7     |                                       |   |
| <b>Shareholders' equity</b>              |       |                                       |   |
| Capital stock                            | 4     | 38,135,651                            | 35,423,340                              |
| Contributed surplus                      |       | 3,104,160                             | 3,094,400                               |
| Deficit                                  |       | (36,947,106)                          | (36,383,926)                            |
| <b>Total shareholders' equity</b>        |       | <b>4,292,705</b>                      | <b>2,133,814</b>                        |
|  |       | <b>4,756,313</b>                      | <b>4,118,010</b>                        |

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



**MONETA PORCUPINE MINES INC.**

Interim Consolidated Statements of Changes In Shareholders' Equity

**Unaudited**

|   | Notes | Capital Stock      |                   | Contributed Surplus | Other Accumulated Comprehensive |                     | Shareholders' Equity |
|---|-------|--------------------|-------------------|---------------------|---------------------------------|---------------------|----------------------|
|   |       | Shares             | \$                |                     | Deficit                         |                     |                      |
| <b>Balance as at December 31, 2011</b>                |       | <b>157,752,419</b> | <b>35,423,340</b> | <b>3,094,400</b>    | <b>-</b>                        | <b>(36,383,926)</b> | <b>2,133,814</b>     |
| Share issuance on private placement financing         | 4     | 10,000,000         | 3,000,000         |                     |                                 |                     | 3,000,000            |
| Share issuance costs                                  | 4     |                    | (295,706)         |                     |                                 |                     | (295,706)            |
| Share issuance on exercise of warrants                | 4     | 20,000             | 7,000             |                     |                                 |                     | 7,000                |
| Fair value of warrants exercised                      | 4     |                    | 1,017             | (1,017)             |                                 |                     | -                    |
| Share based compensation on vested options            |       |                    |                   | 10,777              |                                 |                     | 10,777               |
| Net earnings (loss) and comprehensive earnings (loss) |       |                    |                   |                     |                                 | (563,180)           | (563,180)            |
| <b>Balance as at June 30, 2012</b>                    |       | <b>167,772,419</b> | <b>38,135,651</b> | <b>3,104,160</b>    | <b>-</b>                        | <b>(36,947,106)</b> | <b>4,292,705</b>     |
| <b>Balance as at December 31, 2010</b>                |       | <b>142,255,882</b> | <b>30,533,488</b> | <b>2,189,583</b>    | <b>-</b>                        | <b>(29,866,867)</b> | <b>2,856,204</b>     |
| Share issuance on private placement financing         | 4     | 14,285,714         | 6,600,000         |                     |                                 |                     | 6,600,000            |
| Deferred premium on flow through shares               | 4     |                    | (1,600,000)       |                     |                                 |                     | (1,600,000)          |
| Share issuance costs                                  | 4     |                    | (215,074)         |                     |                                 |                     | (215,074)            |
| Share issuance on exercise of stock options           | 4     | 765,500            | 117,170           |                     |                                 |                     | 117,170              |
| Fair value of stock options exercised                 | 4     |                    | 73,574            | (73,574)            |                                 |                     | -                    |
| Share based compensation on vested options            | 4     |                    |                   | 276,240             |                                 |                     | 276,240              |
| Net earnings (loss) and comprehensive earnings (loss) |       |                    |                   |                     |                                 | (3,208,451)         | (3,208,451)          |
| <b>Balance as at June 30, 2011</b>                    |       | <b>157,307,096</b> | <b>35,509,158</b> | <b>2,392,249</b>    | <b>-</b>                        | <b>(33,075,318)</b> | <b>4,826,089</b>     |

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



**MONETA PORCUPINE MINES INC.**

Interim Consolidated Statements of Net Loss (Earnings), Comprehensive Loss (Earnings) and Deficit  
**Unaudited**

| For the periods ended June 30,                               | Notes | Three months ended |                    | Six months ended   |                    |
|--|-------|--------------------|--------------------|--------------------|--------------------|
|  |       | 2012               | 2011               | 2012               | 2011               |
|  |       | \$                 | \$                 | \$                 | \$                 |
| <b>Expenses</b>  |       |                    |                    |                    |                    |
| Exploration and evaluation expenditures                      | 3, 6  | 1,143,637          | 1,503,220          | 2,053,446          | 2,645,230          |
| Share based compensation                                     | 4, 6  | 5,402              | 253,251            | 10,777             | 276,240            |
| Management fees, wages and tax benefits                      | 6     | 53,642             | 54,965             | 107,089            | 104,965            |
| General & administration                                     | 6     | 35,298             | 41,938             | 79,291             | 78,849             |
| Legal & audit  |       | 18,445             | 43,181             | 26,321             | 57,417             |
| Unrealized loss (gain) on investments held for trading       |       | 465                | 4,653              | -                  | 5,584              |
| Travel and promotion   |       | 6,568              | 30,568             | 14,005             | 60,819             |
| Other income   |       | (106,966)          | (4,250)            | (118,798)          | (7,531)            |
| Interest income  |       | (3,207)            | (11,327)           | (8,951)            | (13,122)           |
| <b>Loss before income taxes</b>                              |       | <b>1,153,284</b>   | <b>1,916,199</b>   | <b>2,163,180</b>   | <b>3,208,451</b>   |
| Deferred taxes   | 5     | -                  | -                  | (1,600,000)        | -                  |
| <b>Net loss (earnings) and comprehensive loss (earnings)</b> |       | <b>1,153,284</b>   | <b>1,916,199</b>   | <b>563,180</b>     | <b>3,208,451</b>   |
| <b>Deficit - beginning of period</b>                         |       | <b>35,793,822</b>  | <b>31,159,119</b>  | <b>36,383,926</b>  | <b>29,866,867</b>  |
| <b>Deficit - end of period</b>                               |       | <b>36,947,106</b>  | <b>33,075,318</b>  | <b>36,947,106</b>  | <b>33,075,318</b>  |
| <b>Loss (earnings) per share (basic and diluted)</b>         |       | <b>\$0.007</b>     | <b>\$0.013</b>     | <b>\$0.003</b>     | <b>\$0.021</b>     |
| <b>Weighted average outstanding shares</b>                   |       | <b>168,191,979</b> | <b>150,148,542</b> | <b>162,972,199</b> | <b>150,148,542</b> |

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



**MONETA PORCUPINE MINES INC.**

Interim Consolidated Statements of Cash Flows

**Unaudited**

| <b>For the six months ended June 30,</b>                            | <b>2012</b>        | <b>2011</b> |
|---|--------------------|-------------|
|   | <b>\$</b>          | <b>\$</b>   |
| <b>Operating activities</b>   |                    |             |
| Net (loss) earnings and comprehensive (loss) earnings               | <b>(563,180)</b>   | (3,208,451) |
| Add : non-cash items  |                    |             |
| Unrealized loss (gain) on investments held for trading              | -                  | 5,584       |
| Stock-based and other compensation                                  | <b>10,777</b>      | 276,240     |
| Net change in non-cash working capital balances                     | <b>(1,235,141)</b> | 1,344,392   |
| Cash provided from (used in) operating activities                   | <b>(1,787,544)</b> | (1,582,235) |
| <b>Investing activities</b>   |                    |             |
| Evaluation and exploration assets                                   | <b>(18,633)</b>    | (18,634)    |
| Cash provided from (used in) investing activities                   | <b>(18,633)</b>    | (18,634)    |
| <b>Financing activities</b>   |                    |             |
| Issuance of common shares on exercise of stock options and warrants | <b>7,000</b>       | 117,170     |
| Issuance of common shares, net of issue costs                       | <b>2,704,294</b>   | 6,384,926   |
| Renunciation (Deferred premium) on flow-through shares              | -                  | (1,600,000) |
| Cash provided from (used in) financing activities                   | <b>2,711,294</b>   | 4,902,096   |
| <b>Net increase (decrease) in cash and equivalents</b>              | <b>905,117</b>     | 3,301,227   |
| Cash and equivalents, beginning of period                           | <b>2,120,138</b>   | 1,389,019   |
| <b>Cash and equivalents, end of period</b>                          | <b>3,025,255</b>   | 4,690,246   |
| <b>Interest paid during the period</b>                              | <b>4</b>           | 30          |
| <b>Income taxes paid during the period</b>                          | <b>-</b>           | -           |

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



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

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### 1. Nature of operations and going concern

#### Nature of operations

Moneta Porcupine Mines Inc. ("Moneta" or the "Company") is a public company listed on the Toronto Stock Exchange (**TSX: ME**) (**OTC: MPUCF**) (**XETRA: MOP**) and incorporated under the laws of the Province of Ontario on October 14, 1910. Moneta is a mineral resource exploration and development company actively exploring for gold on its land package in the Timmins Camp in Timmins, Ontario (Canada). The Company's registered office is 65 Third Avenue, Timmins, Ontario, P4N 1C2. Moneta, a former gold producer, is currently an exploration stage company and has no properties in current production and no production revenues at the present time.

#### Going concern

These consolidated financial statements, including comparatives, have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from December 31, 2011. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As a result of these risks, there is significant doubt as to the appropriateness of the going concern assumption. There is no assurance that the Company's funding initiatives will continue to be successful and these financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statements of financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

### 2. Significant accounting policies

#### Basis of presentation and statement of compliance

These unaudited interim consolidated financial statements were prepared in accordance with IFRS, as issued by the International Accounting Standards Board and applicable to the preparation of interim consolidated financial statements, including International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34").

The policies applied in these financial statements are consistent with the policies disclosed in Note 2 to the audited annual consolidated financial statements for the year ended December 31, 2011. These financial statements were authorized for issue by the Board of Directors on August 9, 2012 and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended December 31, 2011.

#### Basis of consolidation

These consolidated financial statements include the accounts of the Company and the assets, liabilities, revenues and expenses of its wholly-owned subsidiaries: Wounded Bull Resources Inc. and 508825 Ontario Ltd. The subsidiaries are largely inactive with limited operations.

#### Presentation and functional currency

The Company's presentation currency and functional currency is the Canadian Dollar.

#### Foreign currency translation

The functional currency of the subsidiary Wounded Bull is the US dollar. Monetary assets and liabilities denominated in a foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings), except for differences arising on the translation of available for sale equity instruments that are recorded in other accumulated comprehensive income.



## **MONETA PORCUPINE MINES INC.**

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

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### **Financial instruments**

Financial instruments recognized in the statement of financial position include cash and equivalents, sales taxes recoverable, interest receivable, investments held for trading, and accounts payable and accrued liabilities. The respective accounting policies are described below.

#### ***Cash and equivalents***

Cash and equivalents include money market instruments and short-term investments with maturities of 90 days or less held with Canadian financial institutions with a "AA" credit rating. Cash and equivalents are classified as held-for-trading and measured at fair value.

#### ***Investments***

Investments held for trading are recorded at fair value with the difference between fair value and cost being recorded as unrealized gain or loss in value of investments on the statement of net loss (earnings) and comprehensive loss (earnings) and deficit. In the case of securities listed on stock exchanges, the fair value means the latest bid price. Investments available for sale are measured at fair value with changes in fair value reported in other comprehensive income until the financial asset is disposed of, or becomes impaired. Investments for which reliable quotations are not readily available are valued at their fair value using a valuation model and market inputs.

#### ***Accounts payable and accrued liabilities***

Accounts payable and accrued liabilities are initially recognized at fair value and classified as other financial liabilities measured at amortized cost.

### **Exploration and evaluation assets**

Acquisition costs related to exploration properties are capitalized as exploration and evaluation assets at fair value at the time of purchase. The acquisition costs are written off when an exploration and evaluation asset is disposed of through sale or abandonment.

Exploration and evaluation expenditures incurred on exploration properties are expensed until such time that a future economic benefit is more likely to be realized than not by the establishment of ore resources. Exploration and evaluation expenditures incurred subsequent to the establishment of commercially viable and technically feasible gold resources on a property are capitalized as an exploration and evaluation asset. Exploration and evaluation assets are not depreciated until the properties are in commercial production.

### **Impairment of long-lived assets**

The Company reviews its long-lived assets, consisting primarily of exploration and evaluation assets, at each reporting period end, for any indicators of impairment whenever events or changes in circumstances indicate that such carrying value may not be recoverable.

To determine whether a long-lived mining asset may be impaired, the recoverable amount is compared to the carrying value of the individual asset. If the carrying amount of an asset exceeds its estimated recoverable amount, the asset is written down and the impairment loss is recognized in the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings).

A previously recognized impairment loss may be reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount and is recognized in the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings). The increased amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset.



## **MONETA PORCUPINE MINES INC.**

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### **Flow-through shares**

The Company will, from time to time, issue flow-through shares to finance a portion of its exploration programs. Pursuant to the terms of flow-through share agreements, the Company agrees to incur qualifying expenditures and renounce the tax deductions associated with these qualifying expenditures to the flow-through subscribers at an agreed upon date.

Flow-through shares are reported at issue price. If the flow-through shares are issued at a premium to the market price of non-flow through or hard dollar shares at the date of announcement, such premium or excess proceeds is reported as a liability on the Consolidated Statements of Financial Position. The subsequent renunciation of such qualifying expenditures incurred by the Company in favor of the flow-through subscribers is reported as a reduction in the 'deferred premium on flow-through shares' liability on the Consolidated Statements of Financial Position and a corresponding reduction in deferred tax expense on the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings).

### **Income taxes**

Income taxes are calculated using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the period in which the change is enacted or substantively enacted.

### **Revenue recognition**

The Company currently has no revenue from active mining operations. Royalty income is recognized in the period in which it is earned in accordance with the terms of the royalty agreement, with collection reasonably assured. Interest revenue is recognized in the period in which it is earned.

### **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 common shares outstanding during the period. The computation of diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on earnings per share. In periods where the Company reports a comprehensive loss, the effect of potential issuances of shares under options and warrants would be anti-dilutive, and therefore, basic and diluted earnings (loss) per share are the same.

### **Recent accounting pronouncements**

The Company is currently evaluating the impact on its consolidated financial statements of recent accounting pronouncements, as follows:

#### **IFRS 9 Financial Instruments**

IFRS 9, Financial Instruments was issued by the IASB and will 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 through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.





## **MONETA PORCUPINE MINES INC.**

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### **IFRS 10 Consolidated Financial Statements**

IFRS 10, Consolidated Financial Statements was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

### **IFRS 11 Joint Arrangements**

IFRS 11, Joint Arrangements supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by joint venture partners. IFRS 11 requires a joint venture partner to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the joint venture partners will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

### **IFRS 12 Disclosures of Interests in Other Entities**

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

### **IFRS 13 Fair Value Measurement**

IFRS 13, Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

### **Significant judgements, estimates and assumptions**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include, but are not limited to, the determination of carrying value of exploration and evaluation assets, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities, and accrued liabilities and contingencies. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

### **Share based compensation transactions**

#### **Stock options**

The fair value of stock options granted to directors, officers, and employees is measured at grant date using the Black-Scholes valuation model using assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, expected forfeitures and expected life of the options. The fair value of this share-based payment is recognized as a charge to the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings) with a corresponding credit to shareholders' equity on the Consolidated Statements of Financial Position.



## MONETA PORCUPINE MINES INC.

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The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method and is measured using Black Scholes and assumptions at the time of vesting. The applicable fair value of any stock options which are exercised are transferred from contributed surplus to capital stock. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

### **Share-based payments to non-employees**

Share-based payments granted to non-employees are measured at the fair value of the goods or services received. In the event the Company cannot reasonably estimate the fair value of goods or services received, the transaction is recorded at the estimated value of the underlying equity instrument, measured at the date the Company obtains the goods or the counterparty renders the service. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

### **Exploration and evaluation expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale of the project, or where exploration activities are not adequately advanced to support a gold resource assessment. The determination is an estimation process that requires varying degrees of uncertainty and these estimates directly impact the deferral of exploration and evaluation expenditures.

### **Decommissioning and restoration provision**

The Company records the fair value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation, and re-vegetation of affected areas.

The estimated fair value of a liability, and corresponding increase in the related property, is reported in the period in which it is incurred and when a reasonable estimate of fair value can be made. The fair value is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction and, in the absence of observable market transactions, is determined as the present value of expected cash flows. The Company subsequently allocates the cost to expense using a systematic and rational method over its useful life, and records the accretion of the liability as a charge to the Consolidated Statements of Net Loss (Earnings), Comprehensive Loss (Earnings).

As the Company has not commenced construction and development of any mining operations it does not have any provisions for decommissioning or restoration costs.

### **Warrants**

The valuation of warrants includes estimates of risk-free interest rates, volatility of the Company's share price and expected life of the warrants. By their nature, these estimates are subject to measurement uncertainty and could materially impact the financial statements.

### **Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
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### 3. Exploration and evaluation assets

|                              | Six months ended<br>June 30, 2012 | Year ended<br>December 31, 2011 |
|------------------------------|-----------------------------------|---------------------------------|
|                              | \$                                | \$                              |
| <b>Acquisition costs</b>     |                                   |                                 |
| Balance, beginning of period | 1,650,268                         | 1,650,268                       |
| Acquisition costs            | 18,633                            | -                               |
| Balance, end of period       | 1,668,901                         | 1,650,268                       |

| Acquisition costs             |                               |           |                             |
|-------------------------------|-------------------------------|-----------|-----------------------------|
|                               | Opening<br>January 1,<br>2012 | Additions | Closing<br>June 30,<br>2012 |
| <b>Golden Highway Project</b> | 1,630,162                     | 9,668     | 1,639,830                   |
| <b>North Tisdale</b>          | 4,741                         | 2,523     | 7,264                       |
| <b>Kayorum</b>                | 11,320                        | 3,616     | 14,936                      |
| <b>Nighthawk Lake</b>         | 3,200                         | 1,981     | 5,181                       |
| <b>Denton Thorneloe</b>       | 845                           | 845       | 1,690                       |
|                               | 1,650,268                     | 18,633    | 1,668,901                   |

There were no property disposals and no indications of impairment of exploration and evaluation assets during the six months ended June 30, 2012 and 2011. Exploration and evaluation expenditures for the six months ended June 30, 2012 of \$2,053,446 (June 30, 2011 – \$2,645,230) were charged to the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings).

### 4. Capital stock

#### Authorized share capital

The Company is authorized to issue an unlimited number of Class A Preferred shares, Class B Preferred shares, Common shares, and Non-voting shares. Class A Preferred shares are entitled to preference as to the payment of dividends and distribution of the remaining property of the Company on dissolution over Class B Preferred shares, Common shares and Non-voting shares. Class B Preferred shares are entitled to preference as to the payment of dividends and distribution of the remaining property of the Company on dissolution over Common shares and Non-voting shares. The Non-voting shares shall rank equally with Common shares in all respects except that the holders are not entitled to vote at shareholder meetings.

#### Capital stock transactions during the period

In March 2012, the Company completed a brokered private placement financing and issued 10,000,000 common shares at \$0.30 per share for gross proceeds of \$3,000,000. Share issue costs associated with this financing were \$295,706.

In March 2011, the Company completed a non-brokered private placement financing for \$6.6 million and issued 11,428,571 common shares on a structured flow-through basis at \$0.49 per share for gross proceeds of \$5,600,000 and 2,857,143 common shares at \$0.35 for gross proceeds of \$1,000,000. The \$6.6 million in aggregate gross proceeds was reported as a \$6.6 million increase in capital stock offset by a \$1.6 million increase in deferred premium on flow-through shares, reflecting the premium received on the structured flow-through financing.



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

### Stock options

The Company has established a stock option plan whereby the Board of Directors may grant options to directors, officers, employees, and consultants to acquire common shares of the Company. The maximum number of authorized but unissued shares available to be granted shall not exceed 10% of its issued and outstanding common shares. Options granted have a maximum term of five years and vest immediately or over time at the discretion of the Board. The following table summarizes the outstanding stock options:

|                                  | Six months ended<br>June 30, 2012  |                   | Year ended<br>December 31, 2011    |                   |
|----------------------------------|------------------------------------|-------------------|------------------------------------|-------------------|
|                                  | Weighted Average<br>Exercise Price | No. of<br>Options | Weighted Average<br>Exercise Price | No. of<br>Options |
| Outstanding, beginning of period | \$0.25                             | 4,499,083         | \$0.20                             | 4,009,906         |
| Transactions during the period:  |                                    |                   |                                    |                   |
| Granted <sup>(1)</sup>           | -                                  | -                 | 0.26                               | 1,700,000         |
| Options exercised <sup>(2)</sup> | -                                  | -                 | 0.14                               | (1,210,823)       |
| Outstanding, end of period       | \$0.21                             | 4,499,083         | \$0.25                             | 4,499,083         |
| Exercisable, end of period       | \$0.25                             | 4,449,083         | \$0.24                             | 4,319,907         |

<sup>(1)</sup> During fiscal 2011, the Company granted 1,700,000 stock options to directors, officers, and consultants. The estimated fair value of these options, subject to immediate vesting or vesting over two years, and a three year term, was \$320,648 using the Black Scholes model and was charged as share based compensation to the consolidated statements of net loss (earnings), comprehensive loss (earnings) and deficit and credited to contributed surplus in shareholders' equity. The weighted average grant date fair value amounted to \$0.16 per option.

<sup>(2)</sup> During fiscal 2011, directors, officers and consultants exercised 1,210,823 stock options at an average exercise price of \$0.14 for total gross proceeds of \$163,683. The fair value of \$106,157 related to the exercised stock options and previously charged to contributed surplus was transferred to share capital.

### Warrants

|  | Exercise Price | Expiry Date | Six months ended | Year ended        |
|--|----------------|-------------|------------------|-------------------|
|  |                |             | June 30, 2012    | December 31, 2011 |
|  |                |             | #                | #                 |
| Outstanding, beginning of period:          |                |             |                  |                   |
|  | \$0.45         | June 2011   | -                | 6,000,000         |
|  | \$0.35         | April 2012  | 7,500,000        | 7,500,000         |
|  |                |             | 7,500,000        | 13,500,000        |
| Exercised during the period <sup>(1)</sup> | \$0.35         | April 2012  | (20,000)         | -                 |
| Expired during the period <sup>(2)</sup>   | \$0.45         | June 2011   | -                | (6,000,000)       |
| Expired during the period <sup>(2)</sup>   | \$0.35         | April 2012  | (7,480,000)      | -                 |
|  |                |             | -                | 7,500,000         |
| Outstanding, end of period:                |                |             |                  |                   |
| Warrants outstanding                       | \$0.35         | April 2012  | -                | 7,500,000         |
|  |                |             | -                | 7,500,000         |

<sup>(1)</sup> In March 2012, the Company issued 20,000 common shares on the exercise of purchase warrants at an exercise price of \$0.35 for total gross proceeds of \$7,000. The fair value of \$1,017 related to the exercised warrants and previously charged to contributed surplus was transferred to share capital.

<sup>(2)</sup> In April 2012, a total of 7,480,000 (June 2011 - 6,000,000) warrants expired unexercised.



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

### 5. Income taxes

The Company's effective tax rate, which differs from the combined federal and provincial statutory income tax rates for the six months ended June 30, 2012 and the year ended December 31, 2011, has been reconciled as follows:

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
|  | \$               | \$                   |
| Notes  |                  |                      |
| Income tax recovery at statutory rates                 | 562,427          | 1,673,741            |
| Increase (decrease) related to:                        |                  |                      |
| Exploration and evaluation expenditures                | (533,896)        | (1,426,331)          |
| Stock-based compensation                               | (2,802)          | (89,781)             |
| Deferred premium on flow through shares                | (1,600,000)      | -                    |
| Unrealized (gain) loss on investments held for trading | -                | (2,606)              |
| Other  | 15,266           | 32,881               |
|  | (1,559,005)      | 187,904              |
| Valuation allowance                                    | (40,995)         | (187,904)            |
| Deferred taxes (recovery)                              | (1,600,000)      | -                    |

The Company's deferred tax assets and liabilities are comprised of the following:

|                                   | June 30,<br>2012 | December 31,<br>2011 |
|-----------------------------------|------------------|----------------------|
|                                   | \$               | \$                   |
| Deferred tax assets:              |                  |                      |
| Net operating loss carry forwards | 979,000          | 941,000              |
| Resource deductions               | 5,928,700        | 5,341,700            |
| Other                             | 190,000          | 130,000              |
|                                   | 7,097,700        | 6,412,700            |
| Less: Valuation allowance         | (3,508,000)      | (2,823,000)          |
|                                   | 3,589,700        | 3,589,700            |
| Deferred tax liabilities:         |                  |                      |
| Resource deductions               | (3,589,700)      | (3,589,700)          |
|                                   | -                | -                    |

The Company has recorded a valuation allowance as the Company does not consider it more likely than not that the deferred tax assets will be realized in the foreseeable future. The Company has non-capital losses of \$3,765,000 (2011 - \$3,765,000) available for deduction against future taxable income, the balances of which will expire as follows:

|      | March 31,<br>2012 | December 31,<br>2011 |
|------|-------------------|----------------------|
|      | \$                | \$                   |
| 2014 | 325,000           | 325,000              |
| 2015 | 241,000           | 241,000              |
| 2026 | 307,000           | 307,000              |
| 2027 | 317,000           | 317,000              |
| 2028 | 652,000           | 652,000              |
| 2029 | 618,000           | 618,000              |
| 2030 | 694,000           | 694,000              |
| 2031 | 611,000           | 611,000              |
|      | 3,765,000         | 3,765,000            |



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

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The potential tax benefit of the above losses has not been recognized in these consolidated financial statements. The Company has approximately \$11,821 (2011 – \$11,821) in capital losses available to apply against future capital gains.

### 6. Related party transactions

The Company paid salary of \$100,000 (2011 - \$100,000) to an officer and director for the six month period ended June 30, 2012. The compensation was for services provided to the Company under an ongoing employment contract.

The Company paid consulting fees of \$40,500 (2011 - \$48,230) to a related individual for the six month period ended June 30, 2012. The fees were for management consulting services provided to the Company.

Directors' fees of \$14,784 (2011 – \$10,000) were expensed during the six month period ended June 30, 2012, with \$6,284 payable at June 30, 2012.

All related party transactions were completed in the normal course of business at the exchange amounts. There were no stock options issued during the period. There were no loans to Directors or Officers during the period (2011: \$Nil).

### 7. Contingent liabilities

#### *Order to file closure plan on Moneta Mine*

Pursuant to an Order received from the Mining and Lands Commissioner related to the Company's historic Moneta Mine, located on the Company's Kayorum project, the Company undertook necessary steps and submitted the mine closure plan on July 31, 2011.

The Company's geotechnical consultant prepared the mine closure plan to identify and evaluate the former mine hazards and provided direction on geotechnical drilling completed by the Company during 2011. Although beyond the scope of work required by the Order, the Company elected to complete progressive rehabilitation of certain mine hazards, where feasible.

The Ministry of Northern Development and Mines ("MNDM") provided comments on the closure plan in November 2011. The Company submitted an amended closure plan in December 2011 addressing the minor comments. The MNDM provided further comments on the amended closure plan in February 2012. The Company responded by submitting a proposal to resolve the minor outstanding issues. The MNDM responded in July 2012 and the Company is currently evaluating its options on moving forward to close this matter.

#### *Civil lawsuits*

Two parties which owned the surface rights and occupied buildings on the site of the former Moneta Mine, filed suit in 2005 against the Company, its directors and other third parties claiming damages related to the mine subsidence. One of these parties also brought a claim for compensation under the Ontario Mining Act which was dismissed by the Mining Commissioner in March 2008. The Company believes the claims have no merit and intends to defend such claims vigorously. Accordingly, no provision has been made in these financial statements for these claims.

### 8. Capital Management

The Company manages capital, based on its cash and equivalents and ongoing working capital, with an objective of safeguarding the Company's ability to continue as a going concern, maximizing the funds invested into exploration and development activities, exploring and developing gold resources, and considering additional financings which minimize shareholder dilution. There were no changes in the Company's approach to capital management during the six month period ended June 30, 2012.

The Company's capital structure reflects a company focused on mineral exploration and financing both internal and external growth opportunities. The exploration for and development of mineral deposits involves significant risk which even a combination of careful evaluation, experience and knowledge may not adequately mitigate.



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

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The Company manages capital in proportion to risk and manages the exploration and evaluation assets and capital structure based on economic conditions and prevailing gold commodity pricing and trends. The Company relies on equity financings to maintain adequate liquidity to support its ongoing exploration and development activities and ongoing working capital commitments.

### 9. Financial instruments and risk management

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

#### Fair value

The carrying values for primary financial instruments, including cash and equivalents, sales taxes recoverable, interest receivable, and accounts payable and accrued liabilities approximate fair values due to their short-term maturities. The Company's exposure to potential loss from financial instruments relates primarily to its cash and equivalents held with Canadian financial institutions.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the year. The objectives and strategy for the exploration and evaluation asset portfolio remains unchanged.

The Company's exploration and development activities expose it to the following financial risks:

#### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's exposure to credit risk is concentrated in three specific areas: the credit risk on operating balances including sales taxes recoverable, interest receivable on short term deposits, and cash and equivalents held with Canadian financial institutions. The maximum exposure to credit risk is equal to the carrying values of these financial assets.

The aggregate gross credit risk exposure at June 30, 2012 was \$3,069,229 (December 31, 2011 - \$2,449,138), and was comprised of \$43,974 (December 31, 2011 - \$307,296) in harmonized sales taxes recoverable, \$NIL (December 31, 2011 - \$21,704) in interest receivable, and \$3,025,255 (December 31, 2011 - \$2,120,138) in cash and equivalents held with Canadian financial institutions with a "AA" credit rating.

#### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign currency exchange rates, commodity prices, interest rates and liquidity. A discussion of the Company's primary market risk exposures, and how those exposures are currently managed, follows:

##### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's financial assets and liabilities and operating costs are principally denominated in Canadian dollars. The Company has historically had insignificant operations in United States ("US") dollars. The Company has no US dollar hedging program due to its minimal exposure to financial gain or loss as a result of foreign exchange movements against the Canadian dollar.



## MONETA PORCUPINE MINES INC.

Notes to the Unaudited Interim Consolidated Financial Statements  
For the six month periods ended June 30, 2012 and 2011

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### *Commodity price risk*

Commodity prices, and in particular gold spot prices, fluctuate and are affected by factors outside of the Company's control. The current and expected future spot prices have a significant impact on the market sentiment for investment in mineral exploration companies and may impact the Company's ability to raise equity financing for its ongoing working capital requirements.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

### *Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and working capital obligations as they become due. To manage cash flow requirements, the Company maintains principally all its assets in cash and equivalents.

### **Sensitivity analysis**

The Company believes that the movements in investments held for trading that are reasonably possible over the next twelve-month period will not have a significant impact on the Company. The Company believes that its cash position and short term investments provide adequate liquidity to meet all of the Company's near-term obligations.





**MONETA PORCUPINE MINES INC.**

Management Discussion and Analysis

For the six month periods ended June 30, 2012 and 2011

**Q2 2012**



**MONETA PORCUPINE MINES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the six month periods June 30, 2012 and 2011

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This Management's Discussion and Analysis ("MD&A") provides a discussion and analysis of the financial condition and results of operations of Moneta Porcupine Mines Inc. ("Moneta" or the "Company") to enable a reader to assess material changes in the financial condition and results of operations of the Company as at and for the six months ended June 30, 2012 and 2011. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and notes thereto for the six months ended June 30, 2012 and 2011. All amounts included in this MD&A are in Canadian Dollars. The MD&A is prepared with an effective date of August 9, 2012.

Other continuous disclosure documents, including the Company's press releases and interim quarterly reports, are available through its filings with the securities regulatory authorities in Canada at [www.sedar.com](http://www.sedar.com) and are also available on the Company's website [www.monetaporcupine.com](http://www.monetaporcupine.com).

The MD&A is presented in the following sections:

|         |  |
|---------|--|
| Page 1  | Forward-Looking/Safe Harbour Statement and Fair Disclosure Statement   |
| Page 2  | Outlook, Corporate Overview  |
| Page 3  | Results of Operations  |
| Page 7  | Financial Review<br>Consolidated Operating Results, Consolidated Financial Position,<br>Liquidity and Capital Resources                            |
| Page 10 | Off-Balance Arrangements, Transactions with Related Parties, Disclosure Controls and<br>Procedures, and Internal Controls over Financial Reporting |
| Page 11 | Critical Accounting Estimates  |
| Page 13 | Changes in Accounting Policies, Recent Accounting Pronouncements   |
| Page 15 | Financial Instruments and Other Instruments  |
| Page 17 | Outstanding Share Data   |

**FORWARD-LOOKING/SAFE HARBOUR STATEMENT AND FAIR DISCLOSURE STATEMENT**

This MD&A may contain certain forward looking statements concerning the future performance of Moneta's business, its operations and its financial performance and condition, as well as management's objectives, strategies, beliefs and intentions. These forward-looking statements are based on information currently available to the Company and the Company provides no assurance that actual results will meet management's expectations. Forward-looking statements include estimates and statements that describe the Company's future plans, objectives or goals, its ability to access capital, the speculative nature of mineral exploration and development, fluctuating commodity prices, competitive risks and reliance on key personnel, and include words to the effect that the Company or management expects a stated condition or result to occur. This list is not exhaustive of the factors that may affect any of the Company's forward-looking statements. Statements relating to estimates of reserves and resources are also forward-looking statements as they involve risks and assumptions, including but not limited to assumptions with respect to future commodity prices and production economics, that the reserves and resources described exist in the quantities and grades estimated and are capable of economic extraction. Forward-looking statements may be identified by such terms as "believes", "anticipates", "expects", "estimates", "may", "could", "would", "will", or "plan". All forward-looking information is inherently uncertain and subject to risks, uncertainties, and a variety of assumptions to address future events and conditions. These and other factors should be considered carefully and readers should not place undue reliance on the Company's forward-looking statements. The Company does not undertake to update any forward-looking statement that may be made from time to time by the Company or on its behalf, except in accordance with applicable securities laws.



## OUTLOOK

The objective of the 2012 exploration program in the *Golden Highway Project* is to expand near surface mineralization adjacent to the 3.1 million ounce gold resources (NI 43-101 – all categories) contained in the Southwest Zone, Windjammer South, and the 55 Zone. Emphasis is on priority bulk target areas which includes the 'Gap Zone' between the Southwest Zone and Windjammer South with the potential linkage of the modeled resources and pit shells, and Windjammer Central with potential linkage to Windjammer South. Additional highly prospective and newly identified structural targets are located in close proximity to existing gold zones and in under-explored areas of the *Golden Highway Project*.

## CORPORATE OVERVIEW

Moneta Porcupine Mines Inc. ("Moneta" or the "Company") is a resource exploration and development company incorporated pursuant to the laws of the Province of Ontario on October 14, 1910. The Company is a former gold producer but has no properties currently in production and no production revenues at the present time.

Moneta is a "reporting issuer" in the Canadian provinces of Ontario, Alberta and Quebec. The Company's common shares trade on the Toronto Stock Exchange ("TSX") under the symbol ME, on the United States OTC market under the symbol MPUCF, and the Berlin Stock Exchange, the Xetra, and Frankfurt Stock Exchange under the symbol MOP.

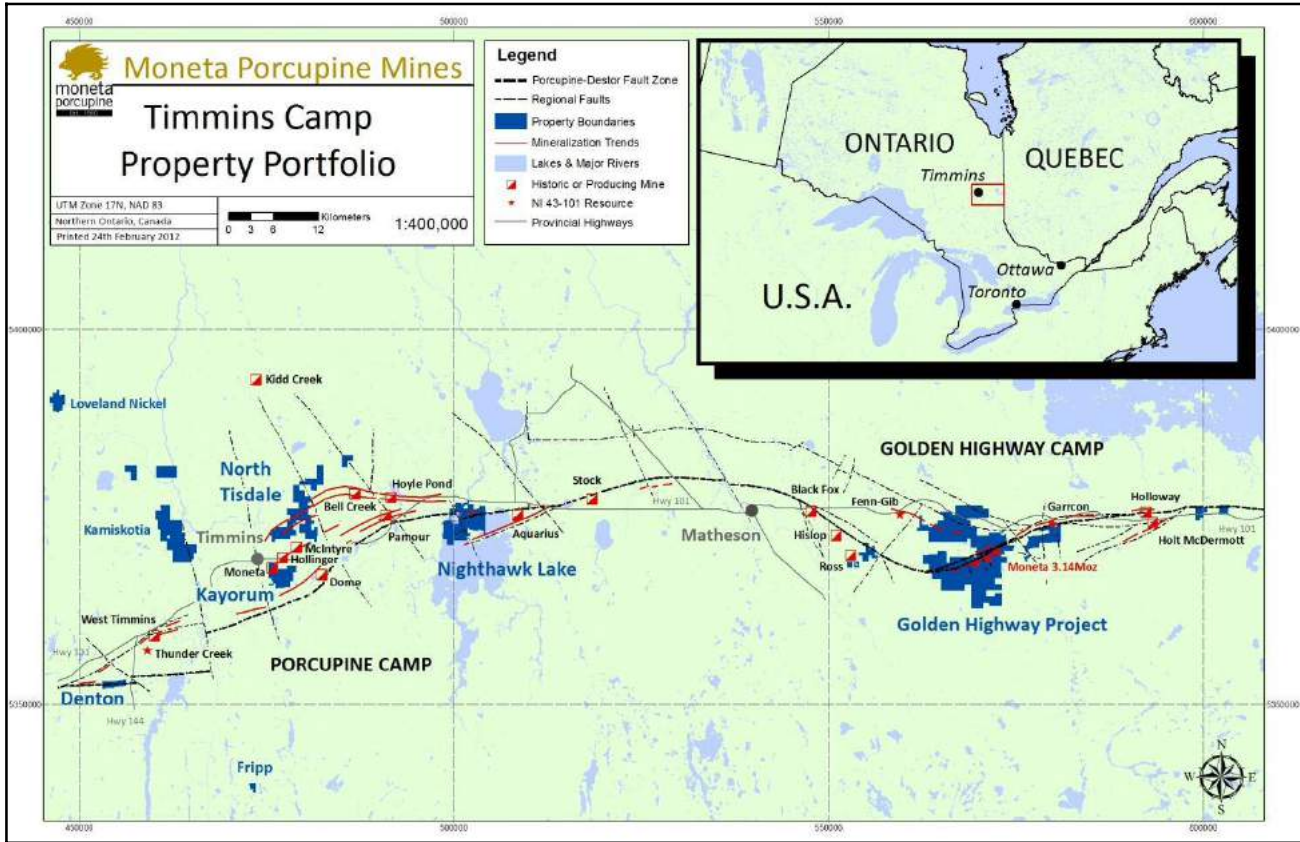
Moneta holds a 100% interest in 5 core gold projects strategically located on or along the Destor Porcupine Fault Zone ("Destor"), one of the key structural features in the Abitibi Greenstone belt in Ontario, with world class infrastructure including access roads, water, electricity, and mills. Most historic production in the region is associated with the Destor, including significant producing mines now operated by Porcupine Gold Mines (Goldcorp) and several others such as Lake Shore Gold, Brigus Gold, and St Andrew Goldfields. The Golden Highway Camp area has experienced rapid advancement of large bulk tonnage gold resources by Moneta and others, confirming the strong regional gold potential.

Moneta's additional property interests include a base metal portfolio, with some properties containing nickel-copper and copper zones.

Moneta's land position for gold exploration is one of the best, and fourth largest, in the world class Timmins Camp – after three gold producers – including a commanding position in the emerging Golden Highway Camp with a robust **3.1 million ounce gold resource (NI 43-101 - all categories)** in three main zones (Southwest Zone, Windjammer South, 55 Zone).

The *Porcupine Camp* and *Golden Highway Camp* (here collectively referred to as "**Timmins Camp**") is one of the most prolific gold-producing areas in the world with over 72 million ounces of gold produced primarily from some 26 mines, each of which generated more than 100,000 ounces.

The Company is leveraged to gold exploration, with limited overhead and fixed costs and one of the highest ratios of dollars to drilling of any junior explorer. It is operated by a strong technical and management team which maintains a low-cost Timmins-based exploration operation with its own field office, rolling stock and equipment, and proprietary drill core logging and storage facility (core shack).



**Figure I: Moneta's Key Gold Exploration Properties**

## RESULTS OF OPERATIONS

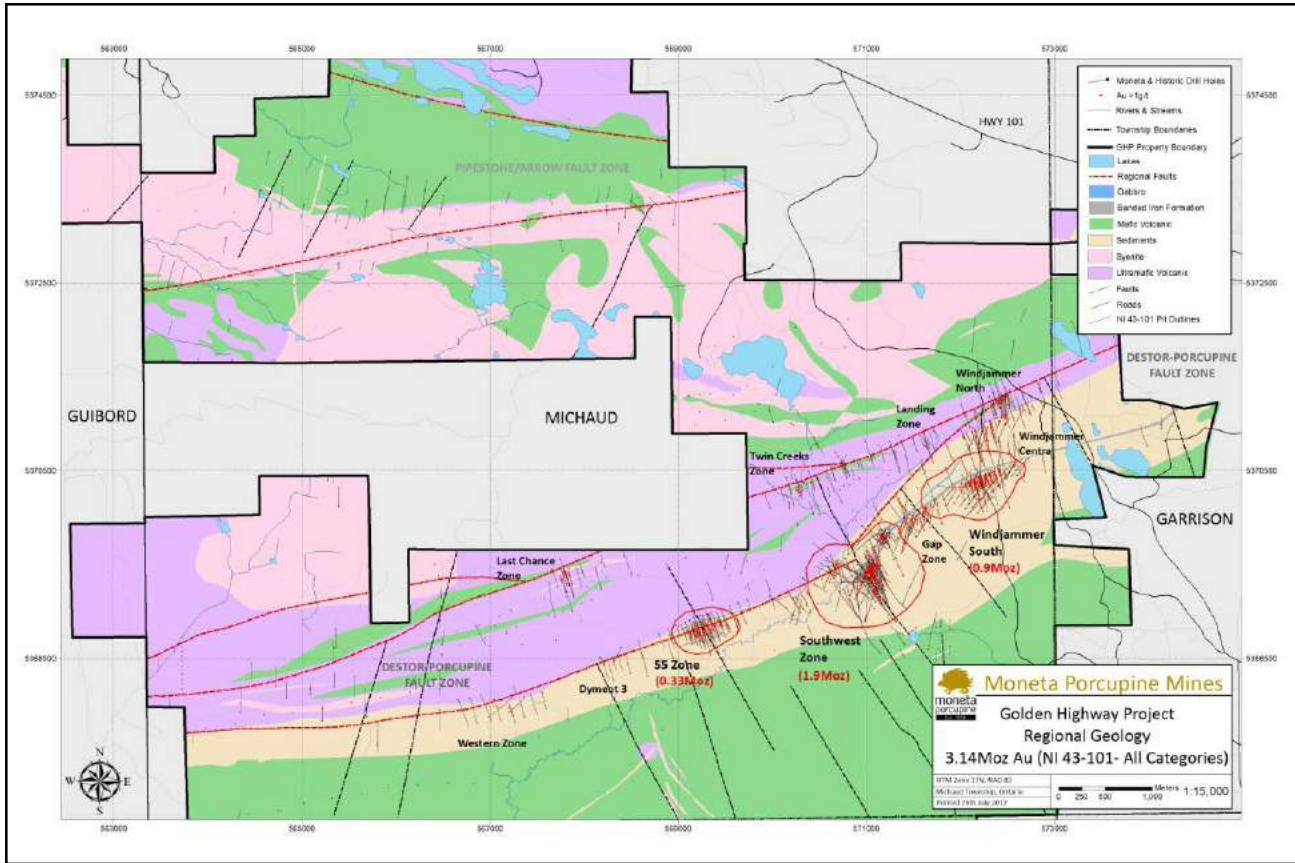
### Golden Highway Project

Moneta's primary gold exploration and resource development focus is the Golden Highway Project which contains a largely contiguous land package of 692 claim units or approximately 10,600 hectares, centered in Michaud Township 100 km east of Timmins, Ontario along Highway 101, a major all-season route.

Moneta has a 100% ownership interest in the contiguous Golden Highway Project since December 2009, when the Company acquired the remaining 50% ownership interest, with no underlying encumbrances, from its former corporate partner in the now dissolved Michaud Joint Venture.



**MONETA PORCUPINE MINES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 For the six month periods June 30, 2012 and 2011



**Figure II – Moneta’s Golden Highway Project: Geology and Main Gold Zone Locations**

A NI 43-101 resource estimate was released December 1<sup>st</sup> 2011 for three of Moneta’s ten Golden Highway Project gold zones (*Southwest Zone, Windjammer South, and 55 Zone*). These zones contain combined near-surface **NI 43-101 resources of 3,140,000 ounces Au**, as calculated by P&E Mining Consultants Inc. (“P&E”), of **1,071,000 indicated** (33.5 Mt @ 0.99 g/t) and **2,069,000** (47.8 Mt @ 1.35 g/t) inferred ounces of gold. This is detailed below and broken down as both “in-pit” and “out-of-pit” resources:

| TOTAL RESOURCE ESTIMATE (1)(2)(3)(4) |                   |             |                  |                   |             |                  |
|--------------------------------------|-------------------|-------------|------------------|-------------------|-------------|------------------|
| Classification                       | Indicated         |             |                  | Inferred          |             |                  |
| Cut-Off Au g/t                       | Tonnes            | Au g/t      | Au oz            | Tonnes            | Au g/t      | Au oz            |
| In Pit: 0.35 g/t                     | 32,884,000        | 0.95        | 1,002,000        | 40,640,000        | 0.98        | 1,280,000        |
| Out of Pit: 2.0 g/t                  | 649,000           | 3.33        | 69,000           | 7,197,000         | 3.41        | 789,000          |
| <b>Total</b>                         | <b>33,533,000</b> | <b>0.99</b> | <b>1,071,000</b> | <b>47,837,000</b> | <b>1.35</b> | <b>2,069,000</b> |

- (1) The mineral resources in this report were estimated using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM), CIM Standards on Mineral Resources and Reserves, Definitions and Guidelines prepared by the CIM Standing Committee on Reserve Definitions and adopted by CIM Council.
- (2) Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the estimated Mineral Resources will be converted into Mineral Reserves.
- (3) The Mineral Resources are based on 313 diamond drill holes over approximately 2km of the Golden Highway Project’s 55 Zone, Southwest



**MONETA PORCUPINE MINES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the six month periods June 30, 2012 and 2011

*Zone and Windjammer South gold zones and includes drilling from historical operators Lac Minerals (a subsidiary of Barrick Gold) during the period 1994 - 1997, and Noranda Exploration during the period 1983 - 1989.*

(4) *Values in the table above may differ due to rounding.*

## 2012 EXPLORATION ACTIVITY

### Golden Highway Camp

Exploration in Q2 2012 focused on the Golden Highway Project with 5,582 metres of diamond drilling completed. Drilling continued in the Gap Zone and Windjammer Central, building on the 2011 and Q1 2012 drill program results, with a focus on near-surface bulk tonnage gold mineralization, and summarized as follows:

- Drilling continued to systematically test along strike the Gap Area (approx 450 metres) between the Southwest Zone and Windjammer South NI 43-101 modelled pit shells to confirm possible linkage and to expand the existing NI 43-101 resources;
- Drilling continued on Windjammer Central now defined as a very large footprint, measuring 750m in length, 350m in depth and 350m in width, and similar in mineralization style to the adjacent Windjammer South gold resource.

### Golden Highway Project NI 43-101 Update

The results of the Q1, Q2 and Q3 2012 drilling are being modelled and integrated into the internal database to support an updated 2012 NI 43-101 resource estimate. The updated NI 43-101 resource estimate is expected to now incorporate three new gold zones (Windjammer Central, Gap Zone, Windjammer North), in addition to the existing NI 43-101 modeled resources of the Southwest Zone, Windjammer South, and 55 Zone.

### Metallurgical Testing

During Q2 2012, the Company initiated a metallurgical testing program, with SGS Laboratories (formerly Lakefield), for all zones expected to be included in the 2012 NI 43-101 resource update in the Golden Highway Project. The objective of the program is to assess gold recoveries and grindability, which directly influence project economics.

### Specific Gravity testing

During Q2 2012, Specific Gravity (SG) measurements, comprised of 350 samples, were undertaken across the various gold zones and lithologies (rock types). The SG value has been confirmed as 2.79, slightly better than the 2.74 value used in the December 2011 resource estimate, and will result in a marginal increase in the existing and planned NI 43-101 resources.

### Internal Scoping Study

Management is currently evaluating options including an internal scoping study or a Preliminary Economic Assessment (PEA) study in conjunction with the completion of the updated 2012 NI 43-101 resource estimate.

### Golden Highway Project 2012 Drill Program

#### Gap Zone

The Gap Zone is located between the *Southwest Zone (East Block)* and *Windjammer South* and was not included in the 3.1 Moz NI 43-101 resource estimate (December 2011).

Previous highlights included 1.04g/t over 117.1m with 5.15g/t over 14.3m (MSW11-283). More recently MSW12-295A intersected zones that include 1.04g/t over 55.0m with 5.52g/t over 4.0m, 1.49 g/t over 7.0m, and 1.21g/t over 6.65m. MSW12-301 returned 1.14g/t over 39.0m including 1.98g/t over 6.0m, and 1.17g/t over 46.0m including 1.63g/t over 11.4m.



The Gap mineralization currently covers 450 metres of strike along the south iron formation contact in the immediate hanging wall sediments, and along a north-westerly trending and steep southwesterly dipping cross structure with an associated vein system.

The Q2 2012 Gap drill program (1,019 metres) targeted the eastern extension of the Gap zone to establish mineralization limits and potential connectivity to Windjammer South. Three drill holes were completed to support internal modelling of mineralization domains.

Drilling was highly successful with significant gold values found along the iron formation towards Windjammer South (MSW12-305, MSW12-307, and MSW12-308). MSW12-305 intersected zones that include 1.08g/t over 10.4m, 0.94g/t over 38.0m including 2.27g/t over 6.42m. MSW12-307, drilled between and above MSW12-301 and MSW12-304, returned two broad zones of 0.74g/t over 52.0m (including 1.17g/t over 21.49m) and 0.76g/t over 30.59m (including 1.05g/t over 14.7m). MSW12-308 intersected 0.77g/t over 30.2m with a higher grade core of 1.12g/t over 10.6m.

This drilling continues to expand and confirm the continuity of the Gap Zone mineralization. Internal modelling has confirmed linkage of the Gap Zone and Windjammer South and Southwest Zone conceptual pit shells for the updated 2012 NI 43-101 resource estimate.

#### ***Windjammer Central***

Windjammer Central is hosted in a very large 500 metre wide sedimentary sequence located between Windjammer North and the iron formation of Windjammer South.

Past drilling on Windjammer Central, including a 2009 drilling profile (MWJ09-25, 29, and 30), has confirmed gold mineralization hosted over wide intervals in the sediments along the volcanic contact, with significant potential for near surface bulk gold mineralization. The gold mineralization is similar to the adjacent Windjammer South gold resource and is in the footwall of the steeply northerly dipping volcanics of the Destor Porcupine Fault Zone and Windjammer North gold zone.

The 2012 objective for Windjammer Central was to systematically test near surface mineralization potential. Results from 2011 and 2012 drilling continue to confirm the gold mineralization potential along the volcanic/sedimentary contact over a 750 metre strike length, extending up to 350 metres southerly in the footwall, and to a depth of 350 metres.

Previously reported drill highlights included MWJ11-51 (0.97g/t over 22m or 0.72g/t over 57m), MWJ11-53 (1.02g/t over 73m or 0.76g/t over 140m), MWJ11-55 (0.94g/t over 54m including 1.42g/t over 26m), and MWJ11-57 (1.06g/t over 22.0m or 0.72g/t over 55m).

Q2 2012 drilling totalling 4,563 metres continued to intersect wide low grade gold mineralization primarily in the northern half of the Windjammer Central sedimentary sequence along the volcanic/sedimentary contact. The mineralization has also been expanded southerly from the volcanic contact with drilling on a systematic 100m drill hole spacing both in plan and vertically.

Q1 2012 drill holes completed in Q2 include MWJ12-66, MWJ12-68, and MWJ12-71, which stepped along the volcanic/sedimentary contact further to the east of the identified gold zone. MWJ12-66 intersected 1.33g/t over 7.8m, and 0.81g/t over 7.3m, MWJ12-68 returned 35.86g/t over 0.5m and MWJ12-71 intersected 0.64g/t over 7.0m and 0.81g/t over 6.0m. MWJ12-72 filled a significant data gap in the deeper and central portion of Windjammer Central mineralization in the sedimentary-volcanic contact area, intersecting 0.96g/t over 20.0metres and 0.89g/t over 14.45m all within a wider zone of 0.66g/t over 153.4m.



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Q2 2012 highlights include MWJ12-74 which intersected 0.94g/t over 12.0m including 1.62g/t over 6.0 metres, MWJ12-75 that encountered three distinct zones of 0.70g/t over 67.0m, 0.72g/t over 18.0m, and 0.83g/t over 17.45m within a broad mineralized zone of lower grade material. MWJ12-76 intersected 0.83g/t over 9.28m and 0.73g/t over 35.0m including 0.97g/t over 21.0 metres. MWJ12-77 intersected 1.01g/t over 6.0m, and 1.03g/t over 28.0m including 1.96g/t over 12.0 metres. MWJ12-78 intersected 0.80g/t over 42.1m and 0.56g/t over 33.0m.

Further drilling within Windjammer Central is planned as drilling continues to expand the extent and continuity of mineralization in this very large and pervasive gold system within the Timiskaming sediments and characterised by wide lower grade zones, enhanced with higher grade intervals.

### **PORCUPINE CAMP**

Moneta continues to maintain a large land holding in Porcupine Gold Camp which includes the gold properties North Tisdale, Nighthawk Lake, Kayorum, and Denton-Thorneloe. No exploration work was carried out in 2012 on the Nighthawk Lake, Kayorum or Denton-Thorneloe properties. Additional properties with strategic value are historical base metal projects and include Loveland Nickel, Kamiskotia, and Fripp.

#### ***Porcupine Gold Exploration Program 2012***

##### **Kayorum Project / Moneta Mine**

The Moneta Mine mined the continuation of Hollinger Mine veining across the property boundary from 1938 to 1943 with a total production of 149,250 oz gold from 314,829 tons at an average grade of 0.47 oz/t.

In late 2010 Moneta initiated geotechnical work including geophysics and diamond drilling as well progressive rehabilitation of identified hazards (capping a fill raise and small historical shaft). Work was completed in 2011 to facilitate a closure plan for the Ministry of Northern Development Mines and Forestry. Revisions to the closure plan are under discussion with the MNDM with finalization expected shortly.

The immediately adjacent Hollinger Mine pit project is currently under development. The project envisions a 200-250 metre deep multiple phase open pit based on a 2010 resource of 3.47Mozs and 782,000 oz in reserves. Exploration drill programs have also identified several underground mining opportunities by ramp and existing underground infrastructure for both the Hollinger (Millerton) and McIntyre (Central Porphyry Zone) mines.

### **FINANCIAL REVIEW**

These unaudited interim consolidated financial statements, including comparatives, have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As a result of these risks, there is significant doubt as to the appropriateness of the going concern assumption. There is no assurance that the Company's funding initiatives will continue to be successful and these financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material. The Company will have to raise additional funds to advance its exploration and development efforts and, while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.





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This section discusses significant changes in the Consolidated Statements of Financial Position, the Statements of Shareholders' Equity, the Statements of Net Loss (Earnings) Comprehensive Loss (Earnings) and Deficit, and the Statements of Cash Flows for the six month periods ended June 30, 2012 and 2011.

**SUMMARY OF QUARTERLY RESULTS**

The following table summarizes the Company's key consolidated financial information for the last eight quarters:

| (\$ except per share data)                            | 2012             |                  | 2011      |           |           |           | 2010 (restated under IFRS) |           |
|---|------------------|------------------|-----------|-----------|-----------|-----------|----------------------------|-----------|
|   | June             | Mar              | Dec       | Sep       | June      | Mar       | Dec                        | Sep       |
| Revenue   | -                | -                | -         | -         | -         | -         | -                          | -         |
| Net loss (earnings) and comprehensive loss (earnings) | <b>1,153,284</b> | <b>(590,104)</b> | 1,429,293 | 1,232,403 | 1,916,199 | 1,292,252 | 3,022,746                  | 1,232,403 |
| Net loss per share                                    | <b>\$0.01</b>    | <b>\$0.00</b>    | 0.01      | 0.01      | 0.01      | 0.01      | 0.01                       | 0.01      |

**SIGNIFICANT EVENTS DURING THE SECOND QUARTER 2012**

Exploration and evaluation expenditures, previously capitalized under Canadian GAAP, are now expensed under IFRS. A total of \$1,143,637 was incurred during Q2 2012 (YTD 2012: \$2,053,446) as compared to \$1,503,220 in Q2 2011 (YTD 2011: \$2,645,230). Drilling was primarily focused on the Company's Golden Highway Project, as explained above under **RESULTS OF OPERATIONS**.

**CONSOLIDATED OPERATING RESULTS**

This section should be read in conjunction with the Unaudited Interim Consolidated Statements of Net Loss (Earnings) Comprehensive Loss (Earnings) and Deficit for the six month periods ended June 30, 2012 and 2011 and the corresponding notes thereto. All references to years "2012" or "2011" relate to the six month periods ended June 30 of those years unless stated otherwise. Moneta has not generated any material operating revenues as it is in the exploration and development stage and, therefore, operating losses are anticipated to continue in the future.

Moneta reported net loss and comprehensive loss of \$1,153,284 in Q2 2012 (YTD 2012: \$563,180) as compared to a net loss and comprehensive loss of \$1,916,199 in Q2 2011 (YTD 2011: \$3,208,451).

Exploration and evaluation expenditures were \$1,143,637 in Q2 2012 (YTD 2012: \$2,053,446) as compared to \$1,503,220 in Q2 2011 (YTD 2011: \$2,645,230), representing a decline in year over year exploration expenditures given difficult market conditions. Stock-based compensation charges related to options vested during the period was \$5,402 in Q2 2012 (YTD 2012: \$10,777) as compared to \$253,251 in Q2 2011 (YTD 2011: \$276,240). Management fees, wages and tax benefits were \$53,642 in Q2 2012 (YTD 2012: \$107,089) as compared to \$54,965 in Q2 2011 (YTD 2011: \$104,965). General & administration expenses were \$35,298 in Q2 2012 (YTD 2012: \$79,291), largely unchanged from \$41,938 in Q2 2011 (YTD 2011: \$78,849). Legal and audit expenses were \$18,445 in Q2 2012 (YTD 2012: \$26,321), as compared to \$43,181 in Q2 2011 (YTD 2011: \$57,417). The unrealized loss on investments held for trading, resulting from market value fluctuations, was \$465 in Q2 2012 (YTD 2012: \$NIL), as compared to a unrealized loss of \$4,653 in Q2 2011 (YTD 2011: \$5,584). Travel and promotion expenses were \$6,568 in Q2 2012 (YTD 2012: \$14,005), as compared to \$30,568 in Q2 2011 (YTD 2011: \$60,819), representing a significant decline in investor relations efforts given current market interest in junior exploration companies such as Moneta. Other income was \$106,966 in Q2 2012 (YTD 2012: \$118,798), as compared to \$4,250 in Q2 2011 (YTD 2011: \$7,531). The significant increase primarily relates to the sale of certain historical data in Q2 2012, with no period over period change in minor royalty income from a perlite operation. Interest income was \$3,207 in Q2 2012 (YTD 2012: \$8,951), as compared to \$11,327 in Q2 2011 (YTD 2011: \$13,122). The decrease relates to interest earned on lower cash and equivalent balances in 2012 as compared to 2011.



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Deferred tax recovery in 2012 was \$1,600,000 as compared to \$NIL in 2011 and relates to the non-cash 'deferred premium on flow through shares' liability of \$1,600,000 on the statement of financial position as a credit to deferred tax recovery on the consolidated statements of net loss (earnings), comprehensive loss (earnings) and deficit on the renunciation, in the normal course, of \$5,600,000 in expenditures on flow-through common shares issued in March 2011.

### **CONSOLIDATED FINANCIAL POSITION**

This section should be read in conjunction with the Unaudited Interim Consolidated Statements of Changes in Financial Position and Statements of Changes in Shareholders' Equity as at June 30, 2012 and 2011 and the corresponding notes thereto.

#### **Consolidated assets**

Consolidated assets were \$4,756,313 at June 30, 2012 as compared to \$4,118,010, as at December 31, 2011. Cash and equivalents was \$3,025,255 at June 30, 2012 as compared to \$2,120,138 at December 31, 2011.

Exploration and evaluation assets were \$1,668,901 at June 30, 2012 as compared to \$1,650,268, at December 31, 2011, resulting in the capitalization of project acquisition costs and expensing of historically capitalized (deferred) exploration expenditures.

#### **Consolidated liabilities**

Consolidated liabilities, excluding the 'deferred premium on flow through shares' liability of \$NIL (2011 - \$1,600,000), were \$463,608 at June 30, 2012 as compared to \$384,196 at December 31, 2011.

In March 2012, the Company renounced, in the normal course, \$5,600,000 of expenditures on flow-through common shares issued in March 2011. As a result, the non-cash 'deferred premium on flow-through shares' liability of \$1,600,000 was transferred from the statement of financial position to a deferred tax recovery credit on the consolidated statements of net loss (earnings), comprehensive loss (earnings) and deficit.

#### **Shareholders' equity**

Shareholders' equity was \$4,292,705 at June 30, 2012 as compared to \$2,133,814 at December 31, 2011. The increase is primarily due to the \$3,000,000 financing completed in March 2012, offset by the net loss and comprehensive loss of \$563,180 for the six month period ended June 30, 2012.

### **LIQUIDITY AND CAPITAL RESOURCES**

This section should be read in conjunction with the Unaudited Interim Consolidated Statements of Financial Position as at June 30, 2012 and 2011 and the corresponding notes thereto.

The consolidated working capital ratio at June 30, 2012, excluding the non-cash 'deferred premium on flow-through shares' liability, was 6.7 : 1 as compared to 6.4 : 1 at December 31, 2011.

In March 2012, the Company completed a brokered private placement financing and issued 10,000,000 common shares at \$0.30 per share for gross proceeds of \$3,000,000.



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The Company held \$3,025,255 in cash and equivalents at June 30, 2012 (December 31, 2011 - \$2,120,138), \$43,974 (December 31, 2011 - \$307,296) in sales taxes recoverable, and \$NIL (December 31, 2011 - \$21,704) in short term interest receivable.

Current liabilities at June 30, 2012 include accounts payable and accrued liabilities of \$463,608 (December 31, 2011 - \$384,196) primarily related to unpaid exploration and evaluation expenditures incurred during the quarter and payable in the normal course.

In March 2012, the Company renounced, in the normal course, \$5,600,000 of expenditures on flow-through common shares issued in March 2011. As a result, the non-cash 'deferred premium on flow-through shares' liability of \$1,600,000 was transferred from the statement of financial position to a deferred tax recovery credit on the consolidated statements of net loss (earnings), comprehensive loss (earnings) and deficit.

The Company manages capital, based on its cash and equivalents and ongoing working capital, with an objective of safeguarding the Company's ability to continue as a going concern, maximizing the funds invested into exploration and development activities, exploring and developing gold resources, and considering additional financings which minimize shareholder dilution. There were no changes in the Company's approach to capital management during the six months ended June 30, 2012.

The Company's capital structure reflects a company focused on mineral exploration and financing both internal and external growth opportunities. The exploration for and development of mineral deposits involves significant risk which even a combination of careful evaluation, experience and knowledge may not adequately mitigate.

The Company manages capital in proportion to risk and manages the mineral properties and capital structure based on economic conditions and prevailing gold commodity pricing and trends. The Company relies on equity financings to maintain adequate liquidity to support its ongoing exploration and development activities and ongoing working capital commitments.

Moneta has not earned significant revenues to date. As a result, the most meaningful information concerning the Company's financial position relates to its liquidity and solvency position. The Company raises funds for its operations primarily through the issuance of common shares.

The Company has sufficient working capital to meet its current obligations and currently planned operating costs and expenditures on its mineral properties. The Company intends to strategically advance its *Golden Highway Project* by way of additional exploration programs. Moneta intends to seek additional capital resources required from equity financings including flow-through. Although the Company has been successful in the past in raising funds, there can be no assurance that any funding required by the Company in the future will be available to it and, if such funding is available, that it will be offered on reasonable terms. In the event the Company is unsuccessful at raising such funds, it may not be able to continue as a going concern. Moneta has no material commitments or contractual obligations with respect to the development of any mineral properties beyond those that would be considered as part of normal business.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

The Company has no off-balance sheet arrangements.



### **TRANSACTIONS WITH RELATED PARTIES**

The Company paid salary of \$100,000 (2011 - \$100,000) to an officer and director for the six month period ended June 30, 2012. The compensation was for services provided to the Company under an ongoing employment contract.

The Company paid consulting fees of \$40,500 (2011 - \$48,230) to a related individual for the six month period ended June 30, 2012. The fees were for management consulting services provided to the Company.

Directors' fees of \$14,784 (2011 - \$10,000) were expensed during the six month period ended June 30, 2012, with \$6,284 payable at June 30, 2012.

All related party transactions were completed in the normal course of business at the exchange amounts. There were no stock options issued during the period. There were no loans to Directors or Officers during the period (2011: \$Nil).

### **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

The Chief Executive Officer ("CEO") and interim Chief Financial Officer ("CFO") of the Company are responsible for establishing and maintaining the Company's disclosure controls and procedures ("DC&P") and for designing internal controls over financial reporting ("ICFR"). The objective is to ensure that all transactions are properly authorized, identified and entered into the accounting system on a timely basis to minimize: risk of inaccuracy; failure to fairly reflect transactions; failure to fairly record transactions necessary to present financial statements in accordance with IFRS; unauthorized receipts and expenditures; and the inability to provide assurance that unauthorized acquisitions or dispositions of assets can be detected. The Company's system of internal controls provides for separation of the duties of receiving, approving, coding and handling invoices and of entering transactions into the accounts, and includes a requirement of two signatures for all payments made by cheque or wire funds.

The CEO and CFO evaluated the effectiveness of the Company's DC&P and ICFR as required by National Instrument 52-109 issued by the Canadian Securities Administrators. As at June 30, 2012, the CEO and the CFO evaluated the design and operation of the Company's DC&P as well as the design and operating effectiveness of the Company's ICFR. Based on that evaluation, the CEO and CFO concluded that the Company's DC&P and ICFR were effective as at June 30, 2012. The CEO and CFO also concluded that no material weaknesses existed in the design of the ICFR.

### **CRITICAL ACCOUNTING ESTIMATES**

Moneta's significant accounting policies are summarized in notes 2 to the unaudited interim consolidated financial statements for the six month period ended June 30, 2012.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include, but are not limited to, the determination of carrying value of exploration and evaluation assets, the valuation of share-based compensation transactions, the valuation of purchase warrants issued on financings, deferred income tax assets and liabilities, and accrued liabilities and contingencies. Estimates and assumptions are regularly evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.



### **Exploration and evaluation expenditures**

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits are likely either from future exploitation or sale of the project, or where exploration activities are not adequately advanced to support a gold resource assessment. The determination is an estimation process that requires varying degrees of uncertainty and these estimates directly impact the deferral of exploration and evaluation expenditures.

### **Decommissioning and restoration provision**

The Company records the fair value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation, and re-vegetation of affected areas.

The estimated fair value of a liability, and corresponding increase in the related property, is reported in the year in which it is incurred and when a reasonable estimate of fair value can be made. The fair value is the amount at which that liability could be settled in a current transaction between willing parties, that is, other than in a forced or liquidation transaction and, in the absence of observable market transactions, is determined as the present value of expected cash flows. The Company subsequently allocates the cost to expense using a systematic and rational method over its useful life, and records the accretion of the liability as a charge to the Consolidated Statements of Net Loss (Earnings), Comprehensive Loss (Earnings).

As the Company has not commenced construction and development of any mining operations it does not have any provisions for decommissioning or restoration costs.

### **Share-based compensation transactions**

#### ***Stock options***

The fair value of stock options granted to directors, officers, and employees is measured at grant date using the Black-Scholes valuation model using assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares, expected forfeitures and expected life of the options. The fair value of this share-based payment is recognized as a charge to the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings) with a corresponding credit to shareholders' equity on the Consolidated Statements of Financial Position.

The fair value of stock options, subject to a vesting schedule, is recognized using the accelerated method and is measured using Black Scholes and assumptions at the time of vesting. The applicable fair value of any stock options which are exercised are transferred from contributed surplus to capital stock. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.

#### ***Share-based payments to non-employees***

Share-based payments granted to non-employees are measured at the fair value of the goods or services received. In the event the Company cannot reasonably estimate the fair value of goods or services received, the transaction is recorded at the estimated value of the underlying equity instrument, measured at the date the Company obtains the goods or the counterparty renders the service. Management is required to estimate forfeitures, and revise its estimates of the number of stock options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period.



### **Flow-through shares**

The Company will, from time to time, issue flow-through shares to finance a portion of its exploration programs. Pursuant to the terms of flow-through share agreements, the Company agrees to incur qualifying expenditures and renounce the tax deductions associated with these qualifying expenditures to the flow-through subscribers at an agreed upon date.

Flow-through shares are reported at issue price. If the flow-through shares are issued at a premium to the market price of non-flow through or hard dollar shares at the date of announcement, such premium or excess proceeds is reported as a liability on the Consolidated Statements of Financial Position. The subsequent renunciation of such qualifying expenditures incurred by the Company in favour of the flow-through subscribers is reported as a reduction in the 'deferred premium on flow-through shares' liability on the Consolidated Statements of Financial Position and a corresponding reduction in deferred tax expense on the Consolidated Statements of Net Loss (Earnings) and Comprehensive Loss (Earnings).

### **Warrants**

The valuation of warrants includes estimates of risk-free interest rates, volatility of the Company's share price and expected life of the warrants. By their nature, these estimates are subject to measurement uncertainty and could materially impact the financial statements.

### **Income taxes**

Income taxes are calculated using the asset and liability method. Under this method, deferred income tax assets and liabilities are recognized for timing differences between the tax and accounting basis of assets and liabilities, and for the recognition of accumulated capital and non-capital losses, which in the opinion of management, are more likely than not to be realized before expiry.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be in effect in the period when the asset is expected to be realized or the liability is expected to be settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The effect on deferred income tax assets and liabilities resulting from a change in enacted tax rates is included in income in the year in which the change is enacted or substantively enacted. Deferred income taxes related to flow-through share tax deductions are recognized in the year in which they are renounced.

### **Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

## **CHANGES IN ACCOUNTING POLICIES**

The unaudited interim consolidated financial statements for the six month period ended June 30, 2012 were prepared in accordance with IFRS, as issued by the International Accounting Standards Board and applicable to the preparation of interim consolidated financial statements, including International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). The policies applied in the financial statements for the six month period ended June 30, 2012 are consistent with the policies disclosed in Note 2 to the audited annual consolidated financial statements for the year ended December 31, 2011.



### **Recent Accounting Pronouncements**

The Company is currently evaluating the impact on its consolidated financial statements of recent accounting pronouncements, as follows:

#### **IFRS 9 Financial Instruments**

IFRS 9, Financial Instruments was issued by the IASB and will 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 through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

#### **IFRS 10 Consolidated Financial Statements**

IFRS 10, Consolidated Financial Statements was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 11 Joint Arrangements**

IFRS 11, Joint Arrangements supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by joint venture partners. IFRS 11 requires a joint venture partner to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the joint venture partners will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 12 Disclosures of Interests in Other Entities**

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

#### **IFRS 13 Fair Value Measurement**

IFRS 13, Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.



## **FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS**

The Company's financial risk management goals are to ensure that the outcome of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate risk/reward balance and protecting the Company's consolidated balance sheet from events that have the potential to materially impair its financial strength. Balancing risk and reward is achieved through identifying risk appropriately, aligning risk with overall exploration and development strategy, diversifying risk, mitigation through preventive controls, and transferring risk to third parties.

### **Fair value**

The carrying values for primary financial instruments, including cash and equivalents, sales taxes recoverable, Interest receivable, and accounts payable and accrued liabilities approximate fair values due to their short-term maturities. The Company's exposure to potential loss from financial instruments relates primarily to its cash and equivalents held with Canadian financial institutions.

There have been no major or significant changes that have had an impact on the overall risk assessment of the Company during the period. The objectives and strategy for the exploration and evaluation asset portfolio remains unchanged.

The Company's exploration and development activities expose it to the following financial risks:

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's exposure to credit risk is concentrated in three specific areas: the credit risk on operating balances including sales taxes recoverable, interest receivable on short term deposits, and cash and equivalents held with Canadian financial institutions. The maximum exposure to credit risk is equal to the carrying values of these financial assets.

The aggregate gross credit risk exposure at June 30, 2012 was \$3,069,229 (December 31, 2011 - \$2,449,138), and was comprised of \$43,974 (December 31, 2011 - \$307,296) in harmonized sales taxes recoverable, \$NIL (December 31, 2011 - \$21,704) in interest receivable, and \$3,025,255 (December 31, 2011 - \$2,120,138) in cash and equivalents held with Canadian financial institutions with a "AA" credit rating.

### **Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, such as foreign currency exchange rates, commodity prices, interest rates and liquidity. A discussion of the Company's primary market risk exposures, and how those exposures are currently managed, follows:

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's financial assets and liabilities and operating costs are principally denominated in Canadian dollars. The Company has historically had insignificant operations in United States ("US") dollars. The Company has no US dollar hedging program due to its minimal exposure to financial gain or loss as a result of foreign exchange movements against the Canadian dollar.





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*Commodity price risk*

Commodity prices, and in particular gold spot prices, fluctuate and are affected by factors outside of the Company's control. The current and expected future spot prices have a significant impact on the market sentiment for investment in mineral exploration companies and may impact the Company's ability to raise equity financing for its ongoing working capital requirements.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time.

*Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The purpose of liquidity management is to ensure that there will be sufficient cash to meet all financial commitments and working capital obligations as they become due. To manage cash flow requirements, the Company maintains principally all its assets in cash and equivalents.

**Sensitivity Analysis**

The Company believes that the movements in investments held for trading that are reasonably possible over the next twelve-month period will not have a significant impact on the Company. The Company believes that its cash position and short term investments provide adequate liquidity to meet all of the Company's near-term obligations.

**CONTINGENT LIABILITIES**

***Order to file closure plan on Moneta Mine***

Pursuant to an Order received from the Mining and Lands Commissioner related to the Company's historic Moneta Mine, located on the Company's Kayorum project, the Company undertook necessary steps and submitted the mine closure plan on July 31, 2011.

The Company's geotechnical consultant prepared the mine closure plan to identify and evaluate the former mine hazards and provided direction on geotechnical drilling completed by the Company during 2011. Although beyond the scope of work required by the Order, the Company elected to complete progressive rehabilitation of certain mine hazards, where feasible.

The Ministry of Northern Development Mines ("**MNDM**") provided comments on the closure plan in November 2011. The Company submitted an amended closure plan in December 2011 addressing the minor comments. The MNDM provided further comments on the amended closure plan in February 2012. The Company responded by submitting a proposal resolve the minor outstanding issues. The MNDM responded in July 2012 and the Company is currently evaluating its options on moving forward to close this matter.

***Civil lawsuits***

Two parties which owned the surface rights and occupied buildings on the site of the former Moneta Mine, filed suit in 2005 against the Company, its directors and other third parties claiming damages related to the mine subsidence. One of these parties also brought a claim for compensation under the Ontario Mining Act which was dismissed by the Mining Commissioner in March 2008. The Company believes the claims have no merit and intends to defend such claims vigorously. Accordingly, no provision has been made in these financial statements for these claims.



**MONETA PORCUPINE MINES INC.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the six month periods June 30, 2012 and 2011

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**OUTSTANDING SHARE DATA**

As of June 30, 2012, the Company has a total of 167,772,419 (December 31, 2011 - 157,752,419) common shares outstanding and 4,499,083 (December 31, 2011 - 4,499,083) stock options outstanding with an average exercise price of \$0.21 (December 31, 2011 - \$0.25) per share. Additional details are available in note 4 to the unaudited interim consolidated financial statements for the six months ended June 30, 2012.