

**RED MILE MINERALS CORP.**  
**INTERIM STATEMENTS OF FINANCIAL POSITION**  
**Unaudited**  
*Prepared by management*

	<b>March 31 2011</b>	<b>December 31 2010 (Note 13)</b>	<b>January 1 2010 (Note 13)</b>
<b>ASSETS</b>			
<b>Current</b>			
Cash	\$ 378,117	\$ 499,367	\$ 93,382
Term deposits	-	-	500,000
Receivables	14,460	4,786	4,120
Prepaid expenses	-	6,195	-
	<u>392,577</u>	<u>510,348</u>	<u>597,502</u>
<b>Computer software (Note 6)</b>	-	-	3,420
<b>Advance on mineral property agreement (Note 7)</b>	-	-	20,000
<b>Exploration and evaluation expenditures (Note 7)</b>	<u>611,229</u>	<u>477,531</u>	<u>-</u>
	<u>\$ 1,003,806</u>	<u>\$ 987,879</u>	<u>\$ 620,922</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities \$ 107,969 \$ 42,011 \$ 56,458

**Unrenounced flow-through share premium (Note 8)**

35,826 60,500 -  
143,795 102,511 56,458

**Shareholders' Equity**

Share capital (Note 8) 1,407,846 1,403,127 837,102

Reserves (Note 8) 153,826 178,245 137,815

Deficit (701,661) (696,004) (410,453)

860,011 885,368 564,464

\$ 1,003,806 \$ 987,879 \$ 620,922

**Nature of business and going concern (Note 1)**

**Contingency (Note 12)**

**On behalf of the Board:**

*"John V. Hickey"*

Director

*"Robert Matheson"*

Director

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

**RED MILE MINERALS CORP.**  
**INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

**Unaudited**

*Prepared by management*

	<b>2011</b>	<b>2010</b>
		<b>(Note 13)</b>
<b>EXPENSES</b>		
Accounting fees	\$ -	\$ 3,510
Amortization	-	855
Consulting fees	-	9,333
Corporate administration fees	1,535	6,175
Management and financial consulting	21,365	-
Office and miscellaneous	958	730
Professional fees	7,834	41,778
Promotion and advertising	7,661	6,733
Regulatory fees and transfer agent fees	11,485	12,531
Rent	4,500	-
Stock-based compensation (Note 10)	-	10,350
Telephone	1,200	368
Travel and related costs	212	100
Loss before other item	(56,750)	(92,463)
<b>OTHER ITEM</b>		
Interest income	-	519
Loss before income taxes	(56,750)	(91,944)
Deferred income tax recovery	26,674	-
<b>Loss and comprehensive loss for the period</b>	<b>(30,076)</b>	<b>(91,944)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares</b>		
<b>outstanding during the period</b>	<b>13,690,000</b>	<b>8,606,167</b>

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

**RED MILE CAPITAL CORP.**  
**INTERIM STATEMENT OF SHAREHOLDERS' EQUITY**  
**MARCH 31, 2011**  
**Unaudited**

*Prepared by management*

	Common Shares		Share-based Payments		Deficit	Total
	Number	\$	Reserve	\$		
Balance at January 1, 2010	6,200,000	\$ 837,102	\$ 137,815	\$ (410,453)	\$ 564,464	
Private placement	3,725,000	435,000	-	-	435,000	
Share-based payments for the acquisition of properties	3,680,000	223,050	-	-	223,050	
Share-based payments for services	85,000	7,000	-	-	7,000	
Fair value of warrants issued for property	-	-	20,000	-	20,000	
Fair value of finders' warrants	-	(10,080)	10,080	-	-	
Share issue costs	-	(18,445)	-	-	(18,445)	
Share subscriptions receivable	-	(10,000)	-	-	(10,000)	
Stock-based compensation	-	-	10,350	-	10,350	
Premium on flow-through shares	-	(60,500)	-	-	(60,500)	
Loss for the year	-	-	-	(285,551)	(285,551)	
Balance at December 31, 2010	13,690,000	1,403,127	178,245	(696,004)	885,368	
Share issue costs	-	(3,281)	-	-	(3,281)	
Share subscriptions received	-	10,000	-	-	10,000	
Expiry of options	-	-	(24,419)	24,419	-	
Premium on flow-through shares	-	(2,000)	-	-	(2,000)	
Loss for the period	-	-	-	(30,076)	(30,076)	
Balance at March 31, 2011	13,690,000	\$ 1,407,846	\$ 153,826	\$ (701,661)	\$ 860,011	

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

**RED MILE MINERALS CORP.**  
**INTERIM STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
**Unaudited**

*Prepared by management*

	<b>2011</b>	<b>2010</b>
		<b>(Note 13)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (30,076)	\$ (91,944)
Items not affecting cash:		
Amortization	-	855
Stock-based compensation	-	10,350
Deferred income tax recovery	(26,674)	-
	<u>(56,750)</u>	<u>(80,739)</u>
Changes in non-cash working capital items:		
Increase in receivables	(9,674)	(3,425)
Decrease in prepaid expenses	6,195	-
Increase (decrease) in accounts payable and accrued liabilities	1,958	(30,230)
Net cash used in operating activities	<u>(58,271)</u>	<u>(114,394)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Term deposits	-	50,000
Exploration and evaluation expenditures	(69,698)	(1,898)
Net cash provided by investing activities	<u>(69,698)</u>	<u>48,102</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued for cash	10,000	-
Share issue costs	(3,281)	-
Net cash provided by financing activities	<u>6,719</u>	<u>-</u>
<b>Change in cash during the period</b>	<b>(121,250)</b>	<b>(66,292)</b>
<b>Cash, beginning of period</b>	<b>499,367</b>	<b>93,382</b>
<b>Cash, end of period</b>	<b>\$ 378,117</b>	<b>\$ 27,090</b>

**Supplemental disclosure with respect to cash flows (Note 11)**

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

**RED MILE MINERALS CORP.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2011**

**Unaudited**

*Prepared by management*

**Note 1 NATURE OF BUSINESS AND GOING CONCERN**

Red Mile Minerals Corp (the "Company") was incorporated under the Business Corporations Act of Alberta on May 31, 2007 as a Capital Pool Company ("CPC") as defined by Policy 2.4 of the TSX Venture Exchange (the "TSXV"). Effective February 17, 2010, the Company changed its name from Red Mile Capital Corp. to Red Mile Minerals Corp. During the 2010 year, the Company completed its Qualifying Transaction by acquiring from Russet Lake Resources Inc. all of Russet Lake's interest in the Blue Quartz gold property located in Beatty Township, Ontario. See Mineral Property, Note 7. Effective January 19, 2010, the Company was no longer considered a capital pool company.

The head office, principal address and records office of the Company are located at 1066 West Hastings Street, Suite 2300, Vancouver, British Columbia, Canada, V6E 3X2. The Company's registered address is 1199 West Hastings Street, Suite 950, Vancouver, British Columbia, Canada, V6E 3T5.

The Company incurred a net loss of \$30,076 (2010: \$91,944) for the period ended March 31, 2011 and had an accumulated deficit of \$701,661 at March 31, 2011 which has been funded primarily by the issuance of equity. The ability of the Company to continue as a going concern is uncertain and is dependent upon the ability of the Company to obtain additional financing. In the event the additional financial support is not received, the carrying value of the Company's assets may be adversely affected.

These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern.

**Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Statement of compliance and conversion to International Financial Reporting Standards

The interim financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). Therefore, these financial statements comply with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

This interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2010. However, this interim financial report, being the first IFRS financial report, provides selected significant disclosures that are required in the annual financial statements under IFRS. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 13.

Basis of presentation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

**RED MILE MINERALS CORP.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2011**

**Unaudited**

*Prepared by management*

**Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Significant accounting judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously 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.

Areas requiring a significant degree of estimation and judgment relate to the determination of the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

Term deposits

Term deposits consist of highly liquid short-term interest bearing securities with a term to maturity of greater than three months on the date of purchase.

Financial instruments

The Company classifies financial assets and liabilities as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are recognized at fair value on their initial recognition.

Financial assets and liabilities classified as held-for-trading are measured at fair value, with gains and losses recognized in net income. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities other than those classified as held-for-trading are measured at amortized cost, using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value, with unrealized gains and losses being recognized as other comprehensive income until realized, or if an unrealized loss is considered other than temporary, the unrealized loss is recorded in income. The Company has elected to account for transaction costs related to the issuance of financial instruments as a reduction of the carrying value of the related financial instruments.

**Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Financial instruments (cont'd)

The Company classifies its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

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

Level 2 – inputs other than quoted prices included in Level

1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company classifies its cash and term deposits as held-for-trading and accounts payable as other financial liabilities.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

**RED MILE MINERALS CORP.**  
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**Note 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. For those options that expire after vesting, the recorded value is transferred retained earnings (deficit).

Income taxes

Deferred income tax

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability (“flow-through tax liability”) and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

**Note 3 ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

Amendments to IFRS 7 “Financial Instruments: Disclosures”

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011

**RED MILE MINERALS CORP.**  
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**Note 3      ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)**

New standard IFRS 9 “Financial Instruments”

This new standard is a partial replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. This new standard is effective for annual periods beginning on or after January 1, 2013.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on the consolidated financial statements.

**RED MILE MINERALS CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Note 4 FINANCIAL INSTRUMENTS AND RISK**

Financial Instruments

The following table summarizes information regarding the carrying values of the Company's financial instruments:

	<b>March 31</b>	<b>December 31</b>	<b>January 1</b>
	<b>2011</b>	<b>2010</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash – Held-for-trading	499,367	499,367	93,382
Term deposits – Held-for-trading	-	-	500,000
Accounts payable - Other financial liabilities	24,920	22,111	46,918

The estimated fair values of cash, term deposits and accounts payable approximate their respective carrying values due to their nature and short terms to maturity.

Credit Risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's maximum credit risk is \$499,367 consisting of cash. The Company limits its exposure to credit loss for cash by placing such instruments with high credit quality financial institutions. The values of these instruments may exceed amounts insured by an agency of the government of Canada. In management's opinion, the Company's credit risk related to cash is minimal.

Liquidity Risk

The Company's manages its liquidity risk in order to ensure that it will have sufficient financial resources to meet liabilities when due. As at March 31, 2011, the Company had working capital of \$284,608. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. As at March 31, 2011, the Company has adequate working capital to discharge its existing financial obligations. The Company does not have investments in any asset backed deposits.

Foreign Exchange Risk

The Company does not have significant foreign exchange risk as its administrative operations are all in Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market interest rates. The Company's exposure relates to its ability to earn short term interest on cash and term deposit balances at variable rates. The Company has no long-term debt and therefore is not affected by changes in long-term interest rates. With respect to interest rate risk management, the Company is at risk to open market fluctuation in interest rates.

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NOTES TO FINANCIAL STATEMENTS  
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**Note 4 FINANCIAL INSTRUMENTS AND RISK (cont'd)**

Commodity Price Risk

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

Fair Value Measurements

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

At March 31, 2011, the Company had cash on its balance sheet, measured at fair value using Level 1 of the hierarchy, in the amount of \$378,117 (December 31, 2010 – 499,367; January 31, 2010 - \$93,382).

**Note 5 MANAGEMENT OF CAPITAL**

The Company defines capital as all components of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but, rather, relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. As at March 31, 2011, the Company had capital resources consisting of cash and term deposits. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts through share issuances as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

The Company's investment policy is to invest in investment instruments in high credit quality financial institutions with terms to maturity selected with regards to the expected time of expenditures from continuing operations.

**RED MILE MINERALS CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Unaudited**

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**Note 6 COMPUTER SOFTWARE**

	March 31, 2011			December 31,	January 1,
	Cost	Accumulated Amortization	Net Book Value	2010 Net Book Value	2010 Net Book Value
Computer software	\$ 4,560	\$ 4,560	\$ -	\$ -	\$ 3,420

**Note 7 EXPLORATION AND EVALUATION ASSETS**

	Blue Quartz Property	Dorset Property	Total March 31, 2011
<b>Acquisition and maintenance costs</b>			
Balance, beginning of period	\$ 252,817	\$ 22,500	\$ 275,317
Additions during the period:			
Mining and property taxes	327	-	327
Balance, end of period	253,144	22,500	275,644
<b>Deferred exploration costs</b>			
Balance, beginning of period	202,214	-	202,214
Additions during the period:			
Licencing and claim maintenance	-	7,363	7,363
Line cutting	-	22,700	22,700
Surveys	-	103,308	103,308
Balance, end of period	202,214	133,371	335,585
Option agreement payment	-	-	-
<b>Total, end of period</b>	<b>\$ 455,358</b>	<b>\$ 155,871</b>	<b>\$ 611,229</b>

**RED MILE MINERALS CORP.**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED MARCH 31, 2011**

**Unaudited**

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**Note 7 EXPLORATION AND EVALUATION ASSETS (cont'd)**

	<b>Blue Quartz Property</b>	<b>Dorset Property</b>	<b>Total December 31, 2010</b>
<b>Acquisition and maintenance costs</b>			
Balance, beginning of year	\$ -	\$ -	\$ -
Additions during the year:			
Cash paid	20,000	-	20,000
Advances applied to acquisition	20,000	-	20,000
Fair value of shares issued	220,550	2,500	223,050
Fair value of warrants issued	-	20,000	20,000
Mining and property taxes	2,267	-	2,267
Balance, end of year	262,817	22,500	285,317
<b>Deferred exploration costs</b>			
Balance, beginning of year	-	-	-
Additions during the year			
Assays, testing and analysis	9,170	-	9,170
Camp construction and supplies	7,089	-	7,089
Diamond drilling	136,960	-	136,960
Geology, geophysics and prospecting	42,934	-	42,934
Transportation and travel	6,061	-	6,061
Balance, end of year	202,214	-	202,214
Option agreement payment	(10,000)	-	(10,000)
<b>Total, end of year</b>	<b>\$ 455,031</b>	<b>\$ 22,500</b>	<b>\$ 477,531</b>

**Blue Quartz Property, Ontario**

During the year ended December 31, 2009, the Company entered into an agreement with Russet Lake Resources Inc. (Russet Lake) to acquire a 100% interest in the Blue Quartz gold property located in northern Ontario. Russet Lake holds an option to acquire the 100% interest subject to net smelter return (NSR) royalties of 2.5%.

During the year ended December 31, 2010, the agreement received regulatory approval and the acquisition was completed. In order to acquire this interest, the Company has issued a total of 3,655,000 of its common shares (valued at \$220,500) and made cash payments of \$40,000. The Company must also make a cash payment of \$20,000, issue 100,000 of the Company's common shares, and complete \$250,000 in work expenditures on or before September 1, 2011.

Up to an aggregate 0.5% of the NSR can be bought back for \$500,000.

Also, during the year ended December 31, 2010, the Company entered into an option agreement whereby the optionee can earn 50% of the Company's interest in the property by making a cash payment of \$10,000 (received) and spending a minimum of \$200,000 in exploration and development expenditures on or before September 1, 2011. Upon earning the 50% interest, the optionee will have right of first refusal for the remaining 50%

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**Note 7 EXPLORATION AND EVALUATION ASSETS (cont'd)**

**Dorset Property, Newfoundland**

On October 18, 2010, the Company entered into an option agreement to earn a 100% interest in the Dorset gold property located in northern Newfoundland. In order to acquire this interest, the Company issued 25,000 common shares (valued at \$2,500) and must issue a further 75,000 shares at 6 month intervals within 18 months of the signing date of the agreement. The Company has also issued 250,000 common share purchase warrants (valued at \$20,000) and must issue a further 750,000 warrants at 6 month intervals within 18 months of the signing date of the agreement. The Company must also incur exploration expenses of not less than \$750,000 by October 18, 2015.

The property is subject to a 2.5% NSR. The Company may purchase 40% of the NSR for \$1,000,000.

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**Note 8 SHARE CAPITAL**

**Authorized**

Unlimited common voting shares, without par value

Unlimited preferred shares, without par value

**Issued share capital**

At March 31, 2011, there were 13,690,000 issued and fully paid common shares (December 31, 2010 – 13,690,000).

**Share issuances**

During the year ended December 31, 2010, the Company completed the following share transactions:

- a) issued 1,225,000 units at a price of \$0.10 per unit and 2,500,000 flow-through units at \$0.125 for total proceeds of \$435,000 by way of a non-brokered private placement. Each non-flow-through unit consisted of one common share and one common share purchase warrant exercisable for two years at a price of \$0.20. Each flow-through unit consisted of one flow-through common share and one-half of one common share purchase warrant, each whole warrant exercisable for two years at a price of \$0.25;
- b) issued 25,000 non-flow-through units and 168,000 common share purchase warrants as finders' fees on completion of the private placement. The finders' units bear the same rights as the non-flow-through units of the private placement. The finders' warrants are exercisable for a period of one year at a price of \$0.10. The Company also paid \$10,000 in finders' fees.
- c) issued a total of 3,655,000 shares with a fair value of \$220,500 as part of the acquisition of the Blue Quartz property (Note 7);
- d) issued 25,000 shares with a fair value of \$2,500 as part of the acquisition of the Dorset property (Note 7);
- e) issued 60,000 shares with a fair value of \$4,500 as part of an agreement for internet presentation and branding which has been expensed as promotion and advertising.

There are 3,899,200 shares held in escrow. Under the terms of the escrow agreements, these shares will be released on a schedule over the 3 years from February 3, 2010.

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**Note 8 SHARE CAPITAL (cont'd)**

**Warrants**

	<b>Number of Warrants</b>	<b>Weighted Average Exercise Price</b>	<b>Expiry Date</b>
<b>Balance, December 31, 2009</b>	-	\$ -	
Private placement issued	2,475,000	\$ 0.23	December 24, 2012
Issued for services	193,000	\$ 0.11	December 24, 2012
Issued for property	250,000	\$ 0.10	November 17, 2015
<b>Balance, December 31, 2010 and March 31, 2011</b>	<b>2,918,000</b>	<b>\$ 0.22</b>	

During the year ended December 31, 2010, the Company issued 2,475,000 common share purchase warrants as part of a private placement. The Company also issued 25,000 warrants as part of finders' units exercisable at \$0.20 into one common share for a period of two years and 168,000 finders' warrants exercisable into one common share at \$0.10 for a period of two years pursuant to the private placement. The fair value of the 168,000 finders' warrants was estimated at \$10,080 on the issue date using the Black-Sholes pricing model based on the following assumptions:

Risk-free interest rate	1.69%
Expected life of options	2 years
Expected annualized volatility	115%
Expected dividend yield	0.00%

Also during the year, the Company issued 250,000 common share purchase warrants exercisable at \$0.10 for a period of two years as part of the Dorset property agreement (Note 8). The fair value of these warrants was estimated at \$20,000 on the issue date using the Black-Sholes pricing model based on the following assumptions:

Risk-free interest rate	2.32%
Expected life of options	5 years
Expected annualized volatility	115%
Expected dividend yield	0.00%

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**Note 9 STOCK OPTION PLAN AND STOCK-BASED COMPENSATION**

The Company has a stock option plan applicable to directors, officers and consultants, under which the total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, an option's maximum term is five years from the grant date. Options under this plan vest upon issuance.

During the year ended December 31, 2010, the Company issued 225,000 common stock options with a fair value of \$0.046 per option to directors, officers and consultants and, accordingly, stock-based compensation of \$10,350 has been recognized.

The fair value of these stock options was calculated using the Black-Sholes option pricing model based on the following weighted average assumptions:

Risk-free interest rate	2.52%
Expected life	5 years
Expected annualized volatility	115%
Expected dividend rate	0.00%

The following stock options were outstanding at March 31, 2011:

Number of Shares	Weighted Average	
	Exercise Price \$	Expiry Date
460,000	0.20	November 6, 2012
225,000	0.10	February 4, 2015
685,000	0.17	

During the period ended March 31, 2011, 160,000 common stock options exercisable at \$0.20 expired. The fair value of these options was transferred to the deficit.

**Note 10 RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the period ended March 31, 2011:

- paid management fees of \$12,500 (2010 - \$Nil) to a director and officer of the Company; and
- paid accounting fees of \$8,865 (2010 - \$2,880) to parties related to a director of the Company.

Included in accounts payable at March 31, 2011 is \$4,600 (2010 - \$2,880) owing to officers and directors of the Company and parties related thereto.

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

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**Note 11 SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

During the period ended March 31, 2011, the Company incurred accounts payable for exploration in the amount of \$64,000.

During the period ended March 31, 2010, the Company issued 3,555,000 common shares valued at \$178,250 as part of the Blue Quartz property agreement. (Note 7)

**Note 12 CONTINGENCY**

**Flow-through shares**

As at March 31, 2011, the Company is committed to incur, on a best efforts basis, \$312,500 in qualifying resource expenditures pursuant to a private placement for which flow-through proceeds have been received (see Note 8, Share capital). The Company filed its renunciation forms in February of 2011. As at March 31, 2011, the Company had incurred qualifying resource expenditures of \$133,371. The Company must incur the balance of 179,129 in qualifying resource expenditures before January 1, 2012.

If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.

**Note 13 TRANSITION TO IFRS**

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first interim financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", January 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

**Exemptions applied**

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

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**Note 13    TRANSITION TO IFRS (cont'd)**

**Reconciliation of assets, liabilities and equity at January 1 and March 31, 2010**

There were no differences in the statement of financial position under Canadian GAAP and under IFRS as at January 1, 2010 nor at March 31, 2010.

**Reconciliation of assets, liabilities and equity at December 31, 2010**

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets		\$ 510,348	\$ -	\$ 510,348
Exploration and evaluation expenditures		477,531	-	477,531
		<u>\$ 987,879</u>	<u>\$ 987,879</u>	<u>\$ 987,879</u>
<b>Liabilities and shareholders' equity</b>				
Current liabilities		\$ 42,011	\$ -	\$ 42,011
Unrenounced flow-through share premium	(a)	-	62,500	62,500
Share capital	(a)	1,463,627	(62,500)	1,401,127
Reserves		178,245	-	178,245
Deficit		<u>(696,004)</u>	<u>-</u>	<u>(696,004)</u>
		<u>\$ 987,879</u>	<u>\$ -</u>	<u>\$ 987,879</u>

**Notes to the reconciliation**

(a) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146 "Flow-through Shares". At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders' equity. Also, under Canadian GAAP, the Company recorded any deferred tax recovery eligible to be recognized to offset the deferred tax charge to equity as a tax recovery in the statement of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through tax liability. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Group will reduce the deferred tax liability and record a deferred tax recovery.

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**Note 13      TRANSITION TO IFRS (cont'd)**

**Reconciliation of net loss for the three months ended March 31, 2010**

There were no differences between the net loss recorded under GAAP and IFRS for the three month period ended March 31, 2010.