



ADVENTURE GOLD INC.

(An Exploration Company)

Financial Statements For the years ended July 31, 2011 and 2010

Independent Auditors' Report	2 - 3
Financial Statements	
Balance Sheets	4
Statements of Operations	5
Statements of Comprehensive Income (Loss)	5
Statements of Shareholders' Equity	6
Statements of Mining Properties and Deferred Exploration Expenses	7
Statements of Cash Flows	8
Notes to Financial Statements	9 - 32



Independent Auditor's Report

To the Shareholders of Adventure Gold Inc.

Raymond Chabot Grant Thornton LLP
2505 St-Laurent Blvd.
Ottawa, Ontario K1H 1E4

Telephone: 613-236-2211
Fax: 613-236-6104
www.rcgt.com

We have audited the accompanying financial statements of Adventure Gold Inc., which comprise the balance sheets as at July 31, 2011 and 2010 and the statements of operations, comprehensive income (loss), shareholders' equity, mining properties and deferred exploration expenses, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Adventure Gold Inc. as at July 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Adventure Gold Inc.'s ability to continue as a going concern.

Raymond Chabot Grant Thornton LLP

Chartered Accountants,
Licensed Public Accountants

Ottawa, Canada
November 28, 2011

Adventure Gold Inc.

(An Exploration Company)

Balance Sheets

As at July 31, 2011 and 2010

	2011	2010
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	–	604,218
Short-term investments (Note 7)	711,715	1,000,635
Marketable securities (Note 8)	1,403,100	861,450
Accounts receivable and other receivables	208,884	1,343
Sales taxes receivable	177,112	52,380
Tax credit and mining duties receivable	859,552	192,975
Prepaid expenses and deposits	38,616	13,818
	<u>3,398,979</u>	<u>2,726,819</u>
Long-term investment (Note 9)	–	345,000
Equipment (Note 10)	12,373	749
Mining properties (Note 11)	364,987	349,546
Deferred exploration expenses (Note 11)	3,532,924	2,786,329
	<u>7,309,263</u>	<u>6,208,443</u>
LIABILITIES		
Current liabilities		
Bank indebtedness	898	–
Accounts payable and accrued liabilities	208,382	49,673
	<u>209,280</u>	<u>49,673</u>
Future income tax liability (Note 14)	381,735	605,992
	<u>591,015</u>	<u>655,665</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 13)	6,593,848	4,797,069
Warrants (Note 13)	486,736	767,573
Agent options (Note 13)	–	51,904
Contributed surplus	792,578	477,565
	<u>7,873,162</u>	<u>6,094,111</u>
Deficit	(1,067,464)	(507,233)
Accumulated other comprehensive loss	(87,450)	(34,100)
	<u>(1,154,914)</u>	<u>(541,333)</u>
	<u>6,718,248</u>	<u>5,552,778</u>
	<u>7,309,263</u>	<u>6,208,443</u>

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

On behalf of the Board,

(s) Marco Gagnon
Director

(s) Robert Boisjoli
Director

Adventure Gold Inc.

(An Exploration Company)

Statements of Operations

Statements of Comprehensive Income (Loss)

For the years ended July 31, 2011 and 2010

	2011	2010
	\$	\$
OPERATIONS		
Operating expenses		
Management and consulting fees	(107,500)	(90,000)
Stock-based compensation	(331,422)	(111,865)
Salaries and benefits	(157,500)	(68,173)
Travel and promotion	(115,905)	(30,103)
Report to shareholders	(10,612)	(16,566)
Professional fees	(56,117)	(56,035)
General expenses	(71,214)	(57,720)
Amortization of equipment	(3,316)	(300)
Write-down of mining properties and deferred exploration expenses	(747)	(9,815)
Flow-through interest and tax expense	-	(2,069)
Loss from operations	(854,333)	(442,646)
Other income		
Operator of exploration project	40,810	-
Interest and dividend income	29,003	5,171
Gain on optioning of mining properties (Note 11)	32	824,512
	69,845	829,683
Earnings (loss) before income taxes	(784,488)	387,037
Future income tax recovery (expense) (Note 14)	224,257	(95,743)
Net earnings (loss)	(560,231)	291,294
Net earnings (loss) per share		
Basic	(0.011)	0.008
Diluted	(0.011)	0.007
Basic weighted average number of common shares outstanding	51,025,018	38,047,692
Diluted weighted average number of common shares outstanding	51,025,018	39,141,252
COMPREHENSIVE INCOME (LOSS)		
Net earnings (loss)	(560,231)	291,294
Other component of comprehensive income (loss):		
Net variation on the fair value of financial assets available-for-sale	(53,350)	(34,100)
Comprehensive income (loss)	(613,581)	257,194

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

Adventure Gold Inc.

(An Exploration Company)

Statements of Shareholders' Equity

For the years ended July 31, 2011 and 2010

	Share capital	Warrants	Agent options	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Shareholders' equity	
	Number	\$	\$	\$	\$	\$	\$	
Balance, July 31, 2009	31,236,495	3,117,131	226,658	51,904	307,497	(798,527)	–	2,904,663
Issued during the year								
In consideration of cash (net of share issue expenses)	13,693,845	1,408,948	614,325					2,023,273
In consideration of property acquisition	550,000	78,000	10,897					88,897
In consideration of amount due to related party	507,569	66,690						66,690
Warrants exercised	704,973	126,300	(26,104)					100,196
Warrants expired			(58,203)		58,203			–
Other activities								
Stock options granted to employees					22,328			22,328
Stock options granted to directors					83,713			83,713
Stock options granted to service providers					5,824			5,824
Other component of comprehensive income (loss)						(34,100)		(34,100)
Net earnings						291,294		291,294
Balance, July 31, 2010	46,692,882	4,797,069	767,573	51,904	477,565	(507,233)	(34,100)	5,552,778
Issued during the year								
In consideration of property acquisition	150,000	34,500	44,715					79,215
Stock options exercised	130,000	44,878			(17,553)			27,325
Agent options exercised	589,285	156,010		(64,326)				91,684
Warrants exercised	6,072,428	1,561,391	(324,408)					1,236,983
Warrants expired			(1,144)		1,144			–
Other activities								
Agent options granted				12,422				12,422
Stock options granted to employees					31,664			31,664
Stock options granted to officers					88,127			88,127
Stock options granted to directors					139,058			139,058
Stock options granted to service providers					72,573			72,573
Other component of comprehensive loss						(53,350)		(53,350)
Net loss						(560,231)		(560,231)
Balance, July 31, 2011	53,634,595	6,593,848	486,736	–	792,578	(1,067,464)	(87,450)	6,718,248

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

Adventure Gold Inc.

(An Exploration Company)

Statements of Mining Properties and Deferred Exploration Expenses

For the years ended July 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	\$	\$
Balance, July 31, 2010	<u>3,135,875</u>	<u>2,996,744</u>
Drilling	671,126	217,170
Project management and supervision	141,505	380,124
Geophysics	447,373	128,366
Geology	265,203	93,005
Geochemistry	-	3,808
Environment and relation with the community	121	-
Staking	36,069	-
Licences and permits	20,404	21,148
General field expenses	40,812	40,194
	<u>1,622,613</u>	<u>883,815</u>
Option payments received (cash and common shares) (Note 11)	(282,500)	(1,672,550)
Gain on optioning of mining properties	32	824,512
Write-down of mining properties and deferred exploration expenses	(747)	(9,815)
Acquisition of mining properties (Note 11)	89,215	306,144
Tax credits and mining duties	(666,577)	(192,975)
	<u>(860,577)</u>	<u>(744,684)</u>
Balance, July 31, 2011	<u><u>3,897,911</u></u>	<u><u>3,135,875</u></u>

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

Adventure Gold Inc.

(An Exploration Company)

Statements of Cash Flows

For the years ended July 31, 2011 and 2010

	2011	2010
	\$	\$
OPERATING ACTIVITIES		
Net earnings (loss)	(560,231)	291,294
Stock-based compensation	331,422	111,865
Amortization of equipment	3,316	300
Write-down of mining properties and deferred exploration expenses	747	9,815
Gain on optioning of mining properties	(32)	(824,512)
Future income tax expense (recovery)	(224,257)	95,743
Changes in working capital items (Note 6)	(311,728)	101,772
Cash flows from operating activities	<u>(760,763)</u>	<u>(213,723)</u>
INVESTING ACTIVITIES		
Acquisition of short-term investments	(711,715)	(1,000,635)
Proceeds from disposal of short-term investments	1,000,635	-
Equipment	(14,939)	-
Mining properties	(9,740)	(411,514)
Deferred exploration expenses	(1,509,508)	(630,093)
Option payments received	32,500	400,000
Tax credits and mining duties received	-	99
Cash flows from investing activities	<u>(1,212,767)</u>	<u>(1,642,143)</u>
FINANCING ACTIVITIES		
Common shares issued	1,368,414	2,258,946
Share issue expenses	-	(153,615)
Cash flows from financing activities	<u>1,368,414</u>	<u>2,105,331</u>
Net increase (decrease) in cash and cash equivalents	(605,116)	249,465
Cash and cash equivalents, beginning of year	604,218	354,753
Cash and cash equivalents, end of year	<u>(898)</u>	<u>604,218</u>
<i>Cash and cash equivalents:</i>		
<i>Cash (bank indebtedness)</i>	<i>(898)</i>	<i>48,682</i>
<i>Cash equivalents</i>	<i>-</i>	<i>555,536</i>
	<u>(898)</u>	<u>604,218</u>

Additional disclosures of cash flows information (Note 6)

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

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

Adventure Gold Inc. (the "Company" or "Adventure") was incorporated under the *Canada Business Corporations Act* on February 9, 2007. Its current operations involve the acquisition, exploration and development of mineral resource properties. The Company is in the development stage and does not derive any revenue from its properties. Its stock is listed on the TSX Venture Exchange under the symbol AGE.

Until it is determined that the Company's properties contain mineral reserves or resources that can be economically mined, they are classified as mineral exploration properties. The recoverability of mining property costs and deferred exploration expenses is dependent on: the discovery of economically recoverable reserves and resources; securing and maintaining title and beneficial interest in the properties; the ability to obtain necessary financing to complete exploration, development and construction of processing facilities; obtaining certain government approvals; and attaining profitable production.

2 - GOING CONCERN ASSUMPTION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and on the basis of a going concern assumption meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. The carrying amounts of assets, liabilities and expenses presented in these financial statements and the balance sheet classifications have not been adjusted as would be required if the going concern assumption was not appropriate. If the going concern assumption was not appropriate for these financial statements, adjustments to the carrying value of assets and liabilities and expenses and balance sheet classification, which could be material, may be necessary.

As at July 31, 2011, the Company has working capital of \$3,189,699 including \$711,715 in short-term investments and \$1,403,100 in marketable securities. Along with \$557,839 in gross proceeds from the exercise of warrants, options and agent options subsequent to year-end (Note 20), the Company anticipates having sufficient funds to meet its current option payment and exploration work commitments, carry out an exploration program on its other properties, pursue and evaluate new resources projects and meet its corporate and administrative expenses for the next twelve months.

3 - FUTURE ACCOUNTING STANDARDS

International Financial Reporting Standards ("IFRS")

In February 2008, Canada's Accounting Standards Board ("AcSB") confirmed that Canadian generally accepted accounting principles ("GAAP"), as used by publicly accountable enterprises, will be fully converged with IFRS, as issued by the International Accounting Standards Board ("IASB"). The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Therefore, the Company will be required to report under IFRS for its 2012 annual financial statements starting with its October 31, 2011 first quarter interim report.

4 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements, which are expressed in Canadian dollars, have been prepared by management in accordance with Canadian GAAP. The financial statements are prepared using the historical cost method, except for certain financial instruments that are recognized at fair value. No information on fair value is presented when the carrying amount corresponds to a reasonable approximation of fair value.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

4 - ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods as well as the related notes to financial statements. Significant items subject to estimates and assumptions include, but are not limited to, the carrying value of mining properties and deferred exploration expenses, future income taxes and the measurement and determination of stock-based compensation and warrants. Actual results could differ from those estimates. In management's opinion, the financial statements have been properly prepared within the framework of the accounting policies summarized below:

Cash and cash equivalents

Cash and cash equivalents of the Company are comprised of bank balances and investments with maturities at the date of acquisition of three months or less and which are readily convertible into cash.

Short-term investments

Short-term investments consist of bonds and guaranteed investment certificates with maturities at the date of acquisition ranging from 3 to 12 months.

Long-term investment

Investments in publicly traded companies are recorded at fair values based on quoted closing bid prices at the balance sheet date. Unrealized gains and losses are recorded in other comprehensive income.

Equipment

Equipment is recorded at cost and amortized over their estimated useful lives according to the straight-line method at the following rates:

Computer equipment	3 years
Office furniture and equipment	5 years

Impairment of equipment

Equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Management reviews the carrying value of the assets and considers whether an impairment charge should be recorded. The review is based on the assessment of technological changes, the Company's intended use and on the projected estimated future undiscounted cash flows expected to be generated from the underlying assets. Any impairment results in a charge to income during the year to the extent that the asset's carrying value exceeds its fair value, generally determined on a discounted cash flow basis or replacement cost basis.

Mining properties and deferred exploration expenses

Costs related to the acquisition, exploration and development of mining properties are capitalized until the commencement of commercial production. If commercially profitable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. If it is determined that capitalized acquisition and exploration costs are not recoverable, or the project is abandoned, these costs are charged to operations in the current period. The Company's management reviews the carrying amounts of assets for impairment on a regular basis. Government assistance is applied against deferred exploration expenses.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

4 - ACCOUNTING POLICIES (continued)

Mining properties and deferred exploration expenses (continued)

Mining properties and exploration costs are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The Company performs a recoverability test when estimated future cash flows are available. If management does not have enough information to estimate future cash flows to evaluate the recoverability of capitalized amounts, management will make an estimate by comparing the fair value with the carrying value. Management will also consider whether results from exploration works justify further investments, the confirmation of the interest of the Company in the mining claims, the ability of the Company to obtain the necessary financing to complete the future development or if the disposal of the properties will be for proceeds in excess of their carrying value.

Although the Company has taken steps to verify title to mining properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's titles. Property titles may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Environmental and reclamation costs

The operations of the Company have been, and may in the future be, affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation by the application of technically proven and economically feasible measures.

An estimate for the future costs of site restoration is made based upon estimates that consider the anticipated method and extent of site reclamation required to meet legal standards. If required, a provision for the estimated costs is recognized by increasing the carrying amount of the related long-lived asset by the same amount as the liability.

Reclamation costs incurred are charged against this provision. The effects of changes in regulations and cost assumptions are recognized when determined. As at July 31, 2011 and 2010, there was no material asset retirement obligation.

Net earnings (loss) per share

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) for the year available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted net earnings (loss) per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. In 2011, the diluted loss per share is equal to the basic loss per share because the effect of dilutive stock options and warrants described in Note 13 is anti-dilutive, by application of the treasury stock method. The weighted average number of common shares used to determine diluted net earnings per share includes an adjustment for stock options outstanding and warrants outstanding using the treasury stock method. Under the treasury stock method:

- the exercise of options or warrants is assumed to be at the beginning of the year (or date of issuance, if later);
- the proceeds from the exercise of options or warrants are assumed to be used to purchase common shares at the average market price during the year;
- the incremental number of common shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) is included in the denominator of the diluted earnings per share computation; and
- options and warrants are not included in the computation of diluted net earnings per share when their exercise price is greater than the average market price during the year since they would have an anti-dilutive effect.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

4 - ACCOUNTING POLICIES (continued)

Share capital

The proceeds from the exercise of stock options and warrants are recorded as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company.

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value based upon the trading price of those shares on the TSX.V the day before the transaction date.

Proceeds from unit placements are allocated between shares and warrants issued according to their fair value using the proportional method.

Share issue expenses

Share issue expenses are recorded as a reduction of share capital when the related shares are issued.

Stock-based compensation

The Company measures the compensation cost of stock options issued under employee and non-employee compensation plans using a fair value-based method. Under the fair value method, stock-based payments to employees are measured at fair value and amortized over the vesting period and stock-based payments to non-employees are measured at either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable, and are recognized over the related service period as an expense or an asset, with a corresponding increase to contributed surplus. If the stock options or agent options are exercised, the proceeds are credited to share capital and the fair value of the options or agent options exercised is reclassified from contributed surplus to share capital.

Income taxes

The Company accounts for income taxes under the asset and liability method that requires the recognition of future income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of assets and liabilities. The Company provides a valuation allowance on net future tax assets when it is more likely than not, that such assets will not be realized.

Tax credits and mining duties

The Government of Québec provides a non-taxable refundable credit for losses to help operators meet exploration, mineral deposit evaluation and mine development costs by refunding part of eligible expenditures incurred. The credit is equal to 12% of the lesser of:

- the amount of the annual loss; and
- the exploration, mineral deposit evaluation and mine development expenses.

The Government of Québec also offers businesses having establishments and that carry on activities in Québec a refundable tax credit for mineral exploration activities, covering up to 45% of exploration expenses. Tax credits and mining duties which are earned as a result of qualifying mineral exploration expenses are recognized when the exploration expenses are incurred. They are applied to reduce related mineral exploration expenses in the period recognized.

Revenue recognition

Operator of exploration project revenue is recognized in accordance with the terms of agreements, as services are provided, when the fees are fixed or determinable and collection is reasonably assured.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

4 - ACCOUNTING POLICIES (continued)

Financial instruments

The Company classifies financial assets and liabilities as held for trading, available-for-sale, loans and receivables or other financial liabilities depending on their nature. Financial assets and financial liabilities are all recognized at fair value on their initial recognition, except for those arising from certain related party transactions which are accounted for at the transferor's carrying amount or exchange amount in accordance with the CICA Handbook Section 3840, *Related Party Transactions*. Transaction costs from financial assets and liabilities are recognized in operations and presented under administrative expenses. Subsequently, financial assets and liabilities are measured and recognized as follows:

Held for trading

Financial assets classified as held for trading are measured at their fair value and changes in fair value are recognized in operations in the periods in which they arise. Changes in fair value that are recognized in operations include interest, and realized and unrealized gains or losses, and are presented under Interest income.

Cash and cash equivalents and short-term investments are classified as held for trading.

Available-for-sale

Financial assets classified as available-for-sale are measured at fair value with changes in fair value recorded in other comprehensive income until the financial asset is derecognized or impaired.

Marketable securities and long-term investments are classified as available-for-sale financial assets.

Loans and receivables

Financial assets classified as loans and receivables are measured at amortized cost, which is generally the initially recognized amount, less any allowance for doubtful accounts.

Accounts receivable are classified as loans and receivables.

Other financial liabilities

Other financial liabilities are measured at amortized cost using the effective interest method of amortization. Interest calculated using the effective interest method is presented in operations.

Accounts payable and accrued liabilities are classified as other financial liabilities.

5 - CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure continuity as a going-concern and to safeguard its ability to continue its acquisition and exploration programs as well as ensuring that all flow-through funds obtained are utilized in exploration activities and spent by the required deadline. The Company manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares and acquire or sell mining properties to improve its financial performance and flexibility.

The Company defines its capital as the shareholders' equity. To effectively manage the Company's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has appropriate liquidity to meet its operating and growth objectives. As needed, the Company raises funds through private placements or other equity financings. The Company does not utilize long term debt as the Company does not currently generate operating revenues. There is no dividend policy. The Company is subject to regulatory requirements related to the use of funds obtained by flow-through share arrangements. These funds have to be incurred for eligible exploration expenses. The Company was in compliance with these requirements throughout the year.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

5 - CAPITAL MANAGEMENT (continued)

	<u>2011</u>	<u>2010</u>
	\$	\$
Shareholders' equity	<u>6,718,248</u>	<u>5,552,778</u>

6 - SUPPLEMENTAL CASH FLOW INFORMATION

The changes in non-cash working capital items are detailed as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Accounts receivable and other receivables	(207,541)	15,086
Sales taxes receivable	(124,732)	29,442
Prepaid expenses and deposits	(24,798)	(4,141)
Accounts payable and accrued liabilities	45,343	61,385
	<u>(311,728)</u>	<u>101,772</u>

Additional disclosures of cash flows information

	<u>2011</u>	<u>2010</u>
	\$	\$
Non-cash investing and financing activities:		
Mining properties and deferred exploration expenses in accounts payable and accrued liabilities	122,568	9,202
Share capital issued in consideration of mining properties	34,500	78,000
Warrants issued to acquire interests in mining properties	44,715	33,662
Share capital issued in payment of due to related party (Note 15)	-	66,690
Share capital issued in payment of finders fees	-	53,485
Marketable securities received on optioning of mining properties	250,000	872,550
Long-term investment received on optioning of mining properties	-	368,000

7 - SHORT-TERM INVESTMENTS

As at July 31, 2011, short-term investments total \$711,716 (\$1,100,635 as at July 31, 2010) and consist of bonds with maturities at the date of acquisition that range from 3 months to 12 months.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

8 - MARKETABLE SECURITIES

	2011		
	Cost	Unrealized gain (loss)	Fair value
	\$		\$
2,300,000 common shares of RT Minerals Corp. (1)	368,000	23,000	391,000
15,000 common shares of Agnico-Eagle Mines Ltd. (2)	872,550	(75,450)	797,100
1,000,000 common shares of Mazorro Resources Inc. (3)	250,000	(35,000)	215,000
	<u>1,490,550</u>	<u>(87,450)</u>	<u>1,403,100</u>
	2010		
	Cost	Unrealized loss	Fair value
	\$		\$
15,000 common shares of Agnico-Eagle Mines Ltd. (1)	872,550	(11,100)	861,450
	<u>872,550</u>	<u>(11,100)</u>	<u>861,450</u>

(1) On May 25, 2010, the Company received 2,500,000 shares of RT Minerals Corp. ("RTM"), valued at \$400,000, in accordance with the terms of the Meunier 144 option agreement (Note 11(4)). As consideration for their approval of the option agreement with RTM, 200,000 of the RTM shares, valued at \$32,000, were transferred to the initial Optionors on the Meunier 144 property, on October 28, 2010. The Company does not exercise significant influence over RTM. As at July 31, 2011, the common shares were reclassified in to Marketable securities.

(2) On July 26, 2010, the Company received 15,000 shares of Agnico-Eagle Mines Ltd. ("AEM"), valued at \$872,550, in accordance with the terms of the Dubuisson option agreement (Note 11(1)).

(3) On April 18, 2011, the Company received 1,000,000 shares of Mazorro Resources Inc. ("MZO"), valued at \$250,000, in accordance with the terms of the Lapaska option agreement (Note 11(1)).

9 - LONG-TERM INVESTMENT

	2010		
	Cost	Unrealized (loss) gain	Fair value
	\$		\$
2,500,000 common shares of RT Minerals Corp. (See Note 8 point (1))	400,000	(25,000)	375,000
200,000 commons shares of RT Minerals Corp. due to initial Meunier Optionors (See Note 8 point (1))	(32,000)	2,000	(30,000)
	<u>368,000</u>	<u>(23,000)</u>	<u>345,000</u>

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

10 - EQUIPMENT

	2011		
	Cost	Accumulated amortization	Net Book Value
	\$		\$
Computer equipment	18,142	8,467	9,675
Office furniture and equipment	4,111	1,413	2,698
	<u>22,253</u>	<u>9,880</u>	<u>12,373</u>
	2010		
	Cost	Accumulated amortization	Net Book Value
	\$		\$
Computer equipment	5,815	5,815	-
Office furniture and equipment	1,498	749	749
	<u>7,313</u>	<u>6,564</u>	<u>749</u>

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES

	Mining properties		
	Balance as at July 31 2010 \$	Property payments (optioning) \$	Balance as at July 31 2011 \$
Val d'Or East / Pascalis-Colombière	62,500	-	62,500
Val d'Or East / Senore	126,000	-	126,000
Val d'Or East / Beaufor North	8,421	-	8,421
Val d'Or East / Beaufor West	8,421	-	8,421
Val d'Or East / Lapaska	72,982	(72,982)	-
Val d'Or East / Others	3,404	(156)	3,248
Detour Quebec	12,686	-	12,686
Casa Cameron	38,271	-	38,271
Abitibi Gold	5,915	(636)	5,279
Appalaches	10,946	-	10,946
Granada Extension	-	89,215	89,215
	<u>349,546</u>	<u>15,441</u>	<u>364,987</u>
	Deferred exploration expenses		
	Balance as at July 31 2010 \$	Expenditures (optioning) \$	Balance as at July 31 2011 \$
Timmins West / Meunier-144	-	2,515	2,515
Val d'Or East / Pascalis-Colombière	545,533	481,072	1,026,605
Val d'Or East / Senore	642,799	1,551	644,350
Val d'Or East / Beaufor North	177,328	346	177,674
Val d'Or East / Beaufor West	173,003	655	173,658
Val d'Or East / Lapaska	837,505	(200,906)	636,599
Val d'Or East / Others	38,651	41,286	79,937
Dubuisson	-	2,872	2,872
Detour Quebec	132,822	192,180	325,002
Casa Cameron	206,432	115,574	322,006
Abitibi Gold	28,880	19,368	48,248
Appalaches	3,376	15,037	18,413
Granada Extension	-	75,045	75,045
	<u>2,786,329</u>	<u>746,595</u>	<u>3,532,924</u>

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

	Mining properties		
	Balance as at July 31 2009 \$	Property payments (optioning) \$	Balance as at July 31 2010 \$
Timmins West / Meunier-144	216,500	(216,500)	–
Val d'Or East / Pascalis-Colombière	62,500	–	62,500
Val d'Or East / Senore	51,000	75,000	126,000
Val d'Or East / Beaufor North	8,421	–	8,421
Val d'Or East / Beaufor West	8,421	–	8,421
Val d'Or East / Lapaska	72,982	–	72,982
Val d'Or East / Others	1,258	2,146	3,404
Dubuisson	92,632	(92,632)	–
Detour Quebec	3,066	9,620	12,686
Casa Cameron	10,456	27,815	38,271
Abitibi Gold	2,432	3,483	5,915
Appalaches	–	10,946	10,946
	<u>529,668</u>	<u>(180,122)</u>	<u>349,546</u>

	Deferred exploration expenses		
	Balance as at July 31 2009 \$	Expenditures (optioning) \$	Balance as at July 31 2010 \$
Timmins West / Meunier-144	156,571	(156,571)	–
Val d'Or East / Pascalis-Colombière	378,177	167,356	545,533
Val d'Or East / Senore	636,418	6,381	642,799
Val d'Or East / Beaufor North	175,360	1,968	177,328
Val d'Or East / Beaufor West	170,778	2,225	173,003
Val d'Or East / Lapaska	779,676	57,829	837,505
Val d'Or East / Others	11,389	27,262	38,651
Dubuisson	132,768	(132,768)	–
Detour Quebec	7,469	125,353	132,822
Casa Cameron	14,586	191,846	206,432
Abitibi Gold	3,884	24,996	28,880
Appalaches	–	3,376	3,376
	<u>2,467,076</u>	<u>319,253</u>	<u>2,786,329</u>

1) Val d'Or East / Beaufor North, Val d'Or East / Beaufor West, Val d'Or East / Lapaska and Dubuisson

On February 26, 2007, the Company signed an agreement with Q.E.X. Resources Inc. whereby the Company acquired a 100% interest in four properties: Beaufor West, Beaufor North, Lapaska and Dubuisson, situated in the north-western part of Québec, in exchange for the issuance of 1,824,455 common shares, valued at \$182,456. Beaufor North is not subject to any royalty Net Smelter Return ("NSR"). Beaufor West is subject to a 1.5% NSR, shared equally between Albert Audet and Geotest Corporation Ltd., and affecting also all claims acquired through staking within two miles of the property. Lapaska is subject to a 5% NSR on one claim payable to Bernard Charlebois. Dubuisson is subject to a royalty of \$25 on the first 30,000 ounces of gold extracted from the Property and thereafter subject to a 2% NSR royalty, of which half (1%) may be purchased within two (2) years after commercial production, with a right of first refusal of ninety (90) days on the second half.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

1) Val d'Or East / Beaufor North, Val d'Or East / Beaufor West, Val d'Or East / Lapaska and Dubuisson (continued)

On July 1, 2010, the Company entered into an option agreement with AEM, whereby AEM acquired a 51% interest in the Dubuisson property ("the Property") by making a cash payment of \$100,000 and issuing 15,000 shares of AEM to the Company, valued at \$872,550. Also, under the terms of the agreement, AEM can acquire an additional 14% interest in the Property by spending \$4M in exploration work over a five year period, with a minimum of \$600,000 of work to be completed or paid in cash to the Company before the end of the first two years. Following the exercise of the second option, AEM can acquire an additional 5% interest in the Property by completing a Bankable Feasibility Study. The consideration received was recorded as a reduction of the property's book value to Nil (\$278,975) and the balance (\$693,575) was recorded as a gain on optioning of mineral properties.

To earn an additional 14% interest, AEM must incur exploration expenses in the following timelines:

	<u>Exploration Expenses</u>
	\$
On or before July 1, 2012	600,000 ⁽¹⁾
On or before July 1, 2015	<u>3,400,000</u>
	<u><u>4,000,000</u></u>

(1) This timeline can be completed from exploration work or by a cash payment.

In April 2011, the Company entered into an option agreement with Mazorro Resources Inc. ("Mazorro"), whereby Mazorro acquired an exclusive option to earn up to 70% in 26 claims covering an area of approximately 352 hectares of the Company's Lapaska Gold property in Val d'Or East area, by spending \$7.7M in exploration expenditures, issuing 3,000,000 shares of Mazorro, paying \$250,000 in cash and paying \$2,000,000 (in cash and shares) over the next 6 years. The Company will be the operator until Mazorro earns a 70% interest. The consideration received was recorded as a reduction of the property's book value of \$275,000.

Under the terms of the option agreement, in order to acquire an initial 50% undivided interest in the Property (the "First Option"), Mazorro Resources Inc. is required to provide total cash payments of \$250,000, a total of 3,000,000 common shares and has committed to incur exploration expenses of \$1,700,000 over a period of three years from the completion of the option agreement. Consideration payable is summarized as follows:

	<u>Cash Payments</u>	<u>Shares</u>	<u>Exploration Expenses</u>
	\$		\$
On April 18, 2011	25,000 ⁽¹⁾	1,000,000 ⁽²⁾	-
On or before April 18, 2012	25,000	500,000	500,000
On or before April 18, 2013	50,000	500,000	500,000
On or before April 18, 2014	150,000	1,000,000	700,000
	<u>250,000</u>	<u>3,000,000</u>	<u>1,700,000</u>

(1) This cash payment was made on the date noted in the agreement.

(2) These common shares were issued on April 18, 2011 at a price of \$0.25 per share.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

1) Val d'Or East / Beaufor North, Val d'Or East / Beaufor West, Val d'Or East / Lapaska and Dubuisson (continued)

Following the exercise of the First Option, Mazorro Resources Inc. shall have the option to acquire an additional 20% undivided interest in the Property (the "Second Option"), thereby acquiring a total undivided interest of 70%, by making additional cash payments of \$2,000,000 and by incurring additional exploration expenses of \$6,000,000 over another three year period. Mazorro Resources Inc. shall have the option of paying up to 75% of the required cash payments for the Second Option in common shares at a price equal to the market price of the Company's shares on the TSX Venture Exchange (the "Exchange") on the date such payment is payable less the maximum applicable discount allowed by the policies of the Exchange, subject to the required regulatory and corporate approvals, including disinterested shareholder approval, as applicable. After the Second Option period, Mazorro Resources Inc. shall be entitled to become the operator of the Property. A director of the Company is also a director of Mazorro.

2) Val d'Or East / Pascalis-Colombière

Val d'Or East / Pascalis-Colombière consist of the following mining claims: Pascalis-Colombière and Senore. On March 17, 2008, the Company signed an agreement with IAMGOLD Quebec Management Inc. ("IAMGOLD") to acquire a 100% interest in Pascalis-Colombière gold property located northeast of Val d'Or, Québec in exchange for the issuance of 250,000 common shares. The shares were issued on March 17, 2008 at a price of \$0.25 per share. The property is subject to a 2% NSR of which half (1%) may be purchased at any time by the Company for \$1 million. The property is also subject to a 1% gross sale royalty and a 20% net proceeds of production royalty on some of the property's claims, payable to Alain Garneau and Tiomin Resources Inc., respectively.

3) Val d'Or East / Senore

On July 8, 2008 and amended on June 30, 2011, the Company entered into an option agreement with Peter Bambic (the "Optionor") in order to acquire a 100% interest in the Senore property, located 22 kilometers northeast of Val d'Or, Québec by paying \$200,000, issuing 1,000,000 common shares and incurring \$400,000 in exploration expenses over a period of three years.

To earn its 100% interest, the Company must make cash payments, issue common shares and incur exploration expenses in the following timelines:

	Cash Payments	Shares	Exploration Expenses
	\$		\$
On July 8, 2008	10,000 ⁽¹⁾	-	-
On August 6, 2008	-	100,000 ⁽²⁾	-
On or before July 8, 2009	10,000 ⁽¹⁾	100,000 ⁽³⁾	150,000 ⁽⁵⁾
On or before July 8, 2010	30,000 ⁽¹⁾	300,000 ⁽⁴⁾	250,000 ⁽⁵⁾
On or before January 8, 2012	150,000	500,000	-
	<u>200,000</u>	<u>1,000,000</u>	<u>400,000</u>

(1) These cash payments were made on the dates noted in the agreement.

(2) These common shares were issued on August 6, 2008 at a price of \$0.175 per share.

(3) These common shares were issued on July 16, 2009 at a price of \$0.135 per share.

(4) These common shares were issued on July 8, 2010 at a price of \$0.15 per share.

(5) These exploration expenses were incurred on or before the date noted in the agreement.

The Optionor retains a 3% NSR on two mining claims and 2% NSR on the balance of the Property. The Company has the right to buy back at any time 50% of the NSR for, \$2,000,000 and \$1,000,000, respectively.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

4) Timmins West / Meunier-144

On July 8, 2008, and as amended on June 1, 2009, and May 5, 2010, the Company entered into an option agreement with a group of prospectors (the "Optionors") in order to acquire a 100% interest in the Meunier 144 gold property located 19 kilometers west of Timmins, Ontario, by paying \$125,000, issuing 1,000,000 common shares and 200,000 warrants and incurring \$1,650,000 in exploration expenses.

To earn its 100% interest, the Company must make cash payments, issue common shares and warrants and incur exploration expenses in the following timelines:

	<u>Cash</u> <u>Payments</u> \$	<u>Shares</u>	<u>Warrants</u>	<u>Exploration</u> <u>Expenses</u> \$
On July 18, 2008	25,000 ⁽¹⁾	700,000 ⁽²⁾	-	-
On or before July 8, 2009	25,000 ⁽¹⁾	150,000 ⁽³⁾	-	150,000 ⁽⁶⁾
On or before July 8, 2010	75,000 ⁽¹⁾	150,000 ⁽⁴⁾	200,000 ⁽⁵⁾	-
On or before December 31, 2010	-	-	-	500,000 ⁽⁶⁾
On or before December 31, 2011	-	-	-	1,000,000
	<u>125,000</u>	<u>1,000,000</u>	<u>200,000</u>	<u>1,650,000</u>

(1) These cash payments were made on the dates noted in the agreement.

(2) These common shares were issued on July 18, 2008 at a price of \$0.21 per share.

(3) These common shares were issued on July 8, 2009 at a price of \$0.13 per share.

(4) These common shares were issued on July 8, 2010 at a price of \$0.15 per share.

(5) These warrants were issued on July 8, 2010, each warrant entitling the holder to purchase one common share of the Company at a price of \$0.20 for a period of 5 years.

(6) These exploration expenses were incurred on or before the date noted in the agreement.

The property is also subject to a 2.5% NSR of which a 1% NSR may be purchased at any time by the Company for \$2,000,000.

On May 5, 2010, the Company entered into an option agreement with RTM and Lake Shore Gold Corp. ("LSG") whereby RTM can acquire up to 50% of the Company's right, title and interest in the Meunier 144 property. RTM can earn an initial 25% interest in the property by making a cash payment of \$300,000, issuing 2,500,000 shares of RTM to the Company and incurring exploration costs of \$1,500,000.

To earn its initial 25% interest, RTM must make cash payments, issue common shares and incur exploration expenses in the following timelines:

	<u>Cash</u> <u>Payments</u> \$	<u>Shares</u>	<u>Exploration</u> <u>Expenses</u> \$
On May 27, 2010	300,000 ⁽¹⁾	2,500,000 ⁽²⁾	-
On October 28, 2010	-	(200,000) ⁽²⁾	-
On or before October 31, 2010	-	-	500,000 ⁽³⁾
On or before October 31, 2011	-	-	1,000,000
	<u>300,000</u>	<u>2,300,000</u>	<u>1,500,000</u>

(1) Cash payment was received on the date noted in the agreement.

(2) The RTM shares, valued at \$400,000, were received on May 25, 2010. On October 28, 2010, 200,000 of the RTM shares were transferred to the initial Optionors on the Meunier 144 property.

(3) These exploration expenses were incurred on or before the date noted in the agreement.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

4) Timmins West / Meunier-144 (continued)

As consideration for the firm RTM commitments, the Company issued 500,000 compensation warrants to RTM, each warrant entitling RTM to purchase one common share of the Company at a price of \$0.20 until May 27, 2011. As consideration for the approval of the option agreement with RTM as well as amendments to the initial option agreement, 200,000 of the 2,500,000 shares of RTM were transferred to the Optionors, on October 28, 2010.

The consideration received was recorded as a reduction of the property's book value to \$Nil (\$569,063) and the balance (\$130,937) was recorded in operations as a gain on optioning of mineral properties.

RTM can earn an additional 25% interest in the property by issuing to the Company an additional 250,000 shares of RTM and incurring an additional \$1,500,000 in exploration costs by no later than October 31, 2013.

As part of the agreement, following the exercise of the second option by RTM and for a period of up to 10 years, LSG may acquire from the Company and RTM a 10% interest in the property by carrying out a Preliminary Resource Assessment on any NI 43-101 resources identified by RTM or the Company on the property and by reimbursing RTM and/or the Company for any costs associated with the initial NI 43-101 report.

5) Val d'Or East / Others

Val d'Or East / Others consist of the following mining claims located in the Abitibi region that the company acquired by staking and map-designation in 2008, 2009 and 2010: Megiscane-Tavernier and Realore.

During the year ended July 31, 2010, the Company wrote down to \$Nil the cost of the Senneville property, as it no longer fits the Company's development strategy (\$350 in acquisition costs and \$2,726 in deferred exploration expenses).

6) Detour Quebec

Detour Quebec consist of the following mining claims located in the Abitibi region that the company acquired by staking and map-designation in 2008, 2009 and 2010: Casgrain, Fenelon, Massicotte, Martigny, Manthet and Sicotte.

7) Casa Cameron

On August 12, 2009, the Company acquired from five independent prospectors (the "Vendors"), a 100% interest in the Bruneau Gold Property, located 45 kilometers southeast of Matagami, Quebec, in consideration for a cash payment of \$2,000 and the issuance of 100,000 common shares (valued at \$10,500) and 100,000 warrants at an exercise price of \$0.25 until August 12, 2012 (valued at \$10,898). An area of interest in this property is subject to a 2% NSR in favour of the Vendors, of which 1% can be bought back by the Company at any time by paying the Vendors \$500,000.

Other Casa Cameron properties consist of the following mining claims that the company acquired by staking and map-designation in 2008, 2009 and 2010, located in the north-western part of Quebec, in the Abitibi region: Cere, Bell-Vezza, Casagasic, KLM and Florence.

8) Appalaches

During the summer 2010, the company has acquired significant ground in the Appalache Belt. A total of 190 mining claims for 11,225 hectares have been acquired by map designation at this time in two distinct blocks in the Appalache belt, South-eastern of Quebec, Canada. These two properties named Stoke and St-Francois are located about at 53 km south-east and 23 km south-west of Theftford Mines and 155 km and 200 km east of Montreal, Québec, Canada.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

11 - MINING PROPERTIES AND DEFERRED EXPLORATION EXPENSES (continued)

9) Granada Extension

On September 21, 2010 and amended on October 8, 2010, the Company signed an option agreement with two individuals (the "Optionors") in order to acquire a 100% interest in three of the eleven claims acquired by the Company. The Granada Extension property covering approximately 200 hectares, is located along the Cadillac Larder Lake Gold Break, in the Rouyn-Noranda mining camp, Québec.

To earn its 100% interest, the Company must make cash payments and issue common shares and warrants in the following timelines:

	<u>Cash</u> <u>Payments</u> \$	<u>Shares</u>	<u>Warrants</u> \$
On October 5, 2010	10,000 ⁽¹⁾	–	–
On October 27, 2010	–	150,000 ⁽²⁾	150,000 ⁽³⁾
On or before August 31, 2011	10,000	–	–
On or before August 31, 2012	10,000	–	–
On or before August 31, 2013	10,000	–	–
On or before August 31, 2014	10,000	–	–
	<u>50,000</u>	<u>150,000</u>	<u>150,000</u>

(1) Cash payment was made on the dates noted in the agreement.

(2) These common shares were issued on October 27, 2010 at a price of \$0.23 per share.

(3) These warrants were issued on October 27, 2010, each warrant entitling the holder to purchase one common share of the Company at a price of \$0.25 for a period of 5 years.

The Optionors retains a 1,5% NSR on three mining claims. The Company has the right to buy back at any time a 0,5% of the NSR for \$5000,000.

10) Abitibi Gold

Abitibi Gold consist of the following mining claims located in the Abitibi region that the company acquired by staking and map-designation in 2008, 2009 and 2010: Montreuil, Dalquier, Solitaire and Bourniol.

In February 2011, the Company entered into an option agreement with Société d'exploration minière Vior Inc. ("Vior"), whereby Vior acquired an exclusive option of 100% interest of Bourniol property in 12 claims in the district of Abitibi, by paying \$7,500 in cash payment and a 2% NSR. Vior retains the right, at any time to purchase 1 of the 2 percentage points of the Royalty by paying the Company the sum of \$1,000,000. The consideration received was recorded as a reduction of the property's book value to \$Nil (\$7,468) and the balance (\$32) was recorded in operations as a gain on optioning of mining properties.

During the year ended July 31, 2011, the Company wrote down to \$Nil some residual costs of properties abandoned in the past, as they no longer fit the Company's development strategy (\$260 in acquisition costs and \$487 in deferred exploration expenses).

During the year ended July 31, 2010, the Company wrote down to \$Nil the cost of the Faribault and Faribault-Pluton properties, as they no longer fit the Company's development strategy (\$1,500 in acquisition costs and \$5,239 in deferred exploration expenses).

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

12 - FLOW-THROUGH INTEREST AND TAX EXPENSE

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resources expenditures to investors in advance of the Company incurring the expenditures. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month.

As at July 31, 2011, the Company has incurred the total required flow-through expenditures of 2009 and 2010 and met the deadline requirement for incurring those expenditures.

13 - SHARE CAPITAL

Authorized

Unlimited number of common shares without par value.

Issued and outstanding shares

The issued and outstanding common shares are disclosed in the Statement of Shareholders' Equity.

2011:

During the year ended July 31, 2011, 6,072,428 warrants, 130,000 stock options and 589,285 agent options were exercised for gross proceeds of \$1,236,983, \$27,325 and \$104,106 respectively.

2010:

In December 2009, the Company completed a three tranche non-brokered private placement of 6,922,845 units at a price of \$0.13 each for gross proceeds of \$899,970. Each unit consists of one common share and one common share purchase warrant which entitles the holder to acquire one additional common share at a price of \$0.16 for a period of 24 months after the date of issuance. These warrants have been recorded at a value of \$304,206 based on the proportional method using the following assumptions: average risk-free interest rate of 1.25%, expected life of warrants of 2 years, annualized volatility of 109% and dividend rate of 0%. The securities issued are subject to a four month hold period after the date of issuance. Directors and Officers of the Company have participated in the private placement for a total amount of \$46,400. The Company paid a cash commission of \$12,913 and issued 99,330 non-transferable warrants entitling the holder to acquire the same number of common shares of the Company at a price of \$0.13 for a period of 24 months after the date of issuance. These warrants have been recorded at a value of \$7,285 based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.28%, expected life of warrants of 2 years, annualized volatility of 109% and dividend rate of 0%. Other share issuance costs total \$36,106.

On December 30, 2009, the Company completed a non-brokered flow-through private placement of 571,000 flow-through common shares at a price of \$0.18 per share, for gross proceeds of \$102,780. Share issuance costs total \$3,811.

On April 21, 2010, the Company completed a non-brokered private placement of 4,200,000 units at a price of \$0.18 each for gross proceeds of \$756,000. Each unit consists of one common share and one-half common share purchase warrant which entitles the holder to acquire one additional common share at a price of \$0.27 until April 21, 2012. These warrants have been recorded at a value of \$140,041 based on the proportional method using the following assumptions: risk-free interest rate of 2.06%, expected life of warrants of 2 years, annualized volatility of 110% and dividend rate of 0%. In connection with this private placement, the Company paid a cash commission of \$53,280 and issued 370,000 non-transferable warrants entitling the holder to acquire the same number of common shares of the Company at a price of \$0.18 until April 21, 2012. These warrants have been recorded at a value of \$32,287 based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 2.06%, expected life of warrants of 2 years, annualized volatility of 110% and dividend rate of 0%. Other share issuance costs total \$13,541.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

13 - SHARE CAPITAL (continued)

On May 27, 2010, the Company completed a non-brokered private placement of 2,000,000 units at a price of \$0.20 each for gross proceeds of \$400,000. Each unit consists of one common share and one-half common share purchase warrant which entitles the holder to acquire one additional common share at a price of \$0.27 until May 27, 2012. These warrants have been recorded at a value of \$70,807 based on the proportional method using the following assumptions: risk-free interest rate of 1.79%, expected life of warrants of 2 years, annualized volatility of 111% and dividend rate of 0%. In connection with this private placement, the Company paid a cash commission of \$32,000 and issued 200,000 non-transferable warrants entitling the holder to acquire the same number of common shares of the Company at a price of \$0.20 until May 27, 2012. These warrants have been recorded at a value of \$13,913 based on the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 1.79%, expected life of warrants of 2 years, annualized volatility of 111% and dividend rate of 0%. Other share issuance costs total \$1,964.

During the year ended July 31, 2010, 704,973 warrants were exercised for gross proceeds of \$100,196.

Warrants

On October 27 2010, as part of the acquisition of Granada property, the Company issued 150,000 warrants to optionors (Note 11(9)) at an exercise price of \$0.25 per share, expiring on October 27, 2015. Each warrant entitles the holder to acquire one common share. The fair value of the warrant was estimated at \$0.30 per warrant at the issuing date for a total of \$44,715 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Expected volatility	118.2%
Risk-free interest rate	2.06%
Expected life	5.0 years

A summary of the Company's outstanding warrants as at July 31, 2011 and July 31, 2010 is presented below:

	2011		2010
	Number	Weighted average exercise price	Number
		\$	Weighted average exercise price
			\$
Outstanding at beginning	14,110,030	0.20	3,877,356
Issued	150,000	0.25	11,492,175
Exercised	(6,072,428)	0.20	(704,973)
Expired	(25,000)	0.20	(554,528)
Outstanding at end	8,162,602	0.20	14,110,030

The following table summarizes information on outstanding warrants as at July 31, 2011:

Expiry date	Number of outstanding warrants	Exercise price	Remaining life
		\$	(in years)
December 2011	4,336,692	0.16	0.4
December 2011	99,330	0.13	0.4
April 2012	370,000	0.18	0.7
April 2012	1,885,000	0.27	0.7
May 2012	200,000	0.20	0.8
May 2012	1,000,000	0.27	0.8
July 2015	196,580	0.20	3.9
October 2015	75,000	0.25	4.2
	8,162,602		

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

13 - SHARE CAPITAL (continued)

Agent options

During the year ended July 31, 2011, the Company granted 196,428 agent options (392,857 in 2010) following the exercise of 392,857 options held by the agent at an exercise price of \$0.25 per share, expiring on October 30, 2010. Each option entitles the holder to acquire one common share. The fair value of the options was estimated at \$0.06 per option at the grant date for a total of \$12,422 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Expected volatility	118.3%
Risk-free interest rate	1.39%
Expected life	10 days

A summary of the Company's outstanding agent options as at July 31, 2011 and July 31, 2010 is presented below:

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding at beginning	392,857	0.14	392,857	0.14
Granted	196,428	0.25	-	-
Exercised	(589,285)	0.18	-	-
Outstanding at end	-	-	392,857	0.14

Stock option plan and stock-based compensation

The Company has a stock option plan approved by its shareholders. The maximum number of common shares which may be issued under the plan is equal to 4,970,000 (formerly 3,000,000 amended by a resolution dated December 8, 2010). These options may be granted to the Company's employees, officers, directors, and non-employees, subject to regulatory approval. The exercise price of each option can be set equal to or greater than the closing market price, less allowable discounts, of the common shares on the TSX Venture Exchange on the day prior to the date of the grant of the option. In 2011 and 2010, the exercise price of all options granted was equal to the closing market price on the day prior to the date of the grant of the option. Options have a maximum term of ten years (formerly five years amended by a resolution dated December 8, 2010) and terminate one year (formerly 90 days amended by a resolution dated December 8, 2010) following the termination of the optionee's employment, except in cases of death. Vesting of options is made at the discretion of the Board of Directors at the time the options are granted. During the year ended July 31, 2011 and the year ended July 31, 2010, all options granted vested at the date they were granted.

On September 10, 2010, the Company granted 600,000 stock options to directors, officers, employees and consultants at an exercise price of \$0.19 per share, expiring on September 10, 2015. Each option entitles the holder to acquire one common share. The fair value of the options was estimated at \$0.15 per option at the grant date for a total of \$90,787 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Expected volatility	117.2%
Risk-free interest rate	2.24%
Expected life	5.0 years

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

13 - SHARE CAPITAL (continued)

Stock option plan and stock-based compensation (continued)

On November 5, 2010, the Company granted 75,000 stock options to a director at an exercise price of \$0.39 per share, expiring on November 5, 2015. Each option entitles the holder to acquire one common share. The fair value of the options was estimated at \$0.32 per option at the grant date for a total of \$23,751 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Expected volatility	118.4%
Risk-free interest rate	2.05%
Expected life	5.0 years

On December 8, 2010, the Company granted 450,000 stock options to directors, officers, employees and consultants at an exercise price of \$0.53 per share, expiring on December 8, 2020. Each option entitles the holder to acquire one common share. The fair value of the options was estimated at \$0.48 per option at the grant date for a total of \$216,884 using the Black-Scholes option pricing model. The assumptions used for the calculation were:

Expected dividend yield	0.0%
Expected volatility	117.3%
Risk-free interest rate	3.25%
Expected life	10.0 years

During the year ended July 31, 2011, a compensation expense of \$331,422 (\$111,865 in 2010) was recognized for options granted and the corresponding credit was recognized in contributed surplus.

A summary of the Company's outstanding stock options as at July 31, 2011 and July 31, 2010 is presented below:

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
		\$		\$
Outstanding at beginning	2,250,000	0.21	1,590,000	0.23
Granted	1,125,000	0.34	770,000	0.19
Exercised	(130,000)	0.21	-	-
Forfeited	(5,000)	0.19	(110,000)	0.25
Outstanding at end	3,240,000	0.26	2,250,000	0.21

All outstanding stock options were exercisable as at July 31, 2011 and July 31, 2010.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

13 - SHARE CAPITAL (continued)

Stock option plan and stock-based compensation (continued)

The following table summarizes information on outstanding stock options as at July 31, 2011:

Expiry date	Number of outstanding stock options	Exercise price \$	Remaining life (in years)
November 2012	800,000	0.27	1.3
June 2013	50,000	0.19	1.9
October 2013	300,000	0.19	2.2
March 2014	220,000	0.14	2.7
January 2015	745,000	0.19	3.5
September 2015	600,000	0.19	4.1
November 2015	75,000	0.39	4.3
December 2020	450,000	0.53	9.4
	3,240,000		

14 - INCOME TAXES

The Company's effective income tax rate differs from the combined federal and provincial income tax rate in Canada. The difference results from the following:

	2011 \$	2010 \$
Earnings (loss) before income taxes	(784,488)	387,037
Expected statutory rate (Federal 17.13% (18.42% in 2010), Québec 11.90% (11.90% in 2010))	29.03%	30.32%
Income taxes payable	(227,698)	117,350
Stock-based compensation	96,195	33,917
Share issue expenses	(36,466)	(38,093)
Utilization of non-capital losses	-	(23,231)
Effect of rate change on net loss for tax purposes	9,792	-
Other	(66,080)	5,800
Future income tax expense (recovery)	(224,257)	95,743

The future income tax asset results from differences between the carrying amount and the tax basis of the following:

	2011 \$	2010 \$
Future tax assets		
Income tax loss carry forwards	320,374	232,172
Difference between book and tax balances on equipment	1,527	634
Other	71,408	4,752
	393,309	237,558
Future tax liabilities		
Quebec tax credit	(72,103)	-
Mining properties and deferred exploration expenses	(702,941)	(843,550)
	(775,044)	(843,550)
Net future tax liability	(381,735)	(605,992)

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

14 - INCOME TAXES (Continued)

As at July 31, 2011, the Company has income tax loss carry forwards as follows:

<u>Expiry</u>	<u>Federal</u> \$	<u>Provincial</u> \$
2027	50,000	50,000
2028	404,000	403,000
2029	409,000	409,000
2031	328,000	328,000
	<u>1,191,000</u>	<u>1,190,000</u>

15 - RELATED PARTY TRANSACTIONS

Under a cost sharing agreement between the Company and Everton Resources Inc. ("Everton") (which shared common management), the Company reimburses the cost of the Company's portion of shared salaries and benefits, rent and office expenses paid by Everton (which shares common management). During the year ended July 31, 2011, the cost of shared salaries and benefits was \$30,000 (2010 - \$90,000), rent and office expenses were \$2,040 (2010 - \$6,000) and acquisition of equipment of \$1,500 (2010 - \$Nil). During the year ended July 31, 2010, the Company issued 385,444 common shares at \$0.135 per share and 122,125 common shares at \$0.12 per share for a total value of \$66,690 to Everton in payment of shared costs and insider management costs. There was no amount due by the Company to Everton as at July 31, 2011 (\$Nil as at July 31, 2010). The agreement between the Company and Everton was terminated effective November 30, 2010.

Under an agreement between the Company and Focus Metals Inc. ("Focus") (which shares common management), Focus was invoiced by the Company, at cost, for rent, office expenses, trade-shows expenses and exploration expenses incurred on behalf of Focus for a total of \$8,017 for the year ended July 31, 2011 (2010 - \$51,133) and the Company was charged by Focus, at cost, for exploration expenses and salaries incurred on behalf of the Company for a total of \$10,266 for the year ended July 31, 2011 (2010 - \$Nil). No amount was due by the Company to Focus as at July 31, 2011 (\$Nil as at July 31, 2010) and an amount of \$4,172 was due by Focus to the Company as at July 31, 2011 (\$729 as at July 31, 2010).

Under an agreement between the Company and Atwater Financial Group ("Atwater"), (which shares common management), Atwater invoiced the Company \$77,500 (2010 - \$Nil) for the year ended July 31, 2011 for bookkeeping, accounting and CFO services provided to the Company. An amount of \$10,253 was due by the Company to Atwater as at July 31, 2011 (\$Nil as at July 31, 2010).

These transactions were measured at the exchange amount, which is the amount established and accepted by the parties and were conducted in the normal course of business.

16 - FINANCIAL INSTRUMENTS

Fair value

The Company defines the fair value hierarchy under which its financial instruments are valued as follows: Level 1 includes unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 includes inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly or indirectly and level 3 includes inputs for the asset or liability that are not based on observable market data.

The classification of fair value hierarchy as at July 31, 2011 and July 31, 2010 and their respective fair values were as follows:

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

16 - FINANCIAL INSTRUMENTS (continued)

	<u>Level 1</u>	<u>2011</u>
	\$	\$
Assets		
Short-term investments	711,715	711,715
Marketable securities	<u>1,403,100</u>	<u>1,403,100</u>
	<u>2,114,815</u>	<u>2,114,815</u>
	<u>Level 1</u>	<u>Level 2</u>
	\$	\$
Assets		
Cash and cash equivalents	604,218	604,218
Short-term investments	–	1,000,635
Marketable securities	861,450	861,450
Long-term investment	<u>345,000</u>	<u>345,000</u>
	<u>1,810,668</u>	<u>2,811,303</u>

There were no transfers between Level 1, 2 and 3 during the year ended July 31, 2011.

Categories of financial instruments

The classification of financial instruments as at July 31, 2011 and July 31, 2010 and their respective carrying values and fair values were as follows:

	<u>2011</u>	<u>2010</u>
	\$	\$
Held for trading (at fair value)		
Cash and cash equivalents	–	604,218
Short-term investments	711,715	1,000,635
Loans and receivables (at amortized cost)		
Accounts receivable	199,680	729
Available-for-sale (at fair value)		
Marketable securities	1,403,100	861,450
Long-term investment	–	345,000
Other financial liabilities (at amortized cost)		
Accounts payable and accrued liabilities	208,382	49,673

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

17 - FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Company is exposed to various financial risks resulting from both its operations and its investments activities. The Company's management manages financial risks. Where material, these risks are reviewed and monitored by the Board of Directors. The Company does not enter into financial instrument agreements including derivative financial instruments for speculative purposes.

Financial risks

The Company's main financial risk exposure and its financial risk management policies are as follows :

Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instruments fails to meet its contractual obligations. The Company's financial assets exposed to credit risk are primarily composed of cash and cash equivalents and short-term investments. To mitigate exposure to credit risk, the Company has revised its policy to limit the concentration of credit risk and to ensure counterparties demonstrate minimum acceptable worthiness. The Company's cash and cash equivalents and short-term investments are held at several large financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity needs by carefully monitoring cash outflows due in day-today business. Liquidity needs are monitored in various time bands, including 30-day, 180-day and 360-day lookout periods. The Company's working capital totals \$3,189,699 as at July 2011 (\$2,677,146 in 2010) including bank indebtedness of \$898 (cash and cash equivalents of \$604,218 in 2010), short-term investments of \$711,715 (\$1,000,635 in 2010), marketable securities of \$1,403,100 (\$861,450 in 2010), accounts receivable and other receivables of \$208,884 (\$1,343 in 2010), tax credit and mining duties receivable of \$859,552 (\$192,975 in 2010) and other current liabilities totalling \$208,382 (\$49,673 in 2010). The Company anticipates having sufficient funds to discharge its current liabilities and meet its commitments for exploration programs and cash payments, which are minimal given the optioning of the Dubuisson, Meunier and Granada properties (Note 11), undertake exploration work on its properties and/or acquire additional exploration properties, and meet all of its general and administrative costs for the next twelve months.

Interest risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage this risk.

The Company's policy as it relates to its cash balances is to invest excess cash in highly liquid, low-risk, short-term interest-bearing investments (such as investment savings accounts, banker's acceptances, term deposits, guaranteed investment certificates or bonds) with maturities of 360 days or less from the original date of acquisition.

The Company has limited exposure to financial risk arising from fluctuations in interest rates earned on cash equivalents and short-term investments and the volatility of these rates. As at July 31, 2011, cash equivalents and short-term investments total \$710,817 (\$1,604,853 as at July 31, 2010) and interest income derived from these investments during the year ended July 31, 2011 was \$24,043 (\$5,171 – 2010).

Market risk

The Company holds publicly listed shares of companies in the mining exploration industry. The Company is exposed to market risk in trading these shares and unfavourable market conditions could result in the disposal at less than their value at July 31, 2011. As at July 31, 2011, the value of these listed shares is \$1,403,100 (\$1,206,450 as at July 31, 2010). As at July 31, 2011, had the bid price for these publicly listed shares been 10% lower, the comprehensive loss for the year would have been approximately \$140,310 higher. Conversely, had the bid price been 10% higher, the comprehensive loss for the year would have been approximately \$140,310 lower.

Adventure Gold Inc.

(An Exploration Company)

Notes to Financial Statements

For the years ended July 31, 2011 and 2010

18 - SEGMENTED INFORMATION

The Company has determined that it only operates in one segment, being the acquisition, exploration and development of mining properties with the aim of discovering commercially exploitable deposits of minings. All of the long-term assets are held in Canada.

19 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

20 - SUBSEQUENT EVENTS

In September 2011, the Company, RTM and LSG have fulfilled all their commitments and earned respectively 75%, 12.5% and 12.5% interest each in and to the Property Meunier 144 (Note 11 - see details on the option agreement dated July 8, 2008, and as amended on June 1, 2009 and May 5, 2010). In addition, RTM and LSG elected to exercise the Second Option to each acquire an additional 12.5% interest in the Property.

In June 2011 and as approved by TSX regulations in August 2011, the Company entered into an option agreement with Mazorro, whereby Mazorro acquired an exclusive option to earn up to 100% in 85 claims covering an area of approximately 3,500 hectares of the Company's Dalquier property, located in the south-central segment of the prolific Archean Abitibi Greenstone Belt less than 4 kilometers north of the town of Amos in the township of Dalquier, Quebec. in Val d'Or East area, by spending \$2.0M in exploration expenditures, issuing 2,000,000 shares of Mazorro and paying \$300,000 in cash payment over the next 5 years.

To earn its initial 100% interest, Mazorro must make cash payments, issue common shares and incur exploration expenses in the following timelines:

	<u>Cash</u> <u>Payments</u> \$	<u>Shares</u>	<u>Exploration</u> <u>Expenses</u> \$
On signing of the Agreement	25,000 ⁽¹⁾	500,000 ⁽²⁾	100,000 ⁽³⁾
On or before June 30, 2012	25,000	500,000	250,000
On or before June 30, 2016	<u>250,000</u>	<u>1,000,000</u>	<u>1,650,000</u>
	<u>300,000</u>	<u>2,000,000</u>	<u>2,000,000</u>

(1) Cash payment was made in August 2011.

(2) These common shares were issued on August 12, 2011 at a price of \$0.17 per share.

(3) These exploration expenses were incurred on or before the date noted in the agreement.

Following the exercise of the Option, Mazorro will grant the Company a royalty (the "Royalty") equal to two and one-half percent (2.5%) in aggregate of the net smelter returns on all mining claims of the Property. Mazorro retains the right, at any time to purchase 1 of the 2.5 percentage points of the Royalty by paying the Company the sum of \$1,500,000. A director of the Company is also a director of Mazorro.

In October and November 2011, a total of 3,384,522 warrants were exercised for gross proceeds of \$539,489 and a total of 115,000 stock options were exercised for gross proceeds of \$18,350.