

**TOTEM MINERALS INC.**  
**(An Exploration Stage Company)**

**FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**JULY 31, 2010 and 2009**

**TOTEM MINERALS INC.**  
**(An Exploration Stage Company)**

**Financial Statements**  
**July 31, 2010 and 2009**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of Totem Minerals Inc. (an exploration stage company) have been prepared by management in accordance with Canadian generally accepted accounting principles and reflect management's best estimates and judgment based on information currently available. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded, transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Smythe Ratcliffe LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the financial statements and their report is included herein.

*"Antony Claydon" (signed)*  
Antony Claydon  
President and Chief Executive Officer

*"Chris Cherry" (signed)*  
Chris Cherry  
Chief Financial Officer

Vancouver, British Columbia  
November 1, 2010

**AUDITORS' REPORT**

**TO THE SHAREHOLDERS OF TOTEM MINERALS INC.**  
(An Exploration Stage Company)

We have audited the balance sheet of Totem Minerals Inc. (an exploration stage company) as at July 31, 2010 and the statements of operations, comprehensive loss and deficit, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

The financial statements as at July 31, 2009 and for the year then ended were audited by another firm of auditors who provided an opinion without reservation in their report dated October 21, 2009.

*"Smythe Ratcliffe LLP" (signed)*

Chartered Accountants

Vancouver, British Columbia  
November 1, 2010

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**BALANCE SHEETS**  
(Expressed in Canadian Dollars)  
AS AT JULY 31

	2010	2009
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 711,163	\$ 1,823
Funds held in trust (Note 12)	861,000	-
Receivables	10,053	16,720
Due from related party (Note 7)	-	3,500
Short-term investments	-	491,000
Prepaid expenses and advances	-	38,217
	1,582,216	551,260
<b>Deferred acquisition costs</b> (Note 3)	110,767	-
<b>Mineral property</b> (Note 4)	127,554	-
	\$ 1,820,537	\$ 551,260
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 18,802	\$ 18,325
Due to related party (Note 7)	100	100
	18,902	18,425
<b>Shareholders' equity</b>		
Capital stock (Note 5)	1,547,364	1,159,141
Contributed surplus (Note 5)	535,614	262,950
Subscriptions received in advance (Note 12)	861,000	-
Deficit	(1,142,343)	(889,256)
	1,801,635	532,835
	\$ 1,820,537	\$ 551,260

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

**Significant event** (Note 12)

**Subsequent event** (Note 13)

**On behalf of the Board:**

"Antony Claydon" (signed) Director  
Antony Claydon

"Balbir Johal" (signed) Director  
Balbir Johal

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

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT**  
(Expressed in Canadian Dollars)  
YEARS ENDED JULY 31

	2010	2009
<b>EXPENSES</b>		
Consulting (Note 7)	\$ 19,000	\$ -
Management and administration fees	97,000	113,500
Office and miscellaneous	128	4,499
Professional fees	80,366	59,470
Rent	8,000	26,262
Stock-based compensation (Note 6)	-	207,286
Transfer agent and filing fees	16,221	17,141
<b>Loss Before Other Items</b>	<b>(220,715)</b>	<b>(428,158)</b>
<b>OTHER ITEMS</b>		
Interest income	844	4,963
Advances written-off	(33,216)	-
Mineral property written-off (Note 4)	-	(327,566)
	<b>(32,372)</b>	<b>(322,603)</b>
<b>Loss from operations before income taxes</b>	<b>(253,087)</b>	<b>(750,761)</b>
Future income tax recovery (Note 9)	-	77,500
<b>Loss and comprehensive loss for the year</b>	<b>(253,087)</b>	<b>(673,261)</b>
<b>Deficit, beginning of year</b>	<b>(889,256)</b>	<b>(215,995)</b>
<b>Deficit, end of year</b>	<b>\$ (1,142,343)</b>	<b>\$ (889,256)</b>
<b>Basic and diluted loss per common share</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding</b>	<b>15,168,385</b>	<b>11,338,735</b>

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

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**STATEMENTS OF CASH FLOWS**  
(Expressed in Canadian Dollars)  
YEARS ENDED JULY 31

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the year	\$ (253,087)	\$ (673,261)
Items not affecting cash:		
Advances written-off	33,216	-
Mineral property written-off	-	327,566
Stock-based compensation	-	214,563
Changes in non-cash working capital items:		
Receivables	6,667	(5,292)
Prepaid expenses and advances	5,001	9,869
Accounts payable and accrued liabilities	476	(4,630)
Net cash provided by (used in) operating activities	(207,727)	(131,185)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral property acquisition costs	(127,554)	(182,267)
Deferred acquisition costs	(110,767)	-
Net cash used in investing activities	(238,321)	(182,267)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued for cash, net	660,888	824,366
Subscriptions received in advance	861,000	-
Funds held in trust	(861,000)	-
Short-term investments	491,000	(491,000)
Repayment from (to) related parties	3,500	(23,809)
Net cash provided by financing activities	1,155,388	309,557
<b>Change in cash during the year</b>	<b>709,340</b>	<b>(3,895)</b>
<b>Cash, beginning of year</b>	<b>1,823</b>	<b>5,718</b>
<b>Cash, end of year</b>	<b>\$ 711,163</b>	<b>\$ 1,823</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
<b>Non-cash financing and investing transactions</b>		
Shares issued as part of unit private placement	\$ 65,000	\$ -

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

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**YEARS ENDED JULY 31, 2010 AND 2009**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Totem Minerals Inc. (the “Company”) was incorporated under the *Business Corporations Act* of British Columbia on October 5, 2005. The Company is an exploration stage public company whose principal business activities are the acquisition and exploration of mineral properties. The Company is in the process of acquiring and exploring mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts shown for mineral property and related deferred costs is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete development and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to a going concern that contemplates the realization of assets and the settlement of liabilities in the normal course of business as they come due. At July 31, 2010, the Company reported working capital of \$702,314 (2009 - \$532,835); and an accumulated deficit of \$1,142,343 (2009 - \$889,256). As at July 31, 2010, the Company received \$861,000 in connection with the purposed financing on the Abzu transaction (Note 12). These funds have not been included in the working capital amount or cash on hand, as the funds are refundable if the transaction does not close on or before December 31, 2010. The Company’s ability to continue as a going concern is dependent on the ability of the Company to raise equity financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Realization values of assets may be substantially different from the carrying value shown in these financial statements should the Company be unable to continue as a going concern, and the differences may be material. These financial statements do not include any adjustments to the carrying values or classification of the Company’s assets and liabilities should the Company be unable to continue as a going concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Adoption of new accounting policy**

*Financial Instruments – Disclosures*

The Canadian Institute of Chartered Accountants’ (“CICA”) Handbook Section 3862, “Financial Instruments – Disclosures”, was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. 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.

See Note 8 for relevant disclosures.

**Business Combinations**

In January 2009, the CICA issued Handbook Sections 1582, “Business Combinations”, 1601, “Consolidated Financial Statements” and 1602, “Non-Controlling Interests”, which replace Handbook Sections 1581, “Business Combinations”, and 1600, “Consolidated Financial Statements”. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards (“IFRS”). Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections are applicable for interim and annual consolidated financial statements for fiscal years beginning January 1, 2011. Early adoption of these sections is permitted and all three sections must be adopted concurrently. The Company adopted these accounting policies effective August 1, 2009.

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
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(Expressed in Canadian Dollars)  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the year. Significant estimates include: the estimated realizable value of mineral property, determining the variables used in the calculation of stock-based compensation and determining the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from these estimates and could affect future results of operations and cash flows.

**Financial instruments and comprehensive income**

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value, except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial instruments are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial assets are measured at fair value and changes in fair value are recognized in other comprehensive income until the instrument is derecognized or impaired.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value of such instruments.

The Company has no items of other comprehensive income (loss) in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

**Mineral properties**

The Company defers all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed annually, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the interest for an amount exceeding the deferred costs, provision is made for the impairment in value.

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are recorded as property costs or recoveries when the payments are made or received.

The amounts shown for mineral properties do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

**TOTEM MINERALS INC.**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)**

**Asset retirement obligation (“ARO”)**

An ARO relates to expected reclamation and closure activities. An ARO is recognized initially at fair value with a corresponding increase in related assets. The ARO is accreted to full value over time through periodic accretion charges recorded to operations using the Company's credit-adjusted risk-free rate. In subsequent periods, the Company adjusts the carrying amounts of the ARO and the related asset for changes in estimates of the amount or timing of underlying future cash flows.

**Foreign currency translation**

Monetary assets and liabilities of the Company denominated in foreign currencies are translated into Canadian dollar equivalents at the rate of exchange in effect at the balance sheet date and non-monetary items are translated at historical rates. Expenses are translated at rate of exchange on the transaction date. Exchange gains or losses arising on translation are included in the statements of operations.

**Stock-based compensation**

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments measured and recognized, to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged either to operations or mineral property interests, with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

**Warrants**

The proceeds from the issuance of units, consisting of common shares and warrants, are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the shares and warrants, respectively.

**Income taxes**

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

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

**Basic and diluted loss per share**

Basic loss per common share is calculated using the weighted average number of common shares outstanding during the year. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the years presented, this calculation proved to be anti-dilutive.

Shares held in escrow, other than where their release is subject to passage of time, are not included in the calculation of the weighted average number of common shares outstanding.

**Future accounting changes**

*International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board confirmed that 2011 is the changeover date for publicly-listed companies to use IFRS replacing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be August 1, 2010 and will require the restatement for comparative purposes of amounts reported by the Company for the year ending July 31, 2011. The Company continues to monitor and assess the impact of Canadian GAAP and IFRS.

**3. DEFERRED ACQUISITION COSTS**

During the year ended July 31, 2010, the Company incurred \$110,767 for geological consulting, travel and professional fees in connection with the acquisition of Abzu Resources Ltd. ("Abzu") (Note 12).

**4. MINERAL PROPERTY**

*Caledonia Property*

**Acquisition Costs**

By agreement dated December 17, 2009, the Company acquired an option to earn a 100% interest in 26 mineral claims in the Nanaimo Mining Division, British Columbia, Canada. Terms of the option call for cash payments of \$150,000 and exploration expenditures of \$300,000 over three years. Timing of these payments and expenditures are as follows:

Date	Cash Payments	Work Commitment
June 15, 2010	\$ 50,000 *	\$ 100,000 (incurred)
January 1, 2011	50,000	100,000
January 1, 2012	50,000	100,000
<b>Total</b>	<b>\$ 150,000</b>	<b>\$ 300,000</b>

\* During the year ended July 31, 2010, the Company entered into discussions with the optionor to extend the initial payment of \$50,000 to a future date, which is still being negotiated.

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
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**4. MINERAL PROPERTY (cont'd...)**

*Microgold Property*

Pursuant to an option agreement dated April 4, 2006 and subsequently amended on February 12, 2008 and October 4, 2008, the Company was granted the sole and exclusive right and option to acquire an undivided 100% interest, subject to a 2% net smelter return, in two mineral claims situated in the Nicola and Kamloops Mining Districts by making payments totaling \$51,000, issuing 25,000 options and incurring a total of \$300,000 expenditures on the property.

**Deferred Exploration Costs**

<b>Year ended July 31, 2010</b>	<b>2010</b>	<b>2009</b>
	Caledonia Property	Microgold Property
Balance, beginning of year	\$ -	\$ 115,568
Assays and drilling	49,933	95,979
Equipment rental	8,792	-
Field supplies	3,428	11,798
Field travel and accommodation	659	8,586
Field wages	9,820	5,288
Geological services	39,600	26,797
Project management	13,222	-
Reports	2,100	5,600
	127,554	154,048
Written-off	-	(269,616)
Balance, end of year	\$ 127,554	\$ -

In July 2009, the Company had written off property acquisition costs of \$57,950 and deferred exploration costs of \$269,616 related to the Microgold Property option agreement entered into on April 4, 2006.

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**YEARS ENDED JULY 31, 2010 AND 2009**

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

**Authorized**

Unlimited common shares without par value and unlimited preferred shares without par value.

**Issued**

	Number of Shares	Amount	Contributed Surplus
Balance, July 31, 2008	7,530,001	\$ 331,025	\$ 48,387
Issued for cash	3,000,000	750,000	-
Flow-through shares issued for cash	1,000,000	250,000	-
Shares issue costs	-	(196,634)	-
Income tax effect of flow-through shares	-	(77,500)	-
Stock-based compensation	-	-	207,286
Shares issued for agents	50,000	12,500	-
Agent warrants exercised	344,000	86,000	(44,700)
Fair value of agent warrants exercised	-	-	51,977
Issued for mineral property	25,000	3,750	-
Balance, July 31, 2009	11,949,001	1,159,141	262,950
Issued for cash	10,075,000	668,750	-
Issued for finder fee	1,000,000	65,000	-
Transfer from contributed surplus for exercised options	-	16,583	(16,583)
Allocation of finder fee to warrants	-	-	51,800
Allocation of proceeds to warrants	-	(237,447)	237,447
Share issue cost	-	(124,663)	-
Balance, July 31, 2010	23,024,001	\$ 1,547,364	\$ 535,614

During the year ended July 31, 2010, the Company issued 75,000 shares pursuant to the exercise of incentive stock options for cash receipts of \$18,750 and transferred related contributed surplus of \$16,583.

During the year ended July 31, 2010, the Company issued 10,000,000 units for gross proceeds of \$650,000. Each unit consisted of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at \$0.40 for a period of two years. The Company also issued 1,000,000 units as a finder's fee in connection with this placement. The units of the finder's fee were valued at \$65,000 and a further \$51,800 was allocated to the value of the finder's fee warrants. The Company incurred cash share issue costs of \$7,862.

During the year ended July 31, 2009, the Company issued a total of 1,000,000 flow-through shares for cash consideration of \$250,000. Accordingly, the amount will not be available to the Company for future deductions from taxable income.

**TOTEM MINERALS INC.**  
(An Exploration Stage Company)  
**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**YEARS ENDED JULY 31, 2010 AND 2009**

**5. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)**

**Escrow shares**

As at July 31, 2010, a total of 1,656,001 common shares remain in escrow. These shares are subject to escrow agreements and 552,000 common shares may be released from escrow on each of September 18, 2010 (released), March 18, 2011 and September 18, 2011.

**6. STOCK OPTIONS AND WARRANTS**

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock, less allowable discount, as calculated on the date of grant. The options may be granted for a maximum term of five years with vesting provisions determined by the Board of Directors.

Stock option transactions activity is summarized as follows:

	Number of Options		Weighted Average Exercise Price
Balance, July 31, 2008 and 2009	930,000	\$	0.25
Options exercised	(75,000)	\$	0.25
Options cancelled	(855,000)	\$	0.25
Balance, July 31, 2010	-	\$	-
Number currently exercisable	-	\$	-

**Stock-based compensation**

The Company expenses the fair value of all stock-based compensation awards as determined using the Black-Scholes option pricing model.

During the year ended July 31, 2010, the Company recorded stock-based compensation of \$Nil on stock options (2009 - \$207,286) and \$Nil on broker options (2009 - \$7,277) in respect to stock options previously granted. The fair value of these stock options granted was \$Nil (2009 - \$0.19) using the Black-Scholes option pricing model, with the following assumptions:

	2010	2009
Risk-free interest rate	N/A	2.94%
Expected life of options	N/A	5 years
Annualized volatility	N/A	100%
Dividend yield	N/A	0%

There were no new options granted during the year ended July 31, 2010.

**TOTEM MINERALS INC.**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
(Expressed in Canadian Dollars)  
**YEARS ENDED JULY 31, 2010 AND 2009**

**6. STOCK OPTIONS AND WARRANTS (cont'd...)**

**Warrants**

The following warrants were outstanding at July 31, 2010:

Number of Warrants	Exercise Price	Expiry Date
11,000,000	\$ 0.40	April 16, 2012*

\* If the Company's shares trade at over \$1.00 for 20 consecutive trading days, the Company can give notice to accelerate the expiry date to 30 days.

The allocation of fair value to warrants was calculated based on relative fair values. The fair value of warrants issued on April 16, 2010 was calculated as \$0.05 using a risk-free interest rate of 1.43% with volatility of 170.65% for a two-year term.

Warrant transactions and the number of warrants are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance, July 31, 2008	-	\$ -	-
Issued	400,000	0.20	2.00
Expired	(344,000)	0.20	-
Balance, July 31, 2009	56,000	\$ 0.20	0.66
Issued	11,000,000	0.40	2.00
Expired	(56,000)	0.20	-
Balance, July 31, 2010	11,000,000	\$ 0.40	1.71

**7. RELATED PARTY TRANSACTIONS**

During the year ended July 31, 2010, the Company entered into the following transactions with related parties:

- Paid or accrued consulting fees of \$19,000 (2009 - \$Nil) to a company controlled by a director and a former director.
- Paid or accrued management and administrative fees of \$97,000 (2009 - \$58,500) to a director and a company controlled by a director.
- Paid or accrued rent of \$8,000 (2009 - \$4,262) to a company controlled by a director.
- Paid or accrued professional fees of \$25,563 (2009 - \$26,100) to a director and a former officer of the Company.

At July 31, 2010, the Company is owed \$Nil (2009 - \$3,500) by a director.

At July 31, 2010, there is \$100 due to related parties (2009 - \$100).

These transactions are 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.

**TOTEM MINERALS INC.**  
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**8. FINANCIAL INSTRUMENTS**

The Company classifies its cash, funds held in trust and short-term investments as held-for-trading; receivables as loans and receivables; and accounts payable and accrued liabilities and amounts due to related parties as other financial liabilities. The carrying values of cash, funds held in trust, short-term investments, receivables, and accounts payable and accrued liabilities approximate their fair values due to short-term maturity of these financial instruments. The fair value of amounts due from/to related parties have not been disclosed as their fair values cannot be reliably measured as the parties are not at arm's length. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant credit, interest or currency risks arising from these financial instruments.

**8. FINANCIAL INSTRUMENTS (cont'd...)**

The Company's financial instruments are exposed to certain financial risks, which include credit risk, liquidity risk, interest rate risk, foreign currency risk and other price risk.

**(a) Credit risk**

The Company's cash is mainly held at large Canadian financial institutions and as at July 31, 2010 is mainly held in interest-bearing accounts. The Company's receivables mainly comprise of HST recoverable from the Canadian government. Accordingly, the Company is not exposed to significant credit risk.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. At July 31, 2010, the Company had liabilities of \$18,900 (2009 - \$ 18,425) with contractual maturities of 90 days or less. The Company manages liquidity risk through the management of its capital resources as outlined in Note 10.

**(c) Market risk**

Market risk is the risk of loss that may arise from changes in market factors comprised of interest rate, foreign currency, and commodity and other price risks.

**(i) Interest rate risk**

The Company has cash balances, which are deposited at Canadian financial institutions. As of July 31, 2010, the Company did not have any investments in short-term investments.

**(ii) Foreign currency risk**

The Company is not exposed to foreign currency risk on its financial instruments.

**(iii) Other price risk**

The Company is not exposed to material other price risks on its financial instruments.

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**9. INCOME TAXES**

(a) A reconciliation of current income taxes at statutory rates with the reported taxes is as follows:

	2010	2009
Expected tax recovery	\$ 74,661	\$ 232,736
Stock-based compensation	-	(64,260)
Change in timing differences	3,550	45,942
Effect on change on tax rate	(44,039)	(2,949)
Change in valuation allowance	(34,172)	(133,969)
<b>Total income taxes</b>	<b>\$ -</b>	<b>\$ 77,500</b>

(b) Details of future income tax assets are as follows:

	2010	2009
Future tax assets (liabilities):		
Non-capital loss carry-forward	\$ 161,459	\$ 101,831
Interest in mineral properties	(13,422)	17,695
Share issuance costs	54,428	48,767
	202,465	168,293
Valuation allowance	(202,465)	(168,293)
<b>Net future tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

The Company has non-capital losses of approximately \$645,900 that may be carried forward and applied against taxable income in future years for Canadian tax purposes. These losses, if unutilized, will expire between 2026 and 2030. Subject to certain restrictions, the Company has further resource development and exploration expenditures totaling approximately \$184,600 available to reduce taxable income of future years. The future income tax benefits of these losses, resource deductions and other tax assets have been offset by a valuation allowance.

**10. CAPITAL MANAGEMENT**

The capital structure of the Company consists of equity attributable to common shareholders, comprising issued capital, contributed surplus and deficit. The Company's objectives when managing capital are to: (i) preserve capital; (ii) obtain the best available net return; and (iii) maintain liquidity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and investments.

The Company's policy is to invest its excess cash in highly liquid, fully guaranteed, bank-sponsored instruments. This strategy is unchanged from 2009. The Company is not subject to externally imposed capital restrictions.

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**11. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

**12. SIGNIFICANT EVENT**

In June 2010, the Company announced that it entered into a Letter of Intent ("LOI") with Abzu Resources Ltd ("Abzu"), a British Columbia private company, to acquire Abzu's indirect 100% interest (the "Transaction") in seven gold exploration concessions covering over 3,000 square kilometers in West Africa in Ghana and La Cote d'Ivoire, Africa (the "Concessions"). Under the terms of the LOI, the Company has agreed to acquire Abzu's 100% indirect interest in the Concessions by acquiring all of the issued and outstanding shares of Abzu in exchange for the issuance of approximately 13,600,000 common shares of the Company. In addition, the Company will issue 200,000 share purchase warrants exercisable at \$0.60 per share until November 30, 2014 to replace certain outstanding share purchase warrants of Abzu. The Transaction will be completed by way of a take-over bid circular. The Transaction is arm's length and, if completed, will constitute a "Fundamental Transaction" under the TSX Venture Exchange's (the "Exchange") policies and is subject to the satisfaction of certain conditions, including the receipt of Exchange acceptance. Concurrent with the completion of the Transaction, the Company intends to change its name to Abzu Resources Ltd.

Subsequent to June 30, 2010, the Company announced a private placement for gross proceeds of \$7,000,000. Of the subscriptions related to this private placement, \$861,000 was received as at July 31, 2010 and, subsequent to the year-end, the remaining amount has been received or committed.

Each Subscription Receipt, issued for \$0.50, will be automatically convertible, for no additional consideration, into one unit (a "Unit") upon satisfaction of certain conditions relating to the Company's acquisition of Abzu. Each Unit will consist of one common share and one common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder thereof to purchase one additional common share of the Company at a price of \$0.75 for a period of 12 months. In the event that the closing price of the Company's common shares on the Exchange exceeds \$1.00 for 20 consecutive trading days, the Company shall have rights to accelerate the exercise period of the Warrants to a date not less than 30 days from date notice is given to holders of the acceleration.

The Company has agreed, subject to Exchange acceptance, to the payment of a finder's fee in the form of shares of the Company, which will be paid in accordance with Exchange policies to an arm's length third party, for introducing the Company to Abzu upon the successful completion of the Transaction.

Also, pursuant to the terms of the Abzu LOI, the Company and Abzu have agreed, subject to Exchange acceptance, that conditional upon the closing of the Transaction, the Company will grant to new directors, consultants and officers an aggregate of 2,000,000 stock options to purchase up to 2,000,000 common shares of the Company at the private placement price of \$0.50 per unit in accordance with the Company's Stock Option Plan.

**13. SUBSEQUENT EVENT**

Subsequent to July 31, 2010, 30,000 warrants were exercised at \$0.40 per share for total proceeds of \$12,000.