



**JAGUAR FINANCIAL CORPORATION**  
Second Quarter  
MD&A and  
FINANCIAL STATEMENTS

2011

## Management's Discussion and Analysis – Second Quarter 2011

### Introduction

Jaguar Financial Corporation ("Jaguar" or the "Company") is a Canadian merchant bank that invests in undervalued small capitalization companies in a variety of industry sectors. The Company is governed by the *Business Corporations Act (Ontario)* (the "OBCA") and its common shares are listed on the Toronto Stock Exchange under the symbol "JFC". Jaguar's registered head office is Suite 2020, 145 King St. West, Toronto, Ontario.

The following Management Discussion and Analysis ("MD&A") of the financial condition and results of operations of the Company are the views of management and should be read in conjunction with the unaudited financial statements and related notes for the three months ended June 30, 2011, compared to three months ended June 30, 2010.

Effective January 1, 2011, the Company adopted International Financial Reporting Standards ("IFRS") in accordance with the Accounting Standards Board ("AcSB") requirement for publicly accountable enterprises to converge with IFRS. The unaudited financial statements for the three months ended June 30, 2011, which are discussed in this MD&A, have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. These interim financial statements for the period ending June 30, 2011, have not been reviewed by the Company's auditors.

This report is dated as at August 8, 2011, and the Company's public filings, including its most recent Annual Information Form, can be reviewed via the SEDAR website ([www.sedar.com](http://www.sedar.com)).

### Forward-Looking Statements

This MD&A contains "forward-looking statements" that reflect Jaguar's current expectations and projections about its future results. When used in this MD&A, forward looking statements can be identified by the use of words such as "estimate", "consider", "expect", "anticipate", "objective" and similar expressions or variations of such words. Forward looking statements are, by their very nature, not guarantees of Jaguar's future operational or financial performance, and are subject to risks and uncertainties and other factors that could cause Jaguar's actual results, performance, prospects or opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. No representation or warranty is intended, with respect to anticipated future results, that estimates and projections will be sustained or that any project will otherwise prove to be economic.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A or as of the date otherwise specifically indicated herein. Due to risks and uncertainties, including the risks and uncertainties identified elsewhere in this MD&A, actual events may differ materially from current expectations. Jaguar disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by securities law.

### Strategic Focus

The Company is a merchant bank, focused on creating value for Jaguar's shareholders by making investments in what management considers undervalued companies in various industry sectors. The Company believes that management has very good merchant banking experience, which assists the Company in making investments in undervalued companies and realizing on such investments, passively or proactively, depending on the circumstances. Proactive involvement by Jaguar could include working with management or the directors of the particular company to implement necessary changes to create shareholder value, by initiating change at the board level, or by implementing a change of control transaction.

In 2008 the Company expanded its investment strategy to include participation with investor groups or lender groups in which the Company directs the investment decisions and the investor or lender groups participate in any investment gains. Lender groups do not participate in any investment losses.

### Investments

Since commencing operations as a merchant bank in Q1 of 2007, Jaguar has invested in publicly traded securities of over seventy companies, which the Company believed were undervalued. Most of those positions were sold over the course of the last four years. As at June 30, 2011, the Company owned shares in seven companies and short sold the shares of one company.

On June 30, 2011, the Company has a significant investment in Lakeside Steel Inc. ("Lakeside"). During the quarter, the Company sold 2,020,020 shares of Lakeside for proceeds of \$995,000, generating a gain of \$563,195. On May 19, 2011 Lakeside completed a prospectus offering; through which Lakeside issued 44,275,000 common shares. This offering, along with the sale of part of its ownership interest in Lakeside, significantly diluted the Company's ownership in Lakeside and resulted in the Company reassessing its determination of significant influence on Lakeside and concluding that the

Company no longer had significant influence on Lakeside. The Company's investment in Lakeside of 16,465,314 shares represented 8.5% (December 31, 2010 – 11.7%) of the outstanding common shares of Lakeside as at June 30, 2011.

Upon determination that the Company no longer had significant influence, the Company accounted for its investment in Lakeside using the fair value method. As a result of using fair value accounting for Lakeside, the Company reported a gain of \$3,036,533 on its investment in Lakeside.

The Company's strategy, as discussed above, will remain the same going forward. The current economic and capital market environment, though challenging, provides opportunities for the Company to enhance shareholder value.

## Results of Operations

The recent United States debt-ceiling crisis, reports on concerns that a serious slowdown may be under way for the United States and other major economies and fears that the debt crisis in Greece may spread to other European countries have resulted in significant pull back and continued extreme volatility in the global stock markets. As a result, capital markets environment, credit markets and the economy continue to be extremely fragile and unpredictable.

For the three months ended June 30, 2011, Jaguar reported income from operations of \$2,108,053 compared to income from operations of \$1,607,846 for the same period in the prior year. The significant increase in operating income in Q2, 2011 is primarily due to transferring the investment in Lakeside from equity based to fair value accounting. In the prior year including the Company's share of Lakeside's loss of \$290,015 under the equity method of accounting, net income was \$1,317,831.

*Financial Highlights for the three months ending June 30, 2011 with comparatives:*

<b>Operating Results</b>	<b>Three months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Gain on investments, net	\$ 2,891,363	\$ 1,882,682
Loss on derivatives, net	(374,470)	-
Revenue – fees	3,700	-
<b>Net income from operations*</b>	<b>2,108,053</b>	<b>1,607,846</b>
Equity earnings/(loss) of associated company	-	(290,015)
<b>Net income and comprehensive income for the period</b>	<b>2,671,248</b>	<b>1,317,831</b>
Net income per share – basic and diluted	0.02	0.01
Cash and cash equivalents	7,067,211	6,364,888
Investments, at fair value	7,874,166	2,547,653
Investment in associated company, at equity	-	2,379,776
Obligations relating to securities sold short	(2,959,350)	-
Shareholders equity	\$ 11,733,317	\$ 10,070,879

\*Net income before equity accounted investment gains/losses

For the three months ended June 30, 2011, the Company generated a net gain on investments of \$2,891,363 as compared to a net gain of \$1,882,682 for the same period last year.

As at June 30, 2011, Jaguar held a short position in the shares of a company whose shares the Company believes are overvalued. The short position as at June 30, 2011 has resulted in an unrealized investment loss of \$504,372, which is recorded in net gain on investments.

Fee revenue was \$3,700 for the three months ended June 30, 2011, compared to nil in 2010.

Total expenses for the three months ended June 30, 2011 increased to \$423,399 from \$275,542 in 2010. The primary drivers of the \$147,857 increase in expenses were legal and audit fees – higher by \$371,933 as the prior year included a recovery of legal fees of \$250,000 relating to an investment, and interest expense – higher by \$174,563.

Management salaries, directors fees, and consulting fees were down by \$27,102 compared to 2010, as the Company did not pay salaries or bonuses to management in Q2 of 2011.

*Financial Highlights for the six months ending June 30, 2011 with comparatives:*

<b>Operating Results</b>	<b>Six months ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
Gain on investments, net	\$ 1,776,416	\$ 4,210,822
Loss on derivatives, net	(401,786)	-
Revenue – fees	3,700	62,106
<b>Net income from operations*</b>	<b>611,849</b>	<b>3,747,397</b>
Equity earnings/(loss) of associated company	152,244	(1,081,677)
Dilution gain on issue of common shares by associated company	-	(88,932)
<b>Net income and comprehensive income for the period</b>	<b>1,327,288</b>	<b>2,567,788</b>
Net income per share – basic and diluted	0.01	0.04
Cash and cash equivalents	7,067,211	6,364,888
Investments, at fair value	7,874,166	2,547,653
Investment in associated company, at equity	-	2,379,776
Obligations relating to securities sold short	(2,959,350)	-
Shareholders equity	\$ 11,733,317	\$ 10,070,879

*\*Net income before equity accounted investment gains/losses*

For the six months ended June 30, 2010, the Company generated a net gain on investments of \$1,776,416, compared to a net gain of \$4,210,822 in the first six months of 2010.

Fee revenue was \$3,700 for the six months ended June 30, 2011, compared to \$62,106 in 2010

Total expenses for the six months ended June 30, 2011 increased from \$526,237 to \$781,926, compared to the same period in 2010. The \$255,689 increase in expenses was driven, primarily, by legal and audit fees – higher by \$361,687 as the prior year included a recovery of legal fees relating to an investment, and interest expense - higher by \$204,689.

### **Share Capital Information**

As at June 30, 2011, the Company had 107,837,332 issued common shares together with 6,250,000 stock options outstanding, which, if exercised, would amount to a fully diluted position of 114,087,332 common shares. On April 29, 2010, the Company issued 2,000,000 common shares, which had previously been allotted and reserved for issuance in accordance with the terms of its Equity Incentive Plan. The Company issued an additional 2,000,000 common shares under the same plan on April 29, 2011. An additional 1,300,000 common shares of the Company will be issued under this plan on April 29, 2012.

### **Reduction of Stated Capital**

On June 8, 2011, the shareholders of the Company approved the reduction in a stated capital of the Company in the amount of \$56,129,885. The reduction of share capital resulted in a reduction of the Company's deficit by a corresponding amount.

### **Dividend Declaration**

On June 9, 2011, the Company announced that its Board of Directors has approved a dividend of \$0.0021 per share on its common shares, payable July 8, 2011, to shareholders of record at the close of business on June 24, 2011. The dividend was subsequently paid on July 8, 2011.

### **Normal Course Issuer Bid**

On June 29, 2011, the Company announced a normal course issuer bid. According to the terms of the bid, and in accordance with the rules of the TSX, during the period commencing July 4, 2011, and ending July 4, 2012, the Company may purchase a maximum of 8,081,616 of its common shares, which represents approximately 10% of the public float, as defined in the TSX Company Manual. Purchases of common shares will be effected through the facilities of the TSX in open market transactions at market prices prevailing at the time of acquisition. Daily purchases may not exceed 14,997 common shares, unless otherwise permitted by the TSX. All common shares purchased under the bid will be cancelled.

Under the previous normal course issuer bid, which expired on June 6, 2011, the Company purchased an aggregate of 416,500 common shares at an average price per share of \$0.08055.

## Liquidity and Capital Resources

As at June 30, 2011, the Company had cash, cash equivalents and investments, at fair value of \$14,941,377 and securities sold short with a fair value of \$2,959,350. The Company had net assets of \$11,733,317 as at June 30, 2011, or approximately \$0.11 per issued common share.

The fair value of the Company's investment portfolio was \$7,874,166 as at June 30, 2011, as compared to \$8,999,006 for the prior year. The decrease in the value of the investment portfolio is primarily due to reduced investment activity throughout 2010 and in first half of 2011. Jaguar also holds a short position with a fair value of \$2,959,350. The Company currently has investments in the securities of seven companies, two less than at the end of Q2 of 2010.

The Company currently has no debt outstanding.

Presently, the Company has sufficient funds on hand to fund its working capital requirements.

The fair value used in valuing the Company's investment portfolio is based on the closing bid price of each security held in the Company's investment portfolio as at June 30, 2011.

## Related Party Information

The Company had related party transactions with directors and officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Merchant banking fees <sup>1</sup>	\$ 3,700	\$ -	\$ 3,700	\$ -
Interest income <sup>1</sup>	10,798	-	13,064	-
Transaction costs <sup>1</sup>	23,287	99,544	30,416	105,276
Advisory fees <sup>1</sup>	-	15,750	-	24,871
Profit participation fees <sup>3</sup>	-	67,644	-	67,644
Equity compensation <sup>1</sup>	31,974	-	73,892	-
Interest expense <sup>3</sup>	-	12,993	-	19,952
Payables and accruals <sup>3</sup>	-	-	-	-
Receivable <sup>1</sup>	25,000	25,000	25,000	25,000

1. Northern Securities Inc. ("NSI"), a Canadian investment dealer, is a wholly owned subsidiary of Northern Financial Corporation ("NFC"), a shareholder of Jaguar and acts as investment advisor and financial advisor to Jaguar in the course of its merchant banking activities. Jaguar has established a governance agreement between Jaguar, NFC and NSI to address any potential conflicts of interest. The Chairman and Chief Executive Officer of NFC is also the Chairman and Chief Executive Officer of Jaguar.
2. All remuneration of the Chief Executive Officer of Jaguar is paid to Stature Inc., a corporation wholly owned by the Chief Executive Officer of Jaguar. Effective January 1, 2009, the Chief Executive Officer of Jaguar waived all salary and all bonuses to which he may be entitled until a total amount of \$1,150,000 has been waived. To June 30, 2011, \$750,000 in compensation has been waived.
3. Profit participation fees and interest on loans provided by directors of the Company. The Company identifies investment opportunities and forms investor groups to participate in the opportunities through loans to the Company. Participation in the investor groups, at commercial terms, is open to accredited investors, including directors of the Company. The loans are repaid once the related investments are sold, in accordance with each loan agreement. Loans were provided by Stature Inc and family members of Vic Alboini; Johwel Investments Inc, a corporation wholly owned by John Welton; and Joseph Panetta and family members of Joseph Panetta.

## Contractual Obligations

Jaguar currently occupies space under a lease between NSI and its landlord. Jaguar reimburses NSI on a monthly basis for its portion of occupancy expenses, as governed by a management agreement between Jaguar and NSI.

The Company, in an agreement with NFC, may make override payments to NFC of up to 25% of any realized gain from any investment by Jaguar.

The Company has entered into employment agreements with its executive officers. In the event of a change in control of the Company, and the employment of the executive officers is terminated, the Company is required to pay the executive officers an amount equal to two times the average of the executive officer's aggregate annual compensation in the past two years in the case of the Chief Executive Officer, and an amount of one times the average of the executive officer's aggregate annual compensation in the case of the Chief Financial Officer.

## Summary of Quarterly Results

The following table provides selected unaudited financial information for each of the last eight quarters:

	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1 Restated	Q4	Q3
Revenue	2,531,452	(1,137,677)	(157,191)	(373,750)	1,883,388	2,390,247	(26,705)	2,216,678
Net income (loss) and comprehensive income (loss)	2,671,248	(1,343,960)	295,213	(279,450)	1,317,831	1,258,957	(1,377,223)	791,802
(Loss) income per common share basic and diluted	0.02	(0.01)	0.00	0.00	0.02	0.01	(0.01)	0.01

The 2010 first quarter net income was restated when the Company issued its December 31, 2010 financial statements, for a dilution loss of \$88,932 as Lakeside completed a financing to outside investors, which reduced the Company's ownership interest from 28.1% to 25.3%. As well, the Company's equity loss was increased by \$89,507.

The fluctuation in income and total assets quarter over quarter, throughout the eight quarters, is reflective of investment gains and losses, and the fluctuation in the prices of the securities held by the Company.

#### **Future changes in accounting policies**

- (i) **Deferred income taxation:** On December 20, 2010, the IASB published *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12*. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred tax assets or deferred tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied on in annual periods beginning on or after January 1, 2012.
- (ii) **Financial instruments disclosures:** The IASB amended IFRS 7 *Financial Instruments: Disclosures* for Disclosures – Transfers of Financial Assets. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. IFRS 7 is effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.
- (iii) **Financial Instruments: IFRS 9, Financial Instruments (“IFRS 9”)** was issued by the International Accounting Standards Board (“IASB”) on October 28, 2010, and will replace IAS 39, *Financial Instruments: Recognition and Measurement (“IAS 39”)*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (“FVTPL”) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.
- (iv) **Consolidation:** IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.
- (v) **Joint Arrangements:** IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.
- (vi) **Disclosure of Interests in Other Entities:** IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.
- (vii) **Fair Value Measurement:** IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and

in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

## Management of Capital

The Company's capital structure includes the following:

	June 30, 2011	December 31, 2010
Shareholders' equity comprised of		
Capital stock	\$ 4,785,784	\$ 60,900,299
Contributed surplus	5,620,245	5,586,471
Retained earnings (deficit)	1,327,288	(56,129,885)
	<b>\$ 11,733,317</b>	<b>\$ 10,356,885</b>

The Company's objectives when managing capital are to (i) provide financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern; (ii) maintain a capital structure which allows the Company to respond to changes in economic and/or marketplace conditions and affords the Company the ability to participate in new investments; (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders equal with the level of risk; and (iv) maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by: (i) realizing proceeds from the disposition of its investments; (ii) utilizing leverage in the form of margin loans on its investments; (iii) raising capital through loans from third party investors/lenders who seek to participate in investment opportunities; and (iv) purchasing the Company's own shares for cancellation pursuant to its normal course issuer bid.

The Company's share capital is not subject to external restrictions/requirements imposed by a regulator. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a daily basis. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at June 30, 2011.

## Financial instruments

The Company's business primarily involves the purchase and sale of securities and, accordingly, the majority of its assets are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including price, liquidity and interest rate risks. A discussion of the Company's use of financial instruments and their associated risks is provided below:

### Price risk:

Price risk is the risk that the fair value of, or future cash flows from the Company's financial instruments will significantly fluctuate because of changes in prices. The value of the financial instruments can be affected by changes in equity prices.

With respect to long positions, rising equity prices may increase the price of an investment while declining equity prices may have the opposite effect. The Company's short selling activities are also affected by equity prices. There is no assurance that securities will decrease in price during the period of a short sale enough to make a profit for the Company, and securities sold short may instead increase in price.

The Company invests in small capitalization publicly traded securities. These investments are subject to market risk such that the fair value of these items may change as a result of factors specific to a particular investment or as a result of factors affecting all instruments traded in the market.

The Company manages this risk by seeking to have a diversified portfolio, which is not singularly exposed to any one or class of issuer. Jaguar's investment activities are currently diversified across five industries – pharmaceuticals, industrial, technology, telecommunication and natural resources.

As at June 30, 2011, based on a 1% change in the fair value of the Company's investments, the estimated sensitivity of the Company's net income (loss) was (\$49,000) (December 31, 2010 – \$10,000), based on a decrease, and \$49,000 (December 31, 2010 – (\$10,000)) based on an increase.

**Liquidity risk:**

Liquidity risk is the risk that results from the Company's potential inability to meet its financial obligations as they come due. The nature of investments in small market capitalization companies that are not heavily traded exposes the Company to a liquidity risk whereby it may not be able to liquidate the investments quickly at close to fair value. The Company generates cash flow primarily from its investment activity and proceeds from the liquidation of its investments, in addition to interest income earned on its investments. The Company has sufficient marketable securities, which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

The Company manages liquidity risk by reviewing the amount of cash available, on a daily basis, to ensure that it can meet its current obligations. The Company holds investments, which can be readily converted into cash when required.

**Interest Rate Risk:**

Interest rate risk is the risk of loss due to the volatility of interest rates and the impact that changes in interest rates could have on the Company's earnings and liabilities. Liabilities can be repaid by the Company at any time, without notice or penalty, which provides the Company with some ability to manage and mitigate its interest rate risk. The Company does not hedge against any interest rate risks. As at March 31, 2011, the Company had no short-term loans or other liabilities that were interest rate sensitive. The Company has short-term deposits that are interest rate sensitive.

**Critical Accounting Estimates**

Critical accounting estimates used in the preparation of the financial statements include the determination of fair value of the Company's investments. These estimates involve considerable judgment and are, or could be, affected by significant factors that are out of the Company's control.

The Company uses the closing bid price of the underlying securities on the last trading day of the period to fair value its investments. Management believes that the bid price is reflective of fair value. Certain factors may have an effect on the fair value such as general market conditions and the volume of shares traded.

**Transition to IFRS:**

The Company has adopted IFRS effective January 1, 2011. For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. The financial statements for the three months ended June 30, 2011 are the second set of statements the Company has prepared in accordance with IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Consequently, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. In preparing the Company's first annual consolidated financial statements under IFRS, the Company is required to use the standards in effect as at December 31, 2011, which may differ from the policies the Company currently expects to adopt and used in the current financial statements. Differences may arise as a result of new standards being issued, with an effective date of December 31, 2011 or prior, before the preparation of the Company's 2011 annual consolidated financial statements. Consequently, to the extent that new standards are issued with an effective date of December 31, 2011 or prior, the accounting policies used in the Company's current interim financial statements would differ from those used in the Company's 2011 annual financial statements.

Please see Note 2 to the Second Quarter 2011 Financial Statements for Jaguar's significant accounting policies.

**(a) Transition to IFRS Reconciliations:**

The Company has disclosed the following Canadian GAAP to IFRS reconciliations in note 18 of the Notes to the financial statements for the three months ended June 30, 2011 (refer to that note for details):

**(i) reconciliation of the statement of financial position and equity as at June 30, 2010.**

No reconciliation is required for the statement of comprehensive income and statement of cash flows as there are no significant differences.

All reconciliations relating to the statement of financial position for each of the periods highlighted above are due to reclassifications only.

**Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer have established and maintained disclosure controls and procedures in order to provide reasonable assurance that material information related to the Company is made known in a timely manner. Management has evaluated the effectiveness of the Company's disclosure controls and procedures as at the Company's financial year-end and believe them to be adequate and effective in providing reasonable assurance that material information is reliable and timely.

### **Internal Control Over Financial Reporting**

The Chief Executive Officer and Chief Financial Officer are responsible for certifying that they have designed the Company's internal control over financial reporting ("ICFR") to a standard that provides assurance that material information relating to Jaguar is accumulated and communicated to Jaguar's Chief Executive Officer and Chief Financial Officer to allow for timely decisions regarding required disclosure and to ensure that information required to be disclosed in Jaguar's annual and interim filings and other reports filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein. Our disclosure controls and procedures have not required significant modification as a result of our adoption of IFRS. The certifying officers have evaluated the design of the Company's ICFR as at the date of this report and have concluded that the design was effective to provide such reasonable assurance. The financial statements have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011.

As at June 30, 2011, management evaluated the effectiveness of our disclosure controls and procedures as defined under the Canadian Securities Administrators' National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. This evaluation was performed under the supervision of, and with the participation of, Jaguar's Chief Executive Officer and Chief Financial Officer. Based on the evaluation conducted as at June 30, 2011, the Chief Executive Officer and Chief Financial Officer concluded that Jaguar's disclosure controls and procedures were effective as of June 30, 2011.

### **Changes in Internal Control over Financial Reporting**

The conversion to IFRS from Canadian GAAP impacts the way we present our financial results. We have evaluated the impact of the conversion on our accounting and financial reporting systems and have updated the requisite systems to enable our reporting under IFRS, including comparative information.

To the best of the knowledge of Jaguar's Chief Executive Officer and Chief Financial Officer, no changes were made in Jaguar's internal control over financial reporting in the second quarter of 2011 that have materially affected, or are reasonably likely to materially affect, Jaguar's internal control over financial reporting.

**Jaguar Financial Corporation**  
**Statement of Financial Position**  
(Unaudited)

	<b>June 30 2011</b>	<b>December 31 2010</b>
	<b>\$</b>	<b>\$</b>
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	7,067,211	7,526,377
Investments (Note 3)	7,874,166	1,969,540
Derivatives (Note 5)	16,278	418,064
Receivables from		
Related parties	25,000	50,596
Associate	-	-
Employees	-	-
Other assets	-	551
Total current assets	<u>14,982,655</u>	<u>9,965,128</u>
<i>Non-current assets</i>		
Property, plant and equipment (Note 6)	387	822
Investment in associated company (Note 4)	-	3,617,759
Total non-current assets	<u>387</u>	<u>3,618,581</u>
<b>Total assets</b>	<u><u>14,983,042</u></u>	<u><u>13,583,709</u></u>
<b>Liabilities</b>		
<i>Current liabilities</i>		
Obligations related to securities sold short (Note 3)	2,959,350	2,960,640
Accounts payables and accrued liabilities	290,375	266,184
Total current liabilities	<u>3,249,725</u>	<u>3,226,824</u>
<b>Total liabilities</b>	<u><u>3,249,725</u></u>	<u><u>3,226,824</u></u>
<b>Shareholders' Equity</b>		
Capital stock (Note 7(b))	4,785,784	60,900,299
Contributed surplus (Note 7(f))	5,620,245	5,586,471
Accumulated other comprehensive income	-	-
Retained earnings (Deficit)	1,327,288	(56,129,885)
	<u>11,733,317</u>	<u>10,356,885</u>
	<u><u>14,983,042</u></u>	<u><u>13,583,709</u></u>

Nature of operations (Note 1)  
Commitments and contingencies (Note 14)  
Management of capital (Note 15)

Approved on behalf of the Board:

*"Vic Alboini"*

\_\_\_\_\_  
Director

*"Victor Lazarovici"*

\_\_\_\_\_  
Director

**Jaguar Financial Corporation**  
**Statements of Operations, Comprehensive Income and Deficit**  
**(Unaudited)**

	<b>Three Months</b>		<b>Six Months</b>	
	<b>Ended June 30</b>		<b>Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Merchant banking fees	3,700	-	3,700	62,106
Interest	10,859	706	15,445	706
Gain on investments, net (Note 3)	2,891,363	1,882,682	1,776,416	4,210,822
Loss on derivatives, net (Note 5)	(374,470)	-	(401,786)	-
	<u>2,531,452</u>	<u>1,883,388</u>	<u>1,393,775</u>	<u>4,273,634</u>
<b>Expenses</b>				
Management salaries, directors and consulting fees	12,008	39,110	23,760	124,025
Transaction costs	23,293	98,786	30,458	105,276
Advisory fees	-	15,750	-	24,871
Participation fees	-	218,198	-	218,198
Stock based compensation (Note 8)	31,974	-	73,892	-
Office and general	76,209	82,634	186,806	165,483
Shareholder information and transfer agent	26,663	17,892	31,780	22,729
Travel	4,766	915	5,715	2,088
Legal and audit fees	24,399	(247,534)	140,966	(220,721)
Amortization	164	431	434	862
Interest	223,923	49,360	288,115	83,426
	<u>423,399</u>	<u>275,542</u>	<u>781,926</u>	<u>526,237</u>
<b>Income from operations</b>	<b>2,108,053</b>	<b>1,607,846</b>	<b>611,849</b>	<b>3,747,397</b>
Equity income (loss) of associated company	-	(290,015)	152,244	(1,081,677)
Dilution loss on investment in associated company (net)	-	-	-	(88,932)
Gain on sale of shares in associated company (Note 4)	563,195	-	563,195	-
<b>Income before income tax</b>	<b>2,671,248</b>	<b>1,317,831</b>	<b>1,327,288</b>	<b>2,576,788</b>
Income tax (Note 10)	-	-	-	-
<b>Net income and comprehensive income</b>	<b>2,671,248</b>	<b>1,317,831</b>	<b>1,327,288</b>	<b>2,576,788</b>
Basic and diluted earnings per common share (Note 9)	0.02	0.02	0.01	0.04
<b>Deficit at beginning of period</b>				
Reduction in stated capital (Note 7 (e))	(57,473,845)	(57,285,040)	(56,129,885)	(58,722,436)
Net income	56,129,885	-	56,129,885	-
	2,671,248	1,317,831	1,327,288	2,576,788
<b>Retained earnings (deficit) at end of period</b>	<b>1,327,288</b>	<b>(55,967,209)</b>	<b>1,327,288</b>	<b>(56,145,648)</b>

**Jaguar Financial Corporation**  
**Statements of Change in Equity**  
**As at and for the six months ended June 30**  
(Unaudited)

	<b>Common Shares #</b>	<b>Common Shares \$</b>	<b>Contributed Surplus \$</b>	<b>(Deficit)/ Retained Earnings \$</b>	<b>Shareholders' Equity \$</b>
<b>Balance, January 1, 2010</b>	104,432,332	60,897,970	5,331,830	(58,722,436)	7,494,111
Cancellation of repurchased shares	(133,000)	(75,126)	61,853	-	(20)
Net income	-	-	-	2,576,788	2,576,788
<b>Balance, June 30, 2010</b>	<b>106,299,332</b>	<b>60,822,844</b>	<b>5,393,683</b>	<b>(56,145,648)</b>	<b>10,070,879</b>
<b>Balance, December 31, 2010</b>	<b>106,132,832</b>	<b>60,900,299</b>	<b>5,586,471</b>	<b>(56,129,885)</b>	<b>10,356,885</b>
Cancellation of repurchased shares	(280,000)	(153,467)	129,882	-	(23,585)
Shares, repurchased, not yet cancelled	(15,500)	(1,163)	-	-	(1,163)
Share based compensation	2,000,000	170,000	(170,000)	-	-
Accrual of share based compensation	-	-	73,892	-	73,892
Reduction in stated capital	-	(56,129,885)	-	56,129,885	-
Net income	-	-	-	1,327,288	1,327,288
<b>Balance, June 30, 2011</b>	<b>107,837,332</b>	<b>4,785,784</b>	<b>5,620,245</b>	<b>1,327,288</b>	<b>11,733,317</b>

**Jaguar Financial Corporation**  
**Statements of Cash Flows**  
**Six Months Ended June 30**  
**(Unaudited)**

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	\$	\$	\$	\$
<b>Increase (decrease) in cash and cash equivalents</b>				
<b>Operating activities</b>				
Net income	2,671,248	1,317,831	1,327,288	2,576,788
Items not affecting cash				
Purchase of investments	(3,161,934)	(3,185,941)	(4,430,513)	(3,185,941)
Proceeds from sale of investments	3,292,774	12,094,270	4,634,211	12,583,416
Gain on sale of investments	(2,891,363)	(1,882,682)	(1,776,416)	(4,210,822)
Loss on derivatives	374,470	-	401,786	-
Amortization	164	431	434	862
Gain on partial sale of shares in associated company	(563,195)	-	(563,195)	-
Equity loss of associated company	-	290,015	(152,244)	1,170,609
Stock-based compensation	31,974	-	73,892	-
	(245,862)	8,633,924	(484,757)	8,934,912
Decrease in other assets	27,546	214	26,147	35,728
Decrease in payables and accruals	(8,879)	(495,621)	24,191	(651,813)
	(227,195)	8,138,517	(434,419)	8,318,827
<b>Financing activities</b>				
Purchase of capital stock – normal course issuer bid	(14,593)	-	(24,747)	(20)
Repayment of short-term loans payable	-	(1,783,494)	-	(1,957,248)
Repayment of loans payable	-	(16,407)	-	(16,407)
	(14,593)	(1,799,901)	(24,747)	(1,973,675)
<b>Investing activities</b>				
Purchase of property, plant and equipment	-	-	-	-
	-	-	-	-
<b>Net (decrease) increase in cash and cash equivalents</b>	(214,788)	6,338,616	(459,166)	6,345,152
<b>Cash and cash equivalents at beginning of period</b>	7,308,999	26,272	7,526,377	19,736
<b>Cash and cash equivalents at end of period</b>	7,067,211	6,364,888	7,067,211	6,364,888
<b>Supplemental cash flow information</b>				
Cash and cash equivalents consist of:				
Cash	7,067,211	866,813	7,067,211	866,813
Short term deposits	-	5,498,075	-	5,498,075
	7,067,211	6,364,888	7,067,211	6,364,888

**1. Nature of operations**

Jaguar Financial Corporation (“Jaguar” or the “Company”) is a Canadian merchant bank that invests in undervalued small capitalization companies in a variety of industry sectors. The Company, in its review of small capitalization companies, may decide to short sell the securities of companies whose shares it believes are overvalued. The Company is governed by the *Business Corporations Act* (Ontario) (the “OBCA”) and its common shares are listed on the Toronto Stock Exchange (the “TSX”) under the symbol “JFC”. Jaguar’s registered head office is Suite 2020, 145 King St. West, Toronto, Ontario.

**2. Summary of significant accounting policies**

**Statement of compliance**

These unaudited financial statements have been prepared by management in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and using the accounting policies the Company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. The accounting policies of the Company have not changed since the first quarter of 2011.

These unaudited financial statements are the Company’s second financial statements prepared using International Financial Reporting Standards (“IFRS”). Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS have been included in these financial statements for the comparative annual period.

These financial statements should be read in consideration of the IFRS transition disclosures included in note 18 to these financial statements and the additional annual disclosures included herein. All defined terms used herein are consistent with those terms as defined in the financial statements for the year ended December 31, 2010.

These unaudited financial statements are presented in Canadian dollars, which is the Company’s functional and presentation currency.

These unaudited interim consolidated financial statements were authorized for issuance by the Company’s Board of Directors on August 8, 2011.

**Estimates, risks and uncertainties**

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses and other income during the year. Significant estimates and assumptions include those related to the determination of the fair value of investments and the value of stock-based compensation, and the future benefits of unutilized tax losses and temporary differences. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, balances with banks and investment dealers, and short term deposits with original maturities of less than three months and are recorded at fair value.

**Financial instruments**

*Investments*

Investments, other than those in associates, are all classified as held for trading and are recorded at fair value. Publicly traded securities values and securities sold short with quoted prices in an active market, are based on quoted closing bid prices on the last day of trading in the reporting period. The securities currently held and sold short by the Company are all from publicly traded companies.

Marketable securities transactions are accounted for as of the trade date and any realized gain or loss from such transactions are calculated on an average cost basis. Income from investments is recognized on the ex-dividend date and interest income on an accrual basis.

When the Company sells a security short, it will borrow that security from a broker to complete the sale. The Company will incur a loss as a result of the short sale if the price of the borrowed security increases between the date of the short sale and the date on which the Company closes out its short position by buying that security. The Company will realize a gain if the security declines in price between those dates. The gain or loss that would be realized if, on the balance sheet date, the positions were to be closed out is reflected under “gain (loss) on investments, net”. When the short position is closed out, gains or losses are realized and included in “gain (loss) on investments, net”. The liability to close out a short position is reflected in the balance sheets under “securities sold short”.

### *Derivatives*

Derivatives are all classified as held for trading and are recorded at fair value with the change in value being recorded on the statement of operations, comprehensive income and deficit.

### **Impairment**

#### *(i) Financial assets*

##### *Loans and receivables*

Loans and receivables are considered impaired when there is objective evidence that the full carrying amount of the loan or receivable is not collectible.

When an impaired loan or receivable is identified, the carrying amount of the loan or receivable is reduced to its estimated realizable amount, which is measured by discounting the expected future cash flows at the original effective interest rate of the loan or receivable. The excess of the carrying amount over the estimated realizable value of the loan or receivable represents an impairment loss which is recognized in the Statements of Operations, Comprehensive Income and Deficit. If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is recognized in the current period Statements of Operations, Comprehensive Income and Deficit by adjusting the carrying amount of the loan or receivable accordingly.

#### *(ii) Non-financial assets*

The carrying values of non-financial assets with finite lives, such as equipment, are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In addition, long-lived assets that are not amortized, such as investments in associates, are subject to an annual impairment assessment. The Company evaluates impairment losses for potential reversals when events or changes in circumstances warrant such consideration.

#### *(iii) Goodwill and intangible assets*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is assessed for impairment annually or more frequently if events or circumstances suggest that there may be impairment. A write-down is recognized if the recoverable amount, determined as the greater of the estimated fair value less costs to sell or value-in-use, is less than the carrying value. Any impairment of goodwill is expensed in the period in which the impairment is identified. Impairment losses relating to goodwill are not reversed if there is a subsequent recovery in value.

Following initial recognition, intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Identifiable finite-life intangible assets are amortized over their estimated useful lives on a straight-line basis. The amortization period and the method of amortization for an intangible asset with a finite useful life are reviewed at least annually, at each financial year-end.

At each balance sheet date, intangible assets are assessed for indicators of impairment. If indicators are present, these assets are subject to an impairment review. Any loss resulting from impairment of intangible assets is expensed in the period the impairment is identified.

### **Merchant banking fees**

Merchant banking fees revenue is recorded at the time the transaction or service is completed and the related income is reasonably determined.

### **Interest Income**

Interest income primarily includes interest earned on the Company's own cash and cash equivalents and interest on a promissory note to a related party. Interest revenue is recognized on an effective interest rate basis.

### **Transaction costs**

Transaction costs, such as brokerage commissions and fees in respect of securities purchased and sold, are expensed as incurred.

### **Investments in associated companies**

Investments in companies over which the Company exerts significant influence are accounted for by the equity method. Under this method, the investment is initially recorded at cost and the carrying value is adjusted thereafter to include the following:

- the Company's pro-rata share of income or loss (including the Company's proportionate share of discontinued operations and extraordinary items) relating to an investee company, subsequent to the date when the use of the equity method first became appropriate. Such amounts will be included when determining Company's net income in the period being reported;
- the Company's proportionate share of a change in an accounting policy, a correction of an error relating to prior period financial statements and capital transactions (including amounts recognized in other comprehensive income) of an investee, subsequent to the date when the use of the equity method first became appropriate;
- the Company's proportion of dividends paid by the investee, subsequent to the date when the use of the equity method first became appropriate; and
- any dilution gain or loss upon issuance of common shares to outside interests by the investee.

Any excess paid for net assets (i.e. Purchase Price compared to the Book Value) will first be assigned to specific assets and liabilities and will be depreciated. Depreciation on the excess assigned to assets reduces the investment account and is charged to equity in earnings of associated companies. In the case of the Company's associated company investment, the Company's purchase price was lower than the book value of the acquired shares at the time of purchase, which resulted in an allocation of that difference to capital assets and as such, the depreciation on the excess book value compared to purchase price increases the investment account and the equity in earnings of associated companies.

#### **Stock-based compensation**

Compensation expense for grants of stock, stock options and other equity instruments to officers, directors and consultants is recognized based on the estimated fair value at the grant date.

#### **Override payments**

Under the governance terms and conditions of transactions with Northern Financial Corporation ("NFC"), the Company at its discretion may make override payments to NFC of up to 25% on any realized gains from any investment made by Jaguar, such decisions to be approved by the compensation committee of the Board of Directors consisting of independent directors of the Company. The Company does not recover any costs from NFC on realized losses.

#### **Income taxes**

Income taxes are calculated using the asset and liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse or losses are expected to be utilized. A valuation allowance is recognized to the extent that the recoverability of future income tax assets is not considered likely to be realized.

#### **Earnings (loss) per common share**

Basic earnings (loss) per common share is computed by dividing the income/(loss) for the period by the weighted average number of common shares outstanding during the period, including contingently issuable shares, which are included when the conditions necessary for issuance have been met, and excluding shares of the Company, which were acquired and not yet cancelled. Diluted earnings (loss) per share is calculated in a similar manner, except that the weighted average number of common shares outstanding is increased to include potentially issuable common shares from the assumed exercise of common share purchase options, if dilutive. The number of additional shares included in the calculation is based on the treasury stock method.

#### **Property, plant and equipment**

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded using the straight-line method based on a useful life of three years for office equipment.

#### **Other financial liabilities**

Payables, short-term loans payable and loans payable are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method.

### **Provisions**

Provisions represent liabilities to the Company for which the amount or timing is uncertain. Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the expected expenditures to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

### **Comprehensive income**

The Company discloses comprehensive income, which consists of net income and other comprehensive income. Since the Company has no other comprehensive income, net income (loss) and comprehensive income (loss) are the same

### **Future changes in accounting policies**

- (i) **Deferred income taxation:** On December 20, 2010, the IASB published *Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12*. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred tax assets or deferred tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied on in annual periods beginning on or after January 1, 2012.
- (ii) **Financial instruments disclosures:** The IASB amended IFRS 7 *Financial Instruments: Disclosures for Disclosures – Transfers of Financial Assets*. The amendments are designed to provide information that allows users to (i) understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and (ii) evaluate the nature of, and risk associated with, any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. IFRS 7 is effective for annual periods beginning on or after July 1, 2011. The Company is currently evaluating the impact of IFRS 7 on its consolidated financial statements.
- (iii) **Financial Instruments: IFRS 9, Financial Instruments (“IFRS 9”)** was issued by the International Accounting Standards Board (“IASB”) on October 28, 2010, and will replace IAS 39, *Financial Instruments: Recognition and Measurement (“IAS 39”)*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (“FVTPL”) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.
- (iv) **Consolidation:** IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 *Consolidation—Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.
- (v) **Joint Arrangements:** IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers*. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.
- (vi) **Disclosure of Interests in Other Entities:** IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address

**Jaguar Financial Corporation**  
**Notes to the Financial Statements**  
**June 30, 2011**  
**(Unaudited)**

the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

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

**3. Investments:**

- a) Investments consist of the following as at June 30, 2011:

Issuer	Security Description	Cost	Fair Value	% of Port.(FV)
Lakeside Steel Inc.	16,465,314 common shares	3,878,899	6,915,432	87.8
Other public companies	common shares, warrants and debt	2,616,162	958,734	12.2
<b>Total</b>		<b>\$ 6,495,061</b>	<b>\$ 7,874,166</b>	<b>100.0</b>

Securities sold short consist of the following as at June 30, 2011:

Issuer	Security Description	Proceeds	Fair Value	% of Port.(FV)
Publicly traded companies	common shares	2,454,978	2,959,350	100.0
<b>Total</b>		<b>\$ 2,454,978</b>	<b>\$ 2,959,350</b>	<b>100.0</b>

For the three months ending June 30, 2011, the Company had a net gain on investments of \$2,891,363. The transfer of the Company's investment in Lakeside Steel Inc. ("Lakeside") from equity based to fair value accounting resulted in an unrealized gain of \$3,036,533.

- b) Investments consist of the following as at December 31, 2010:

Issuer	Security Description	Cost	Fair Value	% of Port.(FV)
Vaaldiam Mining Inc.	821,400 common shares	284,023	213,560	10.8
Other public companies	common shares, warrants and debt	4,402,079	1,755,980	89.2
<b>Total</b>		<b>\$ 4,686,102</b>	<b>\$ 1,969,540</b>	<b>100.0</b>

Securities sold short consist of the following as at December 31, 2010:

Issuer	Security Description	Proceeds	Fair Value	% of Port.(FV)
Publicly traded companies	common shares	2,398,568	2,960,640	100.0
<b>Total</b>		<b>\$ 2,398,568</b>	<b>\$ 2,960,640</b>	<b>100.0</b>

**4. Investment in associated company:**

The Company's carrying value of its investment in Lakeside is as follows:

	2011	2010
Balance, beginning of year	\$ 3,617,759	\$ 3,429,389
Acquisition cost:		
Market purchase	-	120,996
Purchase through prospectus offering	545,701	-
	545,701	120,996
Equity earnings (loss)	152,244	(645,185)
Dividend	-	-
Dilution gain on issue of common shares by associated company (Note 10)	-	712,559
Partial disposition	(431,805)	-
Reclassification from associated company to investments	(3,878,899)	-
<b>Balance, at the end of period</b>	<b>\$ -</b>	<b>\$ 3,617,759</b>

**Jaguar Financial Corporation**  
**Notes to the Financial Statements**  
**June 30, 2011**  
**(Unaudited)**

During the period ended June 30, 2011, the Company sold 2,020,020 shares of Lakeside for proceeds of \$995,000, generating a gain of \$563,195. On May 19, 2011, Lakeside completed a prospectus offering through which Lakeside issued 44,275,000 common shares. This offering, along with the sale of part of its ownership interest in Lakeside, significantly diluted the Company's ownership in Lakeside and resulted in the Company reassessing its determination of significant influence on Lakeside and concluding that the Company no longer had significant influence on Lakeside. The Company's investment in Lakeside of 16,465,314 shares represented 8.5% (December 31, 2010 – 11.7%) of the outstanding common shares of Lakeside as at June 30, 2011.

Upon determination that the Company no longer had significant influence the Company accounted for its investment in Lakeside using the fair value method. As a result of using fair value accounting for Lakeside, the Company reported a gain of \$3,036,533 on its investment in Lakeside.

**5. Derivatives:**

On September 14, 2010, the Company settled its outstanding loans payable with a payment of \$989,036 and at that time entered into an agreement with the original lender (the "Investor") to invest the payment in units of a listed security, whereby on the sale of shares and the shares underlying the warrants of that security, any proceeds in excess of \$1,139,036 would be shared equally between the Investor and the Company.

Proceeds from the sale of shares, which was paid to the Investor, was \$263,913. The fair value of the remaining shares and the warrants was \$907,672, resulting in a \$16,277 fair value of the derivative (December 31, 2010 – \$418,064) held by the Investor.

**6. Property, plant and equipment**

	<u>June 30, 2011</u>	<u>December 31, 2010</u>
Cost	\$ 275,899	\$ 275,899
Less: Accumulated amortization	275,512	275,077
Net book value	<u>\$ 387</u>	<u>\$ 822</u>

**7. Capital stock**

**a) Authorized**

The authorized capital of the Company consists of an unlimited number of no par value common shares.

**b) Issued**

Issued and outstanding	
107,837,332 common shares	\$4,785,784

Share capital activity for the quarter ended June 30, 2011 is summarized as follows:

	<u>Shares</u>	<u>Amount</u>
Outstanding as at December 31, 2010	106,132,832	\$ 60,900,299
Reduction in stated capital (Note 7 (e))	-	(56,129,885)
Shares issued	2,000,000	170,000
Shares cancelled under normal course issuer bid	(280,000)	(153,467)
Shares repurchased for cancellation – not yet cancelled	(15,500)	(1,163)
Outstanding as at June 30, 2011	<u>107,837,332</u>	<u>\$ 4,785,784</u>

**c) Common share warrants**

There are no common share warrants outstanding.

**d) Stock option plan**

The Company has a stock option plan (the "Plan") under which the directors of the Company can grant options to acquire up to a maximum of 19,000,000 (December 31, 2010 – 19,000,000) common shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. Exercise prices cannot be less than the closing price of the Company's shares on the trading day preceding the date of grant or the five day weighted trading average of the Company's shares preceding the date of grant, and the maximum term of any option cannot exceed ten years. Under the Plan, cancelled or expired options increase the number of options available to be granted. As at June 30, 2011, there were 6,250,000 (December 31, 2010 – 6,250,000) options outstanding and 4,065,300 (December 31, 2010 – 4,065,300) options available to be granted.

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The following tables reflect the continuity of options for the periods indicated:

Year ended December 31, 2010

Expiry Date	Exercise Price	Number of Common Shares				Closing Balance
		Opening Balance	Options Granted	Options Exercised	Options Expired	
August 2017	\$0.215	8,250,000	-	-	2,000,000	6,250,000
		8,250,000	-	-	2,000,000	6,250,000

Three months ended June 30, 2011

Expiry Date	Exercise Price	Number of Common Shares				Closing Balance
		Opening Balance	Options Granted	Options Exercised	Options Expired	
August 2017	\$0.215	6,250,000	-	-	-	6,250,000
		6,250,000	-	-	-	6,250,000

All options are currently exercisable.

**e) Reduction of stated capital**

On June 8, 2011, the shareholders of the Company approved a reduction in the stated capital of the Company in the amount of \$56,129,885. The reduction of share capital resulted in a reduction of the Company's deficit by a corresponding amount.

**f) Contributed surplus**

Contributed surplus transactions for the period are as follows:

	Amount
Balance, December 31 2010	\$ 5,586,471
Shares issued	(170,000)
Normal course issuer bid	129,882
Stock-based compensation	73,892
Balance, June 30, 2011	\$ 5,620,245

**g) Dividend declaration**

On June 9, 2011, the Company announced that its Board of Directors has approved a dividend of \$0.0021 per share on its common shares, payable July 8, 2011, to shareholders of record at the close of business on June 24, 2011. The dividend was subsequently paid on July 8, 2011.

**8. Stock-based compensation**

On April 29, 2010, the Company issued 2,000,000 common shares, which had previously been allotted and reserved for issuance in accordance with the terms of its Equity Incentive Plan. The Company issued an additional 2,000,000 under the same plan on April 29, 2011. An additional 1,300,000 common shares of the Company will be issued under this plan on April 29, 2012.

The shares were valued using the closing price on the day the grant was made. For the three months ending June 30, 2011, the fair value of stock-based compensation was \$31,974.

**9. Per share amounts**

Earnings per share amounts are calculated on the weighted average number of shares outstanding. Diluted earnings per share is calculated only on shares outstanding and does not assume conversion of outstanding stock options, as the exercise price of the options was greater than their market price. Thus, the effect of options outstanding is not dilutive.

The weighted average number of common shares outstanding, used in computing basic and diluted income (loss) per common share for the respective periods, were as follows:

	Three months ended	Six Months Ended
June 30, 2010	104,299,332	104,303,741
June 30, 2011	107,367,952	106,753,804

**10. Dilution gain on investment in associated company**

On February 26, 2010, Lakeside completed a private placement of 8,244,853 units, with each unit consisting of one common share and one-half of one common share purchase warrant. Each unit was priced at \$0.27, resulting in gross proceeds of \$2,226,110 (before allocation to warrants and share issue costs). Jaguar purchased 8,133,742 units under

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the private placement. On the same day, Jaguar sold an aggregate of 7,763,242 common shares of Lakeside at \$0.27 per share to other investors of the private placement in pre-arranged trades over the facilities of the TSX, and subsequently bought the same number of shares from the same investors. Jaguar transferred an aggregate of 3,153,871 warrants to applicable counterparties to the pre-arranged trades for no additional consideration. As a result of this transaction the Company's ownership interest in Lakeside was reduced from 28.1% to 25.3%.

As Lakeside issued its own equity to outside interests, a dilution loss of \$88,932 arose as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying investment in Lakeside Steel Inc.

On October 5, 2010 Lakeside announced that it had completed its offering of 81,075,000 common shares at a price of \$0.26 per common share for total gross proceeds of \$21,079,500 (before commissions of 6%). As a result of this transaction the Company's ownership interest in Lakeside was reduced from 25.6% to 11.7% and a dilution gain of \$801,491 arose as a result of the difference between the Company's share of the proceeds and the carrying value of the underlying investment in Lakeside.

## 11. Income taxes

No income taxes have been recorded in the interim period for 2011 because there are adequate tax losses available to offset taxable income.

## 12. Financial instruments:

Additional disclosures regarding fair value measurement of financial instruments as required by IFRS 7 are presented below. The fair value hierarchy presented distinguishes between the inputs used in determining the fair value measurement of the Company's various financial instruments. The hierarchy levels are defined as:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Observable inputs other than Level 1 quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or inputs other than quoted prices that are observable or corroborated by observable market data; and

Level 3 – Unobservable inputs that are supported by little or no market activity. Valuation techniques are primarily model-based.

	Carrying Value June 30, 2011	Estimated Fair Value June 30, 2011		
		Level 1	Level 2	Level 3
Held for trading				
Cash and term deposits	\$ 7,067,211	\$ 7,067,211	-	-
Investments	7,874,166	7,621,058	253,108	-
Derivatives	16,278	-	16,278	-
Securities sold short	2,959,350	2,959,350	-	-

	Carrying Value December 31, 2010	Estimated Fair Value December 31, 2010		
		Level 1	Level 2	Level 3
Held for trading				
Cash and term deposits	\$ 7,526,377	\$ 5,527,897	\$ 1,998,480	-
Investments	1,969,540	1,726,777	106,229	136,534
Derivatives	418,064	-	418,064	-
Securities sold short	2,960,640	2,960,640	-	-

Level 1 financial instruments include cash and publicly traded equities. Fair values for cash are based on principal amounts deposited. Fair values for publicly traded equities are based on the closing bid price on the stock exchange where the investment is listed as at June 30, 2011. Fair values for publicly traded equities sold short are based on the closing ask price on the stock exchange where the investment is listed as at June 30, 2011.

Level 2 financial instruments include term deposits, warrants, derivatives and debt instruments. Fair values for warrants are based on the Black-Scholes Option Pricing Model using the quoted closing bid price of the underlying security as at June 30, 2011, a 52 week volatility, and the Government of Canada treasury bill rate for equivalent maturity dates.

Level 3 financial instruments include warrants where any of the model inputs noted for Level 2 are not available. Fair values for warrants issued by public companies are based on the Black-Scholes Option Pricing Model using the quoted closing bid price of the underlying security as at June 30, 2011 (or the last available closing bid price when a closing bid price as June 30, 2011 is not available), a 52 week volatility (or the next available volatility less than 52 weeks where a 52 week volatility is not available), and the Government of Canada treasury bill rate for equivalent maturity dates.

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**13. Related party information**

The Company had related party transactions with directors and officers of the Company, or companies with which they were associated, which were in the normal course of operations and were measured at the exchange amounts as follows:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Merchant banking fees <sup>1</sup>	\$ 3,700	\$ -	\$ 3,700	\$ -
Interest income <sup>1</sup>	10,798	-	13,064	-
Transaction costs <sup>1</sup>	23,287	99,544	30,416	105,276
Advisory fees <sup>1</sup>	-	15,750	-	24,871
Profit participation fees <sup>3</sup>	-	67,644	-	67,644
Equity compensation <sup>1</sup>	31,974	-	73,892	-
Interest expense <sup>3</sup>	-	12,993	-	19,952
Payables and accruals <sup>3</sup>	-	-	-	-
Receivable <sup>1</sup>	25,000	25,000	25,000	25,000

1. Northern Securities Inc. ("NSI"), a Canadian investment dealer, is a wholly owned subsidiary of Northern Financial Corporation ("NFC"), a shareholder of Jaguar and acts as investment advisor and financial advisor to Jaguar in the course of its merchant banking activities. Jaguar has established a governance agreement between Jaguar, NFC and NSI to address any potential conflicts of interest. The Chairman and Chief Executive Officer of NFC is also the Chairman and Chief Executive Officer of Jaguar.
2. All remuneration of the Chief Executive Officer of Jaguar is paid to Stature Inc., a corporation wholly owned by the Chief Executive Officer of Jaguar. Effective January 1, 2009, the Chief Executive Officer of Jaguar waived all salary and all bonuses to which he may be entitled until a total amount of \$1,150,000 has been waived. To June 30, 2011, \$750,000 in compensation has been waived.
3. Profit participation fees and interest on loans provided by directors of the Company.

**14. Commitments and contingencies**

- a) The Company, in an agreement with NFC, may make override payments to NFC of up to 25% of any realized gain from any investment by Jaguar.
- b) The Company has entered into employment agreements with its executive officers. In the event of a change in control of the Company, and the employment of the executive officers is terminated, the Company is required to pay the executive officers an amount equal to two times the average of the executive officer's aggregate annual compensation in the past two years in the case of the Chief Executive Officer, and an amount of one times the average of the executive officer's aggregate annual compensation in the case of the Chief Financial Officer.

**15. Management of capital**

The Company's capital structure includes the following:

	June 30, 2011	December 31, 2010
Shareholders' equity comprised of		
Capital stock	\$ 4,785,784	\$ 60,900,299
Contributed surplus	5,620,245	5,586,471
Retained earnings (deficit)	1,327,288	(56,129,885)
	<b>\$ 11,733,317</b>	<b>\$ 10,356,885</b>

The Company's objectives when managing capital are to (i) provide financial capacity and flexibility in order to preserve its ability to meet its strategic objectives and financial obligations and continue as a going concern; (ii) maintain a capital structure which allows the Company to respond to changes in economic and/or marketplace conditions and affords the Company the ability to participate in new investments; (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders equal with the level of risk; and (iv) maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by: (i) realizing proceeds from the disposition of its investments; (ii) utilizing leverage in the form of margin loans on its investments; (iii) raising capital through loans from third party investors/lenders who seek to participate in investment opportunities; and (iv) purchasing the Company's own shares for cancellation pursuant to its normal course issuer bid.

The Company's share capital is not subject to external restrictions or requirements imposed by a regulator. On June 9, 2011, the Company announced a dividend of \$0.0021 per share on its common shares, payable July 8, 2011, to

shareholders of record at the close of business on June 24, 2011. The Company's management is responsible for the management of capital and monitors the Company's use of various forms of leverage on a daily basis. The Company expects that its current capital resources will be sufficient to discharge its liabilities as at June 30, 2011.

## **16. Financial instrument risks**

The Company's business primarily involves the purchase and sale of securities and, accordingly, the majority of its assets are currently comprised of financial instruments. The use of financial instruments can expose the Company to several risks, including price, liquidity and interest rate risks. A discussion of the Company's use of financial instruments and their associated risks is provided below:

### **Price risk:**

Price risk is the risk that the fair value of, or future cash flows from the Company's financial instruments will significantly fluctuate because of changes in prices. The value of the financial instruments can be affected by changes in equity prices.

With respect to long positions, rising equity prices may increase the price of an investment while declining equity prices may have the opposite effect. The Company's short selling activities are also affected by equity prices. There is no assurance that securities will decrease in price during the period of a short sale enough to make a profit for the Company, and securities sold short may instead increase in price.

The Company invests in small capitalization publicly traded securities. These investments are subject to market risk such that the fair value of these items may change as a result of factors specific to a particular investment or as a result of factors affecting all instruments traded in the market.

The Company manages this risk by seeking to have a diversified portfolio, which is not singularly exposed to any one or class of issuer. Jaguar's investment activities are currently diversified across six industries – financial services, industrial, pharmaceuticals, technology, telecommunication and natural resources.

As at June 30, 2011, based on a 1% change in the fair value of the Company's investments, the estimated sensitivity of the Company's net income (loss) was (\$49,000) (December 31, 2010 – \$10,000), based on a decrease, and \$49,000 (December 31, 2010 – (\$10,000)) based on an increase.

### **Liquidity risk:**

Liquidity risk is the risk that results from the Company's potential inability to meet its financial obligations as they come due. The nature of investments in small market capitalization companies that are not heavily traded exposes the Company to a liquidity risk whereby it may not be able to liquidate the investments quickly at close to fair value. The Company generates cash flow primarily from its investment activity and proceeds from the liquidation of its investments, in addition to interest income earned on its investments. The Company has sufficient marketable securities, which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

The Company manages liquidity risk by reviewing the amount of cash available, on a daily basis, to ensure that it can meet its current obligations. The Company holds investments, which can be readily converted into cash when required.

### **Interest rate risk:**

Interest rate risk is the risk of loss due to the volatility of interest rates and the impact that changes in interest rates could have on the Company's earnings and liabilities. Liabilities can be repaid by the Company at any time, without notice or penalty, which provides the Company with some ability to manage and mitigate its interest rate risk. The Company does not hedge against any interest rate risks. As at June 30, 2011, the Company had no short-term loans or other liabilities that were interest rate sensitive.

## **17. Normal course issuer bid**

On June 29, 2011, the Company announced a normal course issuer bid. According to the terms of the bid, and in accordance with the rules of the TSX, during the period commencing July 4, 2011, and ending July 4, 2012, the Company may purchase a maximum of 8,081,616 of its common shares, which represents approximately 10% of the public float, as defined in the TSX Company Manual. Purchases of common shares will be effected through the facilities of the TSX in open market transactions at market prices prevailing at the time of acquisition. Daily purchases may not exceed 14,997 common shares, unless otherwise permitted by the TSX. All common shares purchased under the bid will be cancelled.

Under the previous normal course issuer bid, which expired on June 6, 2011, the Company purchased an aggregate of 416,500 common shares at an average price per share of \$0.08055.

**18. Operating segment information:**

The management of the Company is responsible for the Company's entire portfolio and considers the business to have a single operating segment. The management's investment decisions are based on a single, integrated investment strategy, and the performance is evaluated on an overall basis.

The internal reporting provided to the management of the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS. There were no changes in the reportable segments during the three months ended June 30, 2011.

**19. Transition to IFRS**

The Company has adopted IFRS effective January 1, 2011. For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian GAAP. The financial statements for the three months ended June 30, 2011 are the second set of statements the Company has prepared in accordance with IFRS. The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Consequently, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. In preparing the Company's first annual consolidated financial statements under IFRS, the Company is required to use the standards in effect as at December 31, 2011, which may differ from the policies the Company currently expects to adopt and used in financial statements.

In preparing these interim financial statements, the opening consolidated statement of financial position was prepared as at January 1 2010, the Company's date of transition to IFRS. These financial statements have been prepared in accordance with the accounting policies described in note 2. This note explains the principal adjustments made in restating the previous Canadian GAAP balance sheet as at January 1, 2010 and its previously published Canadian GAAP financial statements for the three months ended June 30, 2010 and as at December 31, 2010.

(a) Exemptions applied:

IFRS requires full retrospective application of applicable accounting standards. IFRS 1, *First time Adoption of International Financial Reporting Standards* ("IFRS 1") does, however, provide entities adopting IFRS for the first-time with a number of optional exemptions and mandatory exceptions to this general requirement. The Company has elected to apply the following exemptions:

- (i) IFRS 2 *Share-based Payment* has not been applied to the options issued under the Stock Option Plans that were vested prior to January 1, 2010.

*Mandatory exceptions to retrospective application*

In accordance with the mandatory exceptions to retrospective restatement under IFRS 1, hindsight was not used to create or revise estimates at the transition date and accordingly the estimates previously made by the Corporation under Canadian GAAP are consistent with their application under IFRS, except where necessary to reflect any difference in accounting policies.

(b) Reconciliations:

The reconciliations between the previously reported financial results under Canadian GAAP and the current reported financial results under IFRS are provided as follows:

- (i) reconciliation of the statement of financial position and equity as at June 30, 2010.

No reconciliation is required for the statement of comprehensive income and statement of cash flows as there are no significant differences.

All reconciliations relating to the statement of financial position for each of the periods highlighted above are due to reclassifications only.

The following are the notes to the reconciliations presented below:

1. Adjustment required to reclassify from current assets to non-current asset under the same asset class. Under Canadian GAAP investment in associated company was classified as a current asset the same as any other investment in common shares of any other company over which the Company is deemed not to have significant influence. Under IFRS, IAS 28 require investments in associates to be presented as non-current assets.

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The Company has chosen to reclassify the items relating to notes 2, 3 and 4. The reclassification of these items are not as a result of IFRS.

2. Adjustments required to reclassify from other assets to specific asset classes – receivables from related parties, from associate and from employees.
3. Adjustment required to reclassify from capital assets to new name property, plant and equipment.
4. Adjustment required to reclassify from short-term loans payable to loans payable.

(i) The following is a reconciliation of the consolidated statement of financial position as at June 30, 2010:

	<u>Notes</u>	<u>CGAAP</u>	<u>IFRS adjust.</u>	<u>IFRS</u>
<b>Assets</b>				
<i>Current assets</i>				
Cash and cash equivalents		6,364,888	-	6,364,888
Investments, at fair value		2,547,653	-	2,547,653
Investment in associated company	1.	2,379,776	(2,379,776)	-
Derivatives		-	-	-
Receivables from				
Related parties		-	25,000	25,000
Associate		-	-	-
Employees		-	-	-
Other assets	2.	27,112	(25,000)	2,112
Total current assets		<u>11,319,429</u>	<u>(2,379,776)</u>	<u>8,939,653</u>
<i>Non-current assets</i>				
Capital assets	3.	1,363	(1,363)	-
Property, plant and equipment		-	1,363	1,363
Investment in associated company		-	2,379,776	2,379,776
Total non-current assets		<u>1,363</u>	<u>2,379,776</u>	<u>2,381,139</u>
<b>Total assets</b>		<u>11,320,792</u>	<u>-</u>	<u>11,320,792</u>
<b>Liabilities</b>				
<i>Current liabilities</i>				
Obligations related to securities sold short		-	-	-
Accounts payables and accrued liabilities		233,849	-	233,849
Short-term loans payable	4.	-	-	-
Loans payable		396,837	-	396,837
Total current liabilities		<u>630,686</u>	<u>-</u>	<u>630,686</u>
<i>Non-current liabilities</i>				
Loan payable		619,227	-	619,227
<b>Total liabilities</b>		<u>1,249,913</u>	<u>-</u>	<u>1,249,913</u>
<b>Shareholders' Equity</b>				
Capital stock		60,822,844	-	60,822,844
Contributed surplus		5,393,683	-	5,393,683
Deficit		(56,145,648)	-	(56,145,648)
		<u>10,070,879</u>	<u>-</u>	<u>10,070,879</u>
		<u>11,320,792</u>	<u>-</u>	<u>11,320,792</u>

**20. Subsequent events**

The dividend announced on June 9, 2011 was paid on July 8, 2011.