

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

Financial Statements

February 28, 2011

(with comparative figures for February 28, 2010)

(Unaudited)

The accompanying notes form an integral part of these financial statements

**Notice to Reader:**

The following financial statements for the six months ended February 28, 2011 have been prepared by management and have not been reviewed by the auditors of International Montoro Resources Inc.

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Balance Sheets**

	<b>February 28, 2011 (Unaudited)</b>	<b>August 31 2010 (Audited)</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 365,259	\$ 27,103
Harmonized sales tax receivable	14,583	1,099
Marketable securities (Note 3)	22,625	26,175
Prepaid expenses	17,200	4,540
	<u>419,667</u>	<u>51,959</u>
<b>Equipment</b> (Note 4)	1,530	717
<b>Mineral Interests and Deferred Exploration Costs</b> (Note 5)	<u>1,940,700</u>	<u>1,696,412</u>
	<u>\$ 2,361,897</u>	<u>\$ 1,749,088</u>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 17,526	\$ 43,740
Owing to related parties (Note 6)	56,803	207,867
	<u>74,329</u>	<u>251,607</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Share capital</b> (Note 7)	9,562,680	8,032,399
<b>Share subscription</b> (Note 7)	23,000	4,500
<b>Contributed surplus</b> (Note 7)	712,645	350,688
<b>Accumulated other comprehensive loss</b>	(11,063)	(225)
<b>Deficit</b>	<u>(7,999,694)</u>	<u>(7,780,813)</u>
	<u>2,287,568</u>	<u>1,459,459</u>
	<u>\$ 2,361,897</u>	<u>\$ 1,749,088</u>
Going Concern (Note 1)		
Subsequent Events (Note 10)		
Commitments (Note 5I)		
<b>On behalf of the Board:</b>	<u>"Gary Musil"</u> Director	<u>"Brent Griffin"</u> Director

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**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

Statements of Operations and Deficit  
(Unaudited)

	<u>2011</u>		<u>2010</u>	
	Three months ended February 28	Six months ended February 28	Three months Ended February 28	Six months ended February 28
<b>Administrative expenses</b>				
Amortization	90	143	77	154
Bank charges and interest	184	297	400	471
Consulting	20,000	45,900	9,500	27,500
Filing fees and transfer agent	6,960	12,695	11,385	14,640
Management fees (Note 6)	13,500	27,000	13,500	27,000
Office and miscellaneous	2,495	4,903	2,151	3,895
Professional services	9,492	14,264	9,683	12,833
Rent	3,750	7,500	3,750	6,225
Salaries and benefits	10,416	17,768	7,379	15,611
Stock based compensation (Note 7e)	-	182,978	93,138	93,138
Telephone	1,352	1,664	180	706
Travel and promotion	12,251	24,269	27,997	30,468
<b>Loss from operations</b>	<u>80,490</u>	<u>339,381</u>	<u>179,140</u>	<u>232,641</u>
<b>Other Items</b>				
Gain on forgiven debt	(120,500)	(120,500)	-	-
Gain on sale of marketable securities	-	-	-	(9,600)
	<u>(120,500)</u>	<u>(120,500)</u>	<u>-</u>	<u>(9,600)</u>
<b>Net (income) loss for the period</b>	(40,010)	218,881	179,140	223,041
<b>Deficit, beginning of period</b>	8,039,704	7,780,813	7,418,475	7,374,574
<b>Deficit, end of period</b>	<u>\$ 7,999,694</u>	<u>\$ 7,999,694</u>	<u>\$ 7,597,615</u>	<u>\$ 7,597,615</u>
<b>(Income) loss per share – basic and diluted</b>	<u>\$ (0.001)</u>	<u>\$ 0.004</u>	<u>\$ 0.005</u>	<u>\$ 0.006</u>
<b>Weighted Average number of shares</b>	<u>51,521,470</u>	<u>49,021,164</u>	<u>37,727,393</u>	<u>35,858,363</u>

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**INTERNATIONAL MONTORO RESOURCES INC.**  
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**Statements of Comprehensive Loss**

	<u>2011</u>		<u>2010</u>	
	Three months ended February 28	Six months ended February 28	Three months ended February 28	Six months ended February 28
<b>NET INCOME (LOSS) FOR THE PERIOD BEFORE OTHER COMPREHENSIVE LOSS</b>	\$ 40,010	\$ (218,881)	\$ (179,140)	\$ (223,042)
Unrealized (loss) gain on available for sale financial assets (Note 3)	(7,250)	2,500	375	(750)
<b>COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	\$ 32,760	\$ (216,381)	\$ (178,765)	\$ (223,792)

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Statements of Accumulated Other Comprehensive Loss**

	<u>2011</u>		<u>2010</u>	
	Three months ended February 28	Six months ended February 28	Three months ended February 28	Six months ended February 28
Unrealized (loss) gain on available for sale financial asset (Note 3)	\$ (11,063)	\$ (11,063)	\$ (15,375)	\$ (15,375)
<b>ACCUMULATED OTHER COMPREHENSIVE (LOSS) GAIN – END OF PERIOD BALANCE</b>	\$ (11,063)	\$ (11,063)	\$ (15,375)	\$ (15,375)

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**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

Statements of Cash Flow  
(Unaudited)

	<u>2011</u>		<u>2010</u>	
	Three months ended February 28	Six months ended February 28	Three months Ended February 28	Six months ended February 28
<b>CASH PROVIDED (USED) BY</b>				
Net income (loss) for the period	\$ 40,010	\$ (218,881)	\$ (179,140)	\$ (223,041)
Item not requiring an outlay of cash				
Amortization	90	143	77	154
Stock based compensation	-	182,978	93,138	93,138
Gain on forgiven debt	(120,500)	(120,500)	-	-
Gain on disposal of marketable securities	-	-	-	(9,600)
	<u>(80,400)</u>	<u>(156,260)</u>	<u>(85,925)</u>	<u>(139,349)</u>
Changes in non-cash working capital items				
Harmonized sales tax receivable	(5,594)	(11,766)	(3,807)	(3,620)
Prepaid expenses	(17,000)	(8,035)	(10,670)	(7,960)
Accounts payable	(45,203)	(23,961)	(26,231)	(34,709)
	<u>(148,197)</u>	<u>(200,022)</u>	<u>(126,633)</u>	<u>(185,638)</u>
<b>Financing activities</b>				
Owing to related parties	(85,892)	(70,249)	1,931	22,458
Share capital issued for cash	647,400	742,400	415,605	411,705
Share subscriptions	-	3,000	-	15,500
	<u>561,508</u>	<u>675,151</u>	<u>417,536</u>	<u>449,663</u>
<b>Investing activities</b>				
Accounts payable and amounts owing to related parties related to exploration	(4,330)	(591)	(4,582)	788
Mineral interests and deferred exploration	(65,458)	(135,425)	(173,688)	(178,803)
Purchase of equipment	(957)	(957)	-	-
Proceeds from sale of marketable securities	-	-	-	18,000
	<u>(70,745)</u>	<u>(136,973)</u>	<u>(178,270)</u>	<u>(160,015)</u>
<b>Change in cash for the period</b>	342,566	338,156	112,633	104,010
<b>Cash, beginning of period</b>	<u>22,693</u>	<u>27,103</u>	<u>4,820</u>	<u>13,443</u>
<b>Cash, end of period</b>	<u>\$ 365,259</u>	<u>\$ 365,259</u>	<u>\$ 117,453</u>	<u>\$ 117,453</u>
<b>Supplemental Information</b>				
Interest paid	\$ -	\$ -	\$ -	\$ -
Income taxes paid	\$ -	\$ -	\$ -	\$ -

**Supplemental Cash Flow Information (Note 8)**

The accompanying notes form an integral part of these financial statements

**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Schedule of Mineral Interests and Deferred Exploration Costs**

	<b>Six months ended February 28, 2011</b>	<b>Year ended August 31, 2010</b>
	<u>                    </u>	<u>                    </u>
<b>PROPERTIES IN GOOD STANDING</b>		
<b>Crackingstone Project (Saskatchewan)</b>		
Administration and travel	\$ -	\$ 692
Geological and geophysical	-	4,250
	<u>                    </u>	<u>                    </u>
	-	4,942
<b>Cup Lake Project (British Columbia)</b>		
Administration and reports	-	-
	<u>                    </u>	<u>                    </u>
	-	-
<b>Serpent River Project (Ontario)</b>		
Acquisition costs	142,000	147,000
Administration and travel	-	5,755
Assays and sampling	359	6,608
Drilling	-	158,013
Geological and geophysical	3,600	19,965
Reports	76	1,200
	<u>                    </u>	<u>                    </u>
	146,035	338,541
<b>Chuchinka Project (British Columbia)</b>		
Acquisition costs	-	134,814
	<u>                    </u>	<u>                    </u>
	-	134,814
<b>Tacheeda Project (British Columbia)</b>		
Acquisition costs	109,390	-
	<u>                    </u>	<u>                    </u>
	109,390	-
<b>Central Mineral Belt Project (Newfoundland)</b>		
Acquisition costs	3,713	-
Option payments - cash	(5,000)	-
Option payments - shares	(10,250)	-
Geological	400	-
	<u>                    </u>	<u>                    </u>
	(11,137)	-
<b>EXPENDITURES FOR THE PERIOD</b>	244,288	478,297
<b>DEFERRED COSTS BEGINNING OF PERIOD</b>	1,696,412	1,218,115
<b>DEFERRED COSTS END OF PERIOD</b>	<u><u>\$ 1,940,700</u></u>	<u><u>\$ 1,696,412</u></u>

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**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**

**Schedule of Mineral Interests and Deferred Exploration Costs**  
**(cont'd)**

	<b>Six months ended February 28, 2011</b>	<b>Year ended August 31, 2010</b>
	<u>                    </u>	<u>                    </u>
<b>PROPERTIES IN GOOD STANDING</b>		
MALACHITE PROJECT (NEW BRUNSWICK)	\$ 1	\$ 1
RED LAKE PROJECT (ONTARIO)	1	1
CRACKINGSTONE RIVER PROJECT (SASKATCHEWAN)	173,981	173,981
CHUCHINKA PROJECT (BRITISH COLUMBIA)	134,814	134,814
TACHEEDA PROJECT (BRITISH COLUMBIA)	109,390	-
CENTRAL MINERAL BELT PROJECT (NEWFOUNDLAND)	35,906	47,042
CUP LAKE PROJECT (BRITISH COLUMBIA)	1	1
ORBIT LAKES PROJECT (SASKATCHEWAN)	(12,282)	(12,282)
SERPENT RIVER PROJECT (ONTARIO)	1,498,887	1,352,853
VOISEY BAY PROJECT (NEWFOUNDLAND)	1	1
	<u>\$ 1,940,700</u>	<u>\$ 1,696,412</u>

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**INTERNATIONAL MONTORO RESOURCES INC.**  
**(An Exploration Stage Company)**  
**Notes to the Financial Statements**  
**Six months ended February 28, 2011 and 2010**

**1. GOING CONCERN CONSIDERATIONS**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. At February 28, 2011, the Company had not yet achieved profitable operations, has working capital of \$345,338, has accumulated losses of \$7,999,694 since its inception, and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The operations of the Company were primarily funded by the issue of share capital and loans from related parties. The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued support from related parties, complete sufficient public equity financing, or generate profitable operations in the future. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

**2. ACCOUNTING POLICIES**

**Change in Accounting Policies**

**a. Mineral Interests and Deferred Exploration Costs**

The Company is engaged in the exploration and development of mineral resource properties and records mineral interests at cost. The Company includes in costs the lease and option payments made on properties that are held under lease and option agreements. Costs and recoveries relating to exploration and development projects are deferred until the property is sold, abandoned or put into production.

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

Management reviews capitalized costs on its mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

Exploration costs renounced due to Flow-through Share Subscription Agreements remain capitalized, however, for corporate income tax purposes, the Company has no right to claim these costs as tax deductible expenses.

The amounts shown for mineral interests and deferred exploration costs represent accumulated or minimal costs and do not represent present or future values. The properties and carrying values are subject to periodic review for permanent impairment. The recoverability of these amounts is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon subsequent profitable production. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Certain of the Company's exploration activities related to mineral properties are conducted jointly with the others. The accounts reflect only the Company's proportionate interest in such activities.

The Company records mineral exploration tax credits on an accrual basis.

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**2. ACCOUNTING POLICIES (CONTINUED)**

b. Asset Retirement Obligations

Asset retirement obligations are recognized for the legal obligations related to the retirement of long-lived tangible assets that arise from the acquisition, construction, development or normal operation of such assets. An asset retirement obligation is recognized in the period in which it is incurred and when a reasonable estimate of the fair value of the liability can be made with a corresponding asset retirement cost recognized by increasing the carrying amount of the related long-lived asset. The asset retirement cost is subsequently allocated in a rational and systematic method over the underlying asset's useful life. The initial fair value of the liability is accreted, by charges to operations, to its estimated future value.

c. Estimates and Fair Values

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Although these estimates are based on management's best knowledge of current events and actions the Company may undertake in the future, actual results ultimately may differ from the estimates.

d. Flow-Through Common Shares

The Company provides certain share subscribers with a flow-through component for tax benefits available on qualifying Canadian exploration, development and related provincial grants. Upon renunciation forms being filed with the appropriate tax authorities, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

e. Stock-Based Compensation Plans

The Company has adopted an incentive stock option plan which is described in Note 7d.

The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon remeasurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

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**2. ACCOUNTING POLICIES (CONTINUED)**

f. Income Taxes

The Company accounts for income taxes whereby the cost (benefit) of current and future income taxes is recognized as income tax expense in the determination of results of operations for the period. Future income tax liabilities (assets) are the amount of income taxes arising from taxable temporary differences between the tax bases of an asset or liability and losses carried forward and its carrying amount in the balance sheet. Income tax assets are recognized when they are more likely than not to be realized and are measured using the income tax rates and laws that are expected to apply at the time of settlement or realization. To the extent that future income tax assets are not considered more likely than not to be realized a valuation allowance is recorded.

g. Loss per Share

Basic loss per share is computed by dividing net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the period.

Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share are the same.

h. Share Issue Costs

Share issue costs incurred on the issue of the Company's shares are charged directly to share capital.

i. Equipment

Equipment is amortized using the declining-balance method at a rate of 30% per annum for computer equipment.

j. Valuation of Warrants

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

k. Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value initially except for certain related party transactions. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and changes in fair value are recognized into net income. Available-for-sale financial assets are measured at fair value with changes in fair value recorded in other comprehensive income. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost.

**INTERNATIONAL MONTORO RESOURCES INC.**  
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**2. ACCOUNTING POLICIES (CONTINUED)**

**Recent accounting pronouncements**

*International financial reporting standards ("IFRS")*

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of September 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended August 31, 2011. The Company has begun assessing the adoption of IFRS for 2011, however, the financial reporting impact of the transition to IFRS has not been estimated at this time.

**3. MARKETABLE SECURITIES**

	February 28 2011	August 31 2010
Ultra Uranium Corp. (37,500 shares; cost of \$18,000)	\$ 3,750	\$ 1,875
Electric Metals Inc. (100,000 shares; cost of \$8,000)	11,000	11,000
Rare Earth Metals Inc. (18,750 shares; cost of \$7,688)	7,875	11,000
	<u>\$ 22,625</u>	<u>\$ 12,875</u>

The valuation of the above shares has been determined in whole by reference to the bid price of the shares on the appropriate exchange on February 28, 2011. At that date, the bid price of Ultra Uranium Corp. was \$0.10, the bid price of Electric Metals Inc. was \$0.11, and the bid price of Rare Earth was \$0.42.

**4. EQUIPMENT**

	Cost	Accumulated Amortization	February 28 2011 Net Book Value	August 31 2010 Net Book Value
Computer equipment	\$ <u>2,677</u>	\$ <u>1,147</u>	\$ <u>1,530</u>	\$ <u>717</u>

**INTERNATIONAL MONTORO RESOURCES INC.**  
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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS**

The Company has acquired mineral interests in various properties located in Canada.

a. Malachite Project (New Brunswick)

The Company acquired a 100% interest in the project for \$27,000 and a contingent payment of \$40,000 should the Company dispose of any portion of the properties to a major producing mining company, 300,000 common shares (issued for \$33,000) and exploration and staking expenditures of \$124,702 on the properties. During a prior year the management of the Company resolved to write down the value of this project to a nominal value.

b. Red Lake Project (Ontario)

The Company acquired a 50% interest in the project for \$15,500, 300,000 common shares (issued for \$25,000) and exploration expenditures of \$15,000 on the property. The property is subject to a 2% net smelter royalty and a 1% buy-out for consideration of \$500,000. The Company also acquired a 50% interest in additional claim blocks in the project for \$5,000, 90,000 common shares (issued for \$7,000) and exploration expenditures of \$2,500, which property is subject to a 2% net smelter royalty. In addition, the Company acquired a 50% interest in certain patented claim mineral rights for \$5,000 and 100,000 common shares (issued for \$10,000), which property is subject to a 3% net smelter royalty.

The Company and Belmont Resources Inc. ("Belmont") (a public company with common directors) have entered into a 50:50 joint venture for all the Red Lake properties and mineral rights.

During a prior year the management of the Company resolved to write down the value of this project to a nominal value.

c. South Trend – Ungava Project (Quebec)

The Company entered into an option agreement to acquire a 100% interest in the project. Subsequently, the Company granted an option to a third party to acquire its interest in the property. The Company has retained a 1% net smelter interest.

d. Crackingstone River Project (Saskatchewan)

The Company and Belmont entered into an agreement to acquire a 100% interest (50% interest for the Company) in a 750 hectare claim block in northern Saskatchewan near Uranium City. Terms of the agreement include cash payment of \$15,000 (paid) and issuance of 50,000 shares (issued for \$12,500). The property is subject to a 2% net smelter royalty.

The Company and Belmont have entered into a 50:50 joint venture for this project.

The Company together with Belmont entered into an additional agreement to acquire a 100% interest (50% interest for the Company) in an adjoining 232 hectare claim block for \$5,000 (\$2,500 paid by the Company).

The Company and Belmont agreed to option to Merrex Gold Inc. ("Merrex") a 50% interest in their jointly owned Crackingstone uranium property. Terms of the option agreement include the issuance by Merrex of a total of 1,200,000 common shares (600,000 shares to each of Montoro and Belmont - received) and to incur a total of \$1,200,000 of exploration expenditures in the first year (incurred by refunding \$600,000 of exploration expenses to Montoro and Belmont each) and incurring an additional \$2,400,000 of exploration expenditures in the second year to earn up to 50% interest in the Crackingstone property. The Company and Merrex have mutually terminated the option agreement.

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**Six months ended February 28, 2011 and 2010**

**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

e. Central Mineral Belt Project (Labrador)

The Company and Belmont entered into an agreement to acquire a 100% interest (50% interest for the Company), of which a 75% interest was acquired (37.5% interest for the Company) in three claim blocks (128 units) in the Central Mineral Belt Uranium District, Labrador. Terms of the agreement include cash payments totaling \$30,000 (paid \$15,000) and issuance of 100,000 shares (issued for \$25,000). The property is subject to a 2% net smelter royalty with a 1% buy-out for \$500,000.

The Company and Belmont have entered into a 50:50 joint venture for this project.

In April 2007 the Company and Belmont staked an additional one claim block (11 units) adjacent to its eastern (Stormy Lake) group.

The Company, together with Belmont, entered into an option agreement with Crosshair Exploration & Mining Corp. ("Crosshair"), whereby Crosshair can acquire a 75% interest in the Central Mineral Belt Project (Stormy Lake & Partridge River) claims by incurring \$800,000 in exploration expenditures, issuing to the Companies up to 175,000 common shares (received 25,000 shares) over a three-year period and assuming cash payments to the vendor. Crosshair has decided not to continue with this project and all interests reverted to the Company and Belmont.

On August 30, 2010 the Company together with Belmont, entered into an option agreement with Rare Earth Metals Inc. ("Rare Earth"), whereby Rare Earth can acquire a 75% interest in the Partridge River claims by incurring \$250,000 in exploration expenditures, issuing to the Companies up to 250,000 common shares (125,000 to each of the Company and Belmont; received 25,000 shares each), and making cash payments totaling \$50,000 over a three-year period (\$25,000 to each of the Company and Belmont; received \$5,000 each).

On September 1, 2010, the Company together with Belmont entered into an agreement to acquire the remaining 25% interest in a portion of the Central Mineral Belt claims. Consideration for the claims is staged cash payments totaling \$12,500 (\$6,250 each the Company and Belmont; paid \$1,250 each) over three years. A Net Smelter Return of 2% is payable to the Vendor with a 1% buy-out for \$500,000.

f. Cup Lake Project (British Columbia)

The Company entered into an agreement to acquire a 100% interest in two uranium prospect claims located in the Greenwood Mining District of British Columbia. Terms of the agreement include a cash payment of \$75,000 (paid) and issuance of 300,000 units (issued for \$120,000). Finder's fees in the amount of \$7,500 cash and 30,000 units (issued for \$12,000) have also been paid. Each unit was comprised of one common share and one share purchase warrant. Each warrant was exercisable for an additional share at an exercise price of \$0.40 in the first year and \$0.50 in the second year. The warrants expired unexercised on June 28, 2008.

The Company entered into an agreement to acquire a 100% interest in eight additional claims in the Cup Lake area. Terms of the agreement include the issuance of a total of 6,000,000 common shares at prescribed intervals up to December 1, 2008 (issued 4,000,000 for \$1,200,000); staged cash payments of \$1,000,000 (paid \$500,000) to December 1, 2009; and minimum exploration expenditures of \$800,000 over four years to December 1, 2010.

On April 24, 2008, the B.C. Government imposed a ban on uranium exploration and development, constructively halting the development of the Cup Lake uranium project. The ban has negatively impaired the property. Consequently, the capitalized mineral property acquisition costs and expenditures of \$1,930,059 have been written down to a nominal value of \$1.

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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

f. Cup Lake Project (British Columbia) (continued)

On May 31, 2008 the Company notified the vendors of the property of initiating the force majeure clause and suspension of obligations including further cash, share payments, and exploration expenditures. In the interim, the Company will keep the Cup Lake claims in good standing until the Company can assess its legal recourse in the property.

On July 16, 2009 the Company filed a statement of claim in the Supreme Court of British Columbia alleging that the Province of British Columbia (the "Province of B.C.") by imposing a uranium and thorium reserve under the Mineral Tenure Act on April 24, 2008, has prevented the Company from exploring for, developing, or producing uranium or thorium from the Cup Lake/Donen uranium property and that the Province of B.C. has expropriated the Company's interest in the property. The statement of claim seeks compensation for the property expropriated and damages for the loss of value of the interests taken, damages arising from disruption of the Company's business and expenses incurred in relation to the Claims as a result of the expropriation, as well as other costs. The outcome of this claim is not determinable at this time.

g. Orbit Lakes Project (Saskatchewan)

The Company has a 50% interest in 11,109 hectares staked in claim blocks adjoining the Crackingstone Project in northern Saskatchewan. The Company and Belmont have entered into a 50:50 joint venture for this project.

The Company and Belmont (its joint venture partner) entered into an option agreement with Ultra Uranium Corp. ("Ultra"), whereby Ultra could have acquired a 65% interest in the Orbit Lake claims by making cash payments totaling \$150,000 (received \$25,000 each), issuing 175,000 common shares of Ultra (received 37,500 shares each) and completing \$2 million in exploration expenditures over three years, with a minimum of \$300,000 (incurred by Ultra) in exploration to occur in the first year. Upon earning its 65% interest, Ultra also had the right to acquire an interest in the adjoining Crackingstone uranium property located in the Uranium City, Saskatchewan area.

The Company was unable to renegotiate the agreement with Ultra and announced termination of the agreement on April 29, 2009.

h. Serpent River Project (Ontario)

The Company entered into an agreement to acquire a 100% interest in ten mining claims in the Sault Ste. Marie Mining Division, Elliot Lake area, in Northern Ontario. Terms of the agreement include the issuance of 500,000 common shares at a value of \$160,000 (issued) and \$500,000 in cash (paid). In addition, there is a 2.0% net smelter return relating to the acquisition. The Company may at any time purchase 1.0% of the NSR for \$1.5 million. A finders fee of 25,000 common shares valued at \$10,000 and \$25,000 cash have been paid.

i. West Voisey Bay Project (Newfoundland)

The Company and Belmont have agreed to acquire one-half of Merrex Gold Inc.'s 50% interest (net 25%) interest in the West Voisey's Bay Joint Venture ("WVBJV") in Labrador for \$1,200,000 (paid). Merrex will retain a net 25% participating interest in the WVBJV. The West Voisey's Bay ("WVB") Property is a joint venture between the Company (12.5%), Belmont (12.5%), Merrex (25%) and Celtic Minerals Ltd. (50%). Celtic is the WVBJV operator.

During a prior year the management of the Company resolved to write down the value of this project to a nominal value.

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**5. MINERAL INTERESTS AND DEFERRED EXPLORATION COSTS (CONTINUED)**

j. Chuchinka Project (British Columbia)

The Company entered into an agreement to acquire a 100% interest in four mining claims in the Cariboo Mining District, British Columbia. Terms of the agreement include the issuance of a total 1,000,000 common shares (1,000,000 issued for \$60,000), issuance of a non-transferable warrant for the right to purchase an additional 1,000,000 shares at a price of \$0.10 in the first year and \$0.15 in the second year, and \$50,000 in cash payments (paid). In addition, there is a 2.0% net smelter return relating to the acquisition. The Company may at any time purchase 1.0% of the NSR for \$1.0 million. A finders fee of a total of 80,000 common shares (80,000 issued for \$4,000) and \$4,000 cash was paid.

The Company acquired an additional mineral claim covering 449 ha in the Cariboo Mining District. Terms of the agreement include the issuance of a total 200,000 common shares (200,000 issued for \$16,000), issuance of a non-transferable warrant for the right to purchase an additional 100,000 shares at a price of \$0.10 in the first year and \$0.15 in the second year, and \$6,250 in cash payments (paid). In addition, there is a 2.0% net smelter return relating to the acquisition. The Company may at any time purchase 1.0% of the NSR for \$1.0 million. A finders fee of a total of 16,000 common shares (16,000 issued for \$1,280) and \$500 cash was paid.

On June 10, 2010, the Company entered into an option agreement with Electric Metals Inc. ("Electric"), whereby Electric can acquire a 75% interest in the Chuchinka claims by making cash payments totaling \$240,000 (received \$60,000), issuing 700,000 common shares of Electric (received 100,000 shares) and expending \$425,000 in exploration expenditures over three years. A finders fee of a total of 8% or \$27,200 (paid \$4,800) is payable in stages. In addition, there is a 2.0% net smelter return of which Electric may at any time purchase 1.0% of the NSR for \$1.0 million.

k. Tacheeda Project (British Columbia)

The Company entered into an agreement to acquire 12 claim blocks in northeastern British Columbia. Consideration includes staged cash payments totaling \$50,000 (paid \$30,000) and the issuance of 2,000,000 units in stages over one year. Each unit is comprised of one common share and one share purchase warrant entitling the holder to purchase one additional common share at a price of \$0.15 for one year. The Company issued a total of 500,000 units (each unit comprises one share at \$0.10 per share and one warrant at \$0.15 for a one year period), for property totaling \$50,000. The warrants attached to the units have been valued at \$24,550.

l. Commitments

In order for the Company to maintain its interest in its mineral properties, it will be required to make the following option payments:

Malachite	\$40,000	Should the Company dispose of any portion of the property to a major producing mining company
Cup Lake	\$750,000	By December 1, 2009 (See Note 5(f) re Force Majeure in effect)



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**6. RELATED PARTY TRANSACTIONS AND MANAGEMENT**

The Company shares office facilities and has common management and directorships with a number of public and private corporations. The Company is charged for office rentals and administrative services on a proportionate cost basis. Charges of \$12,476 (2010 - \$13,423) were incurred in the period by related companies.

The Company and Belmont Resources Inc. (a public company related through common directors), are 50:50 joint venture partners in the Red Lake Project, Ontario, Crackingstone and Orbit Lake Projects, Saskatchewan, and the Central Mineral Belt Project, Labrador. Belmont Resources Inc. is acting as the operator and incurs the expenditures for the project and bills the Company 50% cost plus a 5% administration fee. No charges have been incurred in the period (2010 - \$nil) were incurred in the period.

The Company has entered into an agreement with the Chief Executive Officer, a director to pay \$4,500 per month for management fees. During the period ended February 28, 2011 a total of \$27,000 (2010 - \$27,000) was accrued. The agreement expired on February 1, 2010 and was automatically renewed for a further two year term.

During the period, the Company reached an agreement with Belmont Resources Inc. to forgive a total of \$120,500 of exploration costs due to Belmont for their joint venture costs related to their shared mineral properties.

Management is of the opinion that these transactions were undertaken in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties).

**7. SHARE CAPITAL**

a. Authorized: Unlimited common shares without par value

b. Issued and Outstanding

	<u>SHARES</u>	<u>VALUE</u>
Balance August 31, 2009	34,033,526	\$ 8,032,399
Shares issued for cash, private placement of units	10,081,500	542,365
Shares returned, cancellation of private placement	(200,000)	(8,000)
Shares issued for cash, exercise of warrants	1,140,000	68,400
Shares issued for mineral interests	1,401,000	113,280
Share issue costs	-	(19,820)
Fair value of brokers warrants	-	(344)
Balance August 31, 2010	<u>46,456,026</u>	<u>8,728,280</u>
Shares issued for cash, exercise of warrants	7,317,500	742,400
Shares issued for mineral interests	605,000	92,000
Balance February 28, 2011	<u><u>54,378,526</u></u>	<u><u>\$ 9,562,680</u></u>

During the period the Company issued a total of 7,317,500 shares pursuant to the exercise of warrants at \$0.10 and \$0.12 for total proceeds of \$742,400.

On December 8, 2010, the Company issued 105,000 shares for the acquisition of a mineral property at an agreed price of \$0.40.

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**7. SHARE CAPITAL (CONTINUED)**

b. Issued and Outstanding (continued)

On November 29, 2010, the Company issued 500,000 units for the acquisition of a mineral property at an agreed price of \$0.10. The unit consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.15 per share. The warrants were valued using an expected volatility of 123.71%, a risk-free interest rate of 1.91%, an expected life of 1.0 years, and an expected dividend yield of 0.00%; resulting in a fair value of \$0.049 per warrant.

On May 12, 2010, the Company issued 250,000 units at \$0.06 per unit for gross proceeds of \$15,000. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.12 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.15 in year two. The warrants expire May 12, 2012.

On March 24, 2010, the Company issued 2,094,000 units at \$0.06 per unit for gross proceeds of \$125,640. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.12 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.15 in year two. The warrants expire March 24, 2012. Finder's fees of \$4,800 were paid as a result of the financing.

On February 25, 2010, the Company issued 200,000 shares for the acquisition of a mineral property, and 16,000 as finder's fees at a price of \$0.08 based on the trading price on the date of the agreement for \$17,280. The Company also issued a non-transferable warrant, with a fair value of \$4,797, for the right to purchase an additional 100,000 shares in the first year at a price of \$0.10. In the second year two warrants will be required to purchase a share at \$0.15. The warrants expire February 25, 2012. The warrants were valued using an expected volatility of 128.10%, a risk-free interest rate of 1.66%, an expected life of 2.0 years, and an expected dividend yield of 0.00%; resulting in a fair value of \$0.048 per warrant.

On February 3, 2010, the Company issued 1,800,000 units at \$0.05 per unit for gross proceeds of \$90,000. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.10 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.15 in year two. The warrants expire February 3, 2012.

Finders fees of \$2,160 in cash were paid in connection with the above private placement and 8,000 broker's warrants with a fair value of \$344 were issued on the above financing. The broker's warrants contain the same terms as the private placement warrants. Broker's warrants were valued using an expected volatility of 129.45%, a risk-free interest rate of 1.22%, an expected life of 2.0 years, and an expected dividend yield of 0.00%; resulting in a fair value of \$0.043 per warrant.

On February 2, 2010, the Company issued 500,000 shares for the acquisition of a mineral property; and 40,000 shares as a finders fee at a price of \$0.05 based on the trading price on the date of the agreement for \$27,000. The Company also issued a non-transferable warrant, with a fair value of \$56,150, for the right to purchase an additional 1,000,000 shares in the first year at a price of \$0.10. In the second year two warrants will be required to purchase a share at \$0.15. The warrants expire February 2, 2012. The warrants were valued using an expected volatility of 128.67%, a risk-free rate of 1.66%, an expected life of 2.0 years, and an expected dividend yield of 0.0%; resulting in a fair value of \$0.056 per warrant.

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**7. SHARE CAPITAL (CONTINUED)**

b. Issued and Outstanding (continued)

On January 15, 2010, the Company issued 5,200,000 non-flowthrough units at \$0.05 per unit for gross proceeds of \$260,000 and 635,000 flowthrough units at \$0.075 for gross proceeds of \$47,625. The unit financings consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.10 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.15 in year two. The warrants expire January 15, 2012.

Finders fees of \$12,860 in cash were paid in connection with the above private placement.

On December 11, 2009, the Company issued 105,000 shares for the acquisition of a mineral property at an agreed price of \$0.40.

On October 20, 2009, the Company returned to treasury 200,000 shares issued at \$0.04 pursuant to a private placement closed on May 11, 2009. The Company was unable to complete Delivery Against Payment ("DAP") with the brokerage firm on behalf of the clients, and the clients decided not to proceed with the subscriptions. 200,000 warrants were also cancelled.

On October 2, 2009, the Company issued 102,500 units at \$0.04 per unit for gross proceeds of \$4,100. The unit financing consisted of one common share and one non-transferable common share purchase warrant. One warrant will entitle the holder to purchase one additional common share of the Company for one year at a price of \$0.06 per share, thereafter two share purchase warrants will be required to purchase an additional common share of the Company at a price of \$0.12 in year two and \$0.20 in year three. The warrants expire October 3, 2012.

c. Share Issue Commitments - Share Purchase Warrants

<u>August 31</u> <u>2010</u>	<u>Issued</u>	<u>(Canceled)</u> <u>(Expired)</u>	<u>(Exercised)</u>	<u>February 28</u> <u>2011</u>	<u>Terms</u>
1,839,000	-	-	(142,500)	1,696,500	\$0.12 and 2 warrants to May 11, 2011 \$0.20 and 2 warrants to May 11, 2012
1,180,000	-	-	-	1,180,000	\$0.12 and 2 warrants to June 25, 2011 \$0.20 and 2 warrants to June 25, 2012
102,500	-	-	-	102,500	\$0.12 and 2 warrants to October 2, 2011 \$0.20 and 2 warrants to October 2, 2012
5,835,000	-	-	(5,385,000)	450,000	\$0.15 and 2 warrants to January 15, 2012
1,000,000	-	-	(500,000)	500,000	\$0.15 and 2 warrants to February 2, 2012
1,808,000	-	-	(900,000)	908,000	\$0.15 and 2 warrants to February 3, 2012
100,000	-	-	-	100,000	\$0.15 and 2 warrants to February 25, 2012
2,094,000	-	-	(340,000)	1,754,000	\$0.12 and 1 warrant to March 24, 2011 \$0.15 and 2 warrants to March 24, 2012
250,000	-	-	(50,000)	200,000	\$0.12 and 1 warrant to May 12, 2011 \$0.15 and 2 warrants to May 12, 2012
-	500,000	-	-	500,000	\$0.15 and 1 warrant to November 29, 2011
<u>14,208,500</u>	<u>500,000</u>	<u>-</u>	<u>(7,317,500)</u>	<u>7,391,000</u>	

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**7. SHARE CAPITAL (CONTINUED)**

d. Incentive Stock Options

The Company has an incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to the options granted under the Plan may not exceed 10% of the number of issued shares of the Company at the time of granting of the options. Options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price per share of the Company's common shares on the trading day immediately preceding the day on which the Company announces the grant of the options, less the maximum discount permitted under TSX Venture Exchange policies), or such other price as may be agreed to by the Company and accepted by the TSX Venture Exchange. Options granted under the plan vest immediately, except for consultants conducting investor relations activities which will become vested with the right to exercise one-fourth of the option upon the conclusion of each three month period subsequent to the date of the grant of the option.

Details of directors, employee and consultant share purchase options are as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding August 31, 2009	1,210,000	.10
Granted	1,800,000	.10
Expired	(910,000)	.10
Outstanding August 31, 2010	2,100,000	\$ .10
Granted	2,000,000	.10
Expired	(100,000)	.10
Outstanding and exercisable February 28, 2011	<u>4,000,000</u>	<u>\$ .10</u>

  

<u>August 31, 2010</u>	<u>Granted</u>	<u>(Expired)</u>	<u>(Exercised)</u>	<u>February 28, 2011</u>	<u>Terms</u>
200,000	-	-	-	200,000	\$ .10 to July 16, 2011
100,000	-	(100,000)	-	-	\$ .10 to February 25, 2011
1,800,000	-	-	-	1,800,000	\$ .10 to January 25, 2013
-	2,000,000	-	-	2,000,000	\$ .10 to November 17, 2013
<u>2,100,000</u>	<u>2,000,000</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>	

e. Stock-Based Compensation

The fair values of options granted during the period ended February 28, 2011 and granted in the year ended August 31, 2010 were estimated at the grant and repricing dates using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>February 28, 2011 Granted</u>	<u>August 31, 2010 Granted</u>
Expected volatility	127.72 %	113.76 %
Risk-free interest rate	1.91 %	1.66 %
Expected life	3.00 years	3.00 years
Expected dividend yield	0.00 %	0.00 %
Fair value of options granted to employees	\$ 0.09	\$ 0.05
Fair value of options granted to non-employees	\$ 0.09	\$ 0.05

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**7. SHARE CAPITAL (CONTINUED)**

e. Stock-Based Compensation (continued)

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

f. Contributed surplus

	<u>February 28</u> <u>2011</u>	<u>August 31</u> <u>2010</u>
Opening balance	\$ 505,117	\$ 350,688
Value of agents warrants	-	344
Warrants issued for Chuchinka Project	24,550	60,947
Arising from stock-based compensation	182,978	93,138
	<u>\$ 712,645</u>	<u>\$ 505,117</u>

**8. SUPPLEMENTAL CASH FLOW INFORMATION**

The Company incurred non-cash financing and investing activities during the periods ended February 28, 2011 and 2010 as follows:

	<u>2011</u>	<u>2010</u>
Non-cash financing activities:		
Items affecting share capital:		
Shares issued for mineral interests	\$ 92,000	\$ 86,280
Fair value of brokers warrants	-	344
Warrants issued for mineral interests	24,550	69,947
Option proceeds received	10,250	-
	<u>\$ 126,800</u>	<u>\$ 156,227</u>
Non-cash investing activities:		
Acquisition of mineral properties	<u>\$ (126,800)</u>	<u>\$ (156,227)</u>
	<u>\$ (126,800)</u>	<u>\$ (156,227)</u>

**9. FINANCIAL INSTRUMENTS**

**Capital risk management**

The Company manages its capital to ensure it will be able to continue as a going concern largely through equity financing. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholder's equity, comprising issued capital, contributed surplus, accumulated other comprehensive loss, and deficit.

There were no changes in the Company's approach to capital management during the period ended February 28, 2011. The Company is not subject to any externally imposed capital requirements.

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**9. FINANCIAL INSTRUMENTS (CONTINUED)**

**Financial risk management**

The Company monitors and manages the financial risks relating to operations through analysis of exposures by degree and magnitude of risks. These risks include credit risk, market risk and liquidity risk.

*Credit risk*

Credit risk refers to the risk that another entity will default on its contractual obligations resulting in financial loss to the Company. The Company has minimal accounts receivable exposure, and its various refundable credits are due from Canadian governments.

*Market risk*

Market risk includes currency risk, interest rate risk and price risk. The Company's activities expose it primarily to the financial risks of changes in the price of resources. The Company is also exposed to price risk related to potential fluctuations in the market prices of its marketable securities. The Company does not currently hold any financial instruments that mitigate these risks.

*Liquidity risk*

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. The Company currently has a working capital deficit. The Company's current resources are insufficient to settle its current liabilities and meet its other business requirements. Therefore, the Company will be required to raise additional capital in order to fund its operations in the coming year.

**Financial Instruments – Disclosures**

In June 2009, the CICA amended Section 3862, Financial Instruments – Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in marking the fair value adjustments. The three levels of fair value hierarchy 3862 are:

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

Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and

Level 3 – Input for assets or liabilities that are not based on observable market data.

**Fair Values**

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair measurement.

As at February 28, 2011, the Company's financial instruments measured at fair value are as follows:

<b>Assets</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash	\$ 365,259	\$ -	\$ -	\$ 365,259
Marketable Securities	22,625	-	-	22,625
	<u>\$ 387,884</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 387,884</u>

The Company's marketable securities are valued using quoted market prices in active markets and therefore are classified as Level 1.

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**10. SUBSEQUENT EVENTS**

- a. Subsequent to the quarter end, the Company granted 600,000 options exercisable at \$0.10 until March 15, 2013.
- b. Subsequent to the quarter end, a total of 1,754,000 warrants exercisable at \$0.12 were unexercised at March 24, 2011. The exercise of these warrants now requires two warrants and \$0.15 for one common share.