

## **TAKARA RESOURCES INC.**

### **NOTICE TO SHAREHOLDERS**

**As at and For the Three and Six Months Ended June, 2010**

#### Responsibility for Financial Statements

The accompanying interim financial statements of Takara Resources Inc. for the three and six months ended June 30, 2010 and 2009 have been prepared by management in accordance with Canadian generally accepted accounting principles applicable to interim financial statements (see note 2 to the interim financial statements). Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

#### Auditors Involvement

The external auditors of Takara Resources Inc., have not audited or performed a review of the unaudited interim financial statements for the three and six months ended June 30, 2010 and 2009 nor have they conducted any procedures with respect to the supplementary financial schedules included herein.

**TAKARA RESOURCES INC.****Consolidated Balance Sheets**

As at June 30, 2010 and December 31, 2009 (unaudited)

	2010	2009
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,697,834	\$ 239,383
Investment in marketable securities ( <i>note 5e</i> )	300,000	330,000
GST and accounts receivable	17,616	28,250
Prepaid expenses and advances	53,392	56,062
	2,068,842	653,695
Equipment ( <i>note 3</i> )	477,883	13,153
Mineral properties and deferred exploration expenditures ( <i>note 5</i> )	3,104,947	210,343
	\$ 5,651,672	\$ 877,191
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 237,792	\$ 76,013
Amounts payable to related parties ( <i>note 8</i> )	47,392	133,169
	285,184	209,182
<b>Going concern (<i>note 1</i>)</b>		
<b>Commitments and options (<i>notes 5 and 6</i>)</b>		
<b>Shareholders' equity</b>		
Share capital ( <i>note 7a</i> )	9,859,894	5,044,519
Warrants ( <i>note 7c</i> )	496,623	-
Contributed surplus ( <i>note 7d</i> )	934,451	934,451
Accumulated other comprehensive income	71,100	101,100
Accumulated deficit	(5,995,580)	(5,412,061)
	5,366,488	668,009
	\$ 5,651,672	\$ 877,191

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

Approved by the Board

Signed:

“J. Boyle”

Signed:

“P. Strand”

**TAKARA RESOURCES INC.**

**Consolidated Statements of Operations and Comprehensive Loss**

For the three and six months ended June 30, 2010 and 2009 (unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Expenses</b>				
Management fees (note 8)	\$ 31,251	\$ 35,000	\$ 63,021	\$ 96,000
Professional and legal fees	70,197	37,439	111,834	65,257
Stock based compensation	-	2,135	-	5,942
General and administrative	88,712	43,335	117,563	83,609
Promotion and shareholder communication	89,055	2,116	114,332	8,787
Rent	25,842	6,404	33,426	12,808
Travel	71,550	4,217	91,473	10,449
Amortization	32,002	1,164	32,874	2,273
<b>Loss before other items</b>	<b>(408,609)</b>	<b>(131,810)</b>	<b>(564,523)</b>	<b>(285,125)</b>
<b>Other items</b>				
Loss on sale of mineral properties	-	(82,974)	-	(82,974)
Loss on dilution of joint venture interest	(16,218)	-	(16,218)	-
Loss on foreign exchange	(33,298)	-	(33,298)	-
Interest income	-	-	521	-
<b>Loss before recovery of income taxes</b>	<b>(458,125)</b>	<b>(214,784)</b>	<b>(613,519)</b>	<b>(368,099)</b>
Future income tax recovery (note 7d(v))	-	-	30,000	-
<b>Net loss for the period</b>	<b>\$ (458,125)</b>	<b>\$ (214,784)</b>	<b>\$ (583,519)</b>	<b>\$ (368,099)</b>
<b>Basic and fully diluted loss per common share (note 9)</b>	<b>\$(0.009)</b>	<b>\$(0.019)</b>	<b>\$(0.018)</b>	<b>\$(0.034)</b>

**Consolidated Statements of Comprehensive Loss**

For the three and six months ended June 30, 2010 and 2009

	2010	2009	2010	2009
<b>Net loss for the period</b>	<b>\$(458,125)</b>	<b>\$(214,784)</b>	<b>\$(583,519)</b>	<b>\$(368,099)</b>
Unrealized loss in St. Eugene Mining Corporation Ltd.	(120,000)	-	(30,000)	-
<b>Comprehensive loss for the period</b>	<b>\$(578,125)</b>	<b>\$(214,784)</b>	<b>\$(613,519)</b>	<b>\$(368,099)</b>

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

**TAKARA RESOURCES INC.**

**Consolidated Statements of Changes in Shareholders' Equity**

For the six months ended June 30, 2010 and year ended December 31, 2009 (unaudited)

	2010	2009
<b>Share Capital</b>		
Balance, beginning of period	\$5,044,519	\$4,429,385
Shares issued on private placements net of costs	1,666,205	426,384
Shares issued on settlement of debt	104,000	91,250
Shares issued on disposition of mineral properties	-	90,000
Shares issued on acquisition of mineral properties	15,000	7,500
Shares issued on the acquisition of StrataGold Guyana Inc.	3,060,170	-
Tax benefits of renounced flow through shares	(30,000)	-
Balance, end of period	\$9,859,894	\$5,044,519
<b>Contributed Surplus</b>		
Balance, beginning of period	\$ 934,451	\$ 668,132
Stock based compensation ( <i>note 7d</i> )	-	111,035
Expiration of warrants	-	155,284
Balance, end of period	\$ 934,451	\$ 934,451
<b>Warrants</b>		
Balance, beginning of period	\$ -	\$ 155,284
Issue of warrants ( <i>note 7d(vii)</i> )	496,623	-
Expiration of warrants	-	(155,284)
Balance, end of period	\$ 496,623	\$ -
<b>Accumulated other comprehensive income</b>		
Balance, beginning of period	\$ 101,100	\$ -
Unrealized (loss) gain in St. Eugene Mining Corporation Ltd.	(30,000)	101,100
Balance, end of period	\$ 71,100	\$ 101,100
<b>Deficit</b>		
Balance, beginning of period	\$(5,412,061)	\$(3,820,504)
Dividends paid ( <i>note 5c</i> )	-	(900,000)
Net loss for the period	(583,519)	(691,557)
Balance, end of period	\$(5,995,580)	\$(5,412,061)
<b>Total shareholders' equity, end of period</b>	<b>\$ 5,366,488</b>	<b>\$ 668,009</b>

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

**TAKARA RESOURCES INC.**

**Consolidated Statements of Cash Flows**

For the three and six months ended June 30, 2010 and 2009 (unaudited)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
<b>Cash flows from operating activities</b>				
Net loss for the year	\$ (458,125)	\$(214,782)	\$ ( 583,519)	\$(368,099)
Items not affecting cash				
Amortization	32,002	1,164	32,874	2,273
Loss on sale of mineral properties	-	82,974	-	82,974
Future income tax recovery	-	-	(30,000)	-
Stock based compensation	-	2,135	-	5,942
	(426,122)	(128,509)	(580,644)	(276,910)
Changes in non-cash working capital				
GST and accounts receivable	70,315	31,600	82,167	28,471
Accounts payable and accrued liabilities	10,702	(15,109)	41,937	29,528
Prepaid expenses and advances	(8,115)	6,451	23,060	7,848
	(353,220)	(105,567)	(433,481)	(211,063)
<b>Cash flows from investing activities</b>				
Additions to mineral properties and deferred exploration costs	(317,740)	3,793	(327,930)	(54,022)
Cash received on acquisition of StrataGold Guyana Inc.	60,307	-	60,307	-
Purchase of equipment	(517)	(720)	(3,273)	(720)
	(257,950)	3,073	(270,896)	(54,742)
<b>Cash flows from financing activities</b>				
Proceeds from issue of common shares, net of costs	1,692,875	-	1,692,875	-
Proceeds from the issue of warrants	469,953	-	469,953	-
Proceeds from issue of common shares	2,162,828	-	2,162,828	-
<b>Increase (decrease) in cash</b>	<b>1,551,658</b>	<b>(102,494)</b>	<b>1,458,451</b>	<b>(265,805)</b>
<b>Cash, beginning of period</b>	<b>146,176</b>	<b>247,971</b>	<b>239,383</b>	<b>411,282</b>
<b>Cash, end of period</b>	<b>\$1,697,834</b>	<b>\$145,477</b>	<b>\$1,697,834</b>	<b>\$145,477</b>

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

*See Note 13 for Supplemental Information.*

## **TAKARA RESOURCES INC.**

### **Notes to Consolidated Financial Statements**

Three and six months ended June 30, 2010 (unaudited)

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#### **1. NATURE OF BUSINESS AND GOING CONCERN**

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##### **Nature of Business**

Takara Resources Inc. ("Takara" or the "Company") was incorporated on April 29, 2005 pursuant to the Canada Business Corporations Act under the name Naples Capital Corp. On November 19, 2007, the Company amended its articles to change its name to Takara Resources Inc. Takara's principle business activities are the acquisition, evaluation, exploration and development of mineral properties. To date, the Company has not realized any revenues from its properties and is considered to be an exploration and development stage company.

##### **Going Concern**

These consolidated financial statements have been prepared on a going concern basis, which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations in the foreseeable future.

The Company is in the process of exploring and evaluating its mineral properties and projects and has not yet determined whether its properties and projects contain ore reserves that are economically recoverable. The ability of the Company to meet its commitments as they become payable, including the development of projects, is dependent on the ability of the Company to obtain additional financing. The recoverability of amounts shown for mineral properties and deferred exploration expenditures is dependent upon the ability of the Company to obtain necessary financing to complete the exploration and development thereof, and upon future profitable production or proceeds from the disposal of properties. Although the Company has been successful in raising financing in the past, there is no assurance it will be able to do so in future.

The consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities that would be necessary if the Company were unable to continue as a going concern and realize its assets or discharge its obligations in anything other than the ordinary course of operations.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

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##### **Basis of Presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts are in Canadian dollars unless otherwise noted.

These interim consolidated financial statements follow the same accounting principles and methods of application as those disclosed in Note 2 to the Company's audited consolidated financial statements as at and for the year ended December 31, 2009. The Company's interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual consolidated financial statements and accordingly, should be read in conjunction with the December 31, 2009 Audited Consolidated Financial Statements.

The preparation of these consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include assessment of the carrying value of resource properties, valuation of stock options and share purchase warrants and asset retirement obligations. Actual results could differ from those estimates.

##### **Principles of Consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Takara Resources (B.C.) Inc., and StrataGold Guyana Inc. All significant intercompany accounts and transactions have been eliminated.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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### Future Changes in Accounting Policies

#### *Business Combinations, Consolidated Financial Statements and Non-Controlling Interests*

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling Interests. These new standards will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of the new standards. Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 - Business Combinations. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27 - Consolidated and Separate Financial Statements and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

#### *International Financial Reporting Standards ("IFRS")*

In 2006, the Canadian Accounting Standards Board ("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 replace Canadian GAAP with IFRS. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has started assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The conversion to IFRS will impact the Company's accounting policies, information technology and data system, internal control over financial reporting, and disclosure controls and procedures. The Company has developed and is implementing a plan to convert its financial statements to IFRS. As part of this plan, the Company is in the process of assessing the differences between IFRS and the Company's current accounting policies, as well as alternatives available upon adoption. The Company has not quantified the effect of adopting IFRS.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

#### 3. EQUIPMENT

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computers	\$ 80,606	\$ 48,073	\$ 32,533
Office	23,817	10,217	13,600
Vehicle	38,737	22,827	15,910
Field equipment	1,039,330	623,490	415,840
	<u>\$ 1,182,490</u>	<u>\$ 704,607</u>	<u>\$ 477,883</u>

  

	December 31, 2009		
	Cost	Accumulated Amortization	Net Book Value
Computers	\$ 15,589	\$ 7,772	\$ 7,817
Office equipment	7,534	2,198	5,336
	<u>\$ 38,818</u>	<u>\$ 25,665</u>	<u>\$ 13,153</u>

#### 4. ACQUISITION OF STRATAGOLD GUYANA INC.

On April 23, 2010 Takara completed the acquisition of all the issued and outstanding shares of StrataGold Guyana Inc. ("StrataGold"), from Tassawini Gold Barbados Corporation, a wholly owned subsidiary of Victoria Gold Corp ("Victoria"). In exchange for the shares of StrataGold, Takara issued 21,808,355 of its common shares to Victoria, plus an additional 50,000 common shares for a late closing penalty. The shares were valued at \$0.14 which was the share price issued on the private placement issued in connection with this transaction. The 21,808,355 shares are subject to a 4-month hold period and will be held in escrow with a release as follows: 10% on issuance of the TSX Venture Exchange bulletin and 15% every six months thereafter for a period of three years. Victoria is restricted, subject to Takara Board approval, from trading, on any one day, more than 25% of Takara's daily trading volume based on a 30-day average.

The purchase price allocation is as follows:

Cash	\$ 60,307
Accounts receivable	71,533
Prepaid expenses	20,390
Equipment (net)	494,332
Mineral properties	2,551,674
Accounts payable and accrued liabilities	(138,066)
	<u>3,060,170</u>
<u>Common shares issued on acquisition</u>	<u>3,060,170</u>

**TAKARA RESOURCES INC.**

**Notes to Consolidated Financial Statements**

Three and six months ended June 30, 2010 (unaudited)

**5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

Summary of mineral properties and deferred exploration expenditures for the six months ended June 30, 2010:

	Balance at January 1, 2010	Additions	Sale of Property/Termination of Joint Venture	Balance at March 31, 2010
Miskamowin Nickel Project	\$ 178,927	\$ 63,368	\$ -	\$ 242,295
Guyana Gold Projects:				
Head office	31,416	92,462	-	123,878
Tassawini Gold Project				
Acquisition	-	1,718,045	-	1,718,045
Expenditures	-	80,802	-	80,802
BRL Venture				
Acquisition	-	833,629	-	833,629
Expenditures	-	104,670	-	104,670
Other projects	-	1,625	-	1,625
	<b>\$ 210,343</b>	<b>\$ 2,894,601</b>	<b>\$ -</b>	<b>\$3,104,944</b>

Summary of mineral properties and deferred exploration expenditures for the year ended December 31, 2009:

	Balance at January 1, 2009	Additions	Sale of Property/Termination of Joint Venture	Balance at December 31, 2009
Miskamowin Nickel Project	\$116,349	\$62,578	-	\$178,927
Guyana Gold Project	-	31,416	-	31,416
Kaibab Project (Arizona, USA)	500,000	70,108	(570,108)	-
Basket Lake Project	-	82,400	(82,400)	-
BC Epithermal Gold Project	390,000	1,800	(391,800)	-
Luciana Gold Prospect	90,000	10,493	(100,493)	-
	<b>\$1,096,349</b>	<b>\$258,795</b>	<b>(\$1,144,801)</b>	<b>\$210,343</b>

**(a) Guyana Gold Project**

On April 23, 2010 Takara acquired two advanced stage gold projects within the Guyana Shield, Guyana (see note 4), namely: (i) the 100% owned Tassawini Gold Project; and (ii) the BRL Venture (the "Guyana Gold Projects"). The Tassawini Gold Project hosts a National Instrument 43-101 compliant mineral resource of 437,000 ounces gold (indicated) and 62,000 ounces gold (inferred) in the Tassawini and Sonne Deposits. The BRL Venture is a joint venture with Newmont Overseas Exploration Limited, a subsidiary of Newmont Mining Corporation. As at June 30, 2010 the Company held a 29.9% interest in the joint venture.

**(b) Miskamowin Nickel Project, Manitoba**

In January, 2009 the Company entered into an agreement with Dr. James Mungall ("Mungall") in respect of a transaction wherein the Company would acquire a 100% interest in five mineral exploration licenses owned by Mungall, located in northern Manitoba, in exchange for 750,000 common shares (250,000 common shares post consolidation) of Takara. Takara was to acquire and vest in all of Mungall's rights, title and interest in the Mineral Exploration Licenses upon completion of the following:

- (a) obtaining final approval from the TSX-Venture Exchange for the transaction; and
- (b) issuing Mungall (i) 250,000 (83,333 post consolidation) common shares of Takara upon receipt of approval of TSX approval, (ii) an additional 250,000 (83,333 post consolidation) common shares on the first anniversary of the agreement (issued January 29, 2010); and (iii) a final 250,000 (83,333 post consolidation) common shares on the second anniversary thereafter.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

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#### **5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (CONTINUED)**

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On April 27, 2009 the transaction was approved by the TSX-V and the 83,333 post consolidation common shares of Takara were issued to Mungall (see note 7(a)).

Thereafter, a discovery bonus shall be payable to Mungall as to: (i) 150,000 (50,000 post consolidation) common and \$30,000 cash in the event that two diamond drill holes located in the same claim block area each return not less than 1% nickel over not less than 5 continuous meters; and (ii) in the event that a resource estimate compliant with National Instrument 43-101 is completed on the project by an independent Qualified Person evidencing not less than 1,000,000 tonnes having an average grade of not less than 0.9% nickel, Mungall shall be entitled to be issued a number of shares that results in Mungall holding an aggregate 1,000,000 common shares (unadjusted) (counting all previously issued shares as per the agreement) at the time of completion of the resource estimate hereinbefore described.

On December 24, 2009 Takara entered into a letter intent with Shear Minerals Ltd. ("Shear") whereby Takara has granted Shear the right and option to acquire, subject to all underlying royalties, up to a 49% interest in all mineral rights and up to a 70% interest in the diamond only rights, based on the following terms:

- (i) Shear has a First Option to acquire a 25% interest in the Project by incurring \$340,000 in exploration expenditures before January 31, 2010 (completed). Shear has vested at 25% and elected to remain at 25% in the joint venture with Takara.
- (ii) If the First Option is exercised Shear has an option to complete a Second Option whereby Shear can earn an additional 24% interest in the mineral rights for the Project by incurring an additional \$500,000 in exploration expenditures before December 31, 2011 and if the Second Option is complete, the issuance to Takara of 1,000,000 Common Shares of Shear.
- (iii) Shear will have the opportunity to earn into 70% of any diamond "target" by drill testing the target and confirming the presence of kimberlite.
- (iv) Shear will be the Operator.

Regulatory approval for the transaction was granted on February 10, 2010.

#### **(c) Transaction with Garson Gold Corp.**

On March 12, 2009, the Company entered into an agreement with Garson Gold Corp. ("Garson") in respect of a series of business transactions, including the formation of joint advisory committees, common executive teams, and the acquisition by Garson of Takara's interests in the B.C. Epithermal Gold Projects, and the Luciana Gold Prospect in Abibiti, Quebec. Upon receipt of approval by the TSX Venture Exchange on April 27, 2009 Garson issued to Takara 10,000,000 common shares of Garson (with an estimated fair value of \$500,000), and Takara issued to Garson 3,000,000 (1,000,000 post consolidation) common shares (with an estimated fair value of \$90,000).

The sale of the BC Epithermal Gold Project and the Luciana Gold Project resulted in a loss of \$82,293. The Company realized a gain of \$127,600 on the disposal of its Basket Lake Project, resulting in a net gain on sale of mineral properties of \$45,307. As a part of agreement, Takara redistributed the Garson shares to its shareholders of record on October 15, 2009 (at a fair market value of \$900,000), resulting in a capital gain on the disposition of those shares in the amount of \$400,000 and dividends paid of \$900,000.

#### **(d) Kaibab Project**

This project had been subject to lobbying efforts precluding certain mineral work in the region of the Kaibab Joint Venture from being carried out. On July 21, 2009 a large area on the Arizona Strip and all of the Kaibab National Forest was segregated from mineral entry for two years pending completion of certain studies to determine whether the area should be withdrawn for 20 years. Accordingly, in 2009 the Company took steps to terminate its commitments in respect of this project. The termination included an issuance of 225,000 (75,000 post consolidation) common shares and a cash payment of \$40,000.

**TAKARA RESOURCES INC.**

**Notes to Consolidated Financial Statements**

Three and six months ended June 30, 2010 (unaudited)

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**5. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (CONTINUED)**

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**(e) Basket Lake Project**

On October 5, 2009, under the terms of a re-negotiated contract, the Company issued 1,400,000 (466,667 post consolidation) common shares as payment for the \$75,000 balance of the purchase price that had been outstanding. Other expenses of \$7,400 were incurred on the project during 2009 for a total of \$82,400.

On October 23, 2009 the Company entered into an agreement with St. Eugene Mining Corporation Ltd. ("St. Eugene"), to sell its interest in the Basket Lake project for consideration of 6,000,000 treasury shares of St. Eugene valued at \$210,000. These shares had a value at June 30, 2010 of \$300,000.

**6. COMMITMENTS**

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(a) The Company entered into an operating lease for office space expiring on April 30, 2011 with scheduled payments as follows:

2010	\$ 13,170
2011	8,782
	<hr/>
	<b>\$ 21,952</b>

(b) The Company renounced \$100,000 of qualifying exploration expenditures to the shareholders in 2009. Under the look-back provision governing flow through shares this amount must be spent by the end of 2010.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

#### 7. SHARE CAPITAL

The Company's shareholders approved a 1 for 3 consolidation of its outstanding common shares effective April 23, 2010. In connection with the common share consolidation, the number of shares of the Company's common stock was reduced without any change in the par value per common share.

##### a) Capital

###### Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

###### Common shares issued and outstanding

The following transactions occurred during the period with respect to common shares:

	Shares	Amount
Balance, December 31, 2008	31,183,030	4,429,385
Issued in connection with Miskamowin Nickel Project (i)	250,000	7,500
Issued in connection with Garson Gold Transaction (i)	3,000,000	90,000
Issued in connection with Basket Lake Project (i)	1,400,000	75,000
Issued in connection with the termination of the Kaibab J.V (i)	225,000	11,250
Issued in connection with Miskamowin Nickel Project (i)	100,000	5,000
Issued in connection with private placement (ii)	11,666,667	350,000
Issued in connection with private placement (iii)	1,250,000	100,000
Issuance costs	-	(23,616)
Balance, December 31, 2009	49,074,697	\$ 5,044,519
Issued in connection with debt settlement (iv)	2,080,000	104,000
Issued in connection with Miskamowin Nickel Project (i)	250,000	15,000
Balance prior to share consolidation	51,404,697	-
Balance after 1 for 3 share consolidation	17,134,898	-
Tax benefits renounced (v)	-	(30,000)
Issued on acquisition of StrataGold Guyana Inc. (vi)	21,858,355	3,060,170
Issued in connection with private placement (vii)	16,221,422	2,270,999
Value assigned to warrants issued on private placement (vii)	-	(469,953)
Issuance costs	-	(134,841)
<b>Balance March 31, 2010</b>	<b>55,214,675</b>	<b>\$ 9,859,894</b>

- (i) Share capital issued for non-monetary consideration in connection with mineral property interests (see note 5(a)) is recorded at an amount based on the fair market value estimated using the closing share price on the date the shares were issued.
- (ii) On December 7, 2009 the Company completed a private placement for gross proceeds of \$350,000 through the issuance of 11,666,667 common shares at a price of \$0.09 per share. All securities issued were subject to a four month hold period following the closing date.
- (iii) On December 22, 2009 the Company completed a private placement for gross proceeds of \$100,000 through the issuance of 1,250,000 flow-through common shares at a price of \$0.24 per share. All securities issued were subject to a four month hold period following closing.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

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#### 7. SHARE CAPITAL (CONTINUED)

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- (iv) On February 1, 2010 the Company issued 2,080,000 post consolidation common shares at a deemed price of \$0.15 as settlement of an aggregate \$104,000 in accrued management/consulting fees owing by the Corporation to related parties.
- (v) In connection with the issuance of flow-through shares under a December 22, 2009 private placement, the company has forgone a tax benefit estimated to be \$30,000 when it renounced related expenditures in February, 2010.
- (vi) On April 23, 2010 the Company issued 21,858,355 post consolidation commons shares in connection with the acquisition of StrataGold Guyana Inc. (note 4).
- (vii) On April 23, 2010 the Company completed a private placement for gross proceeds of \$2,270,999 through the issuance of 16,221,422 units at a price of \$0.14 per unit. Each unit consists of one post consolidation common share and one common share purchase warrant ("warrant"). Each warrant entitles the holder to purchase one common share at a price of \$0.20 expiring April 23, 2011. The warrants were assigned a value of \$469,953 using the Black Scholes option pricing model (note 7(c)).

In connection with the private placement the Company paid a finder's fee of \$108,171 and issued 756,224 broker warrants. Each broker warrant entitles the holder to purchase one common share at a price of \$0.14 expiring April 23, 2011. The warrants were assigned a value of \$26,670 using the Black Scholes option pricing model (note 7(c)).

#### b) Stock Options

The Company has in place a stock option plan (the "Plan") under which officers, directors, employees and consultants are eligible to receive incentive stock options. The aggregate number of common shares reserved for issuance under the Plan and common shares reserved for issuance under any other share compensation arrangement granted or made available by the Company from time to time may not exceed in aggregate 10% of the Company's common shares issued and outstanding at the time of grant. The term of any options granted under the Plan will be fixed by the Board of Directors and may not exceed ten years, but so long as the Company remains a "Tier 2" issuer under the policies of the Exchange, options may not exceed a term of five years. The exercise price of options granted under the Plan will be determined by the Board of Directors, provided that it is not less than the lowest price permitted by the Exchange.

The terms of the plan are as follows: (i) the maximum number of shares that can be received by a beneficiary during any 12 months period is limited to 5% of issued and outstanding shares; (ii) the maximum number of shares that can be reserved for a consultant during any 12 months period is limited to a 2% of issued and outstanding shares, and; (iii) the maximum number of shares that can be reserved for a supplier of investor relations services during any 12 months period is limited to 2% of issued and outstanding shares; moreover, the options granted may be exercised by steps on a 12-months period after the grant, at the rate of 25% per quarter.

**TAKARA RESOURCES INC.**

**Notes to Consolidated Financial Statements**

Three and six months ended June 30, 2010 (unaudited)

**7. SHARE CAPITAL (CONTINUED)**

Issued and exercisable stock options outstanding:

	Number of Stocks options	Weighted average exercise price	Options Exercisable	Weighted average exercise price
Outstanding, As at December 31, 2008	855,000	0.81	855,000	0.84
Cancelled	(855,000)	0.81	(855,000)	0.84
Granted	500,000	0.30	500,000	0.30
<b>As at December 31, 2009 and June 30, 2010</b>	<b>500,000</b>	<b>\$ 0.30</b>	<b>500,000</b>	<b>0.30</b>

As at June 30, 2010 the Company had the following stock options outstanding:

Black- Scholes Value	Number of Options Outstanding	Exercise Price	Expiry Date	Number of Options Exercisable	Weighted Average Remaining Life
\$111,035	500,000	0.30	Nov. 16, 2014	500,000	4.38

During the year ended December 31, 2009, the Company granted 500,000 stock options exercisable for one common share at \$0.30 per share, for a five year period. The fair value of the options was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility of 254%; expected dividend yield of 0%; risk-free interest rate of 2.63%; and expected life of 5 years. The options were valued at \$111,035, and were recorded as stock compensation. 416,667 of these options were granted to officers/directors of the Company.

**c) Warrants**

The following summarizes the change in warrants for the six months ended June 30, 2010:

	Number of Warrants	Value	Weighted Average Days to Expire	Weighted Average Exercise Price
Balance, December 31, 2009	-	-	-	-
Issued (i)	16,221,422	\$469,953	184	\$0.20
Issued (i)	756,224	26,670	184	\$0.14
<b>Balance, June 30, 2010</b>	<b>16,977,646</b>	<b>\$496,623</b>	<b>184</b>	<b>\$0.19</b>

- i) The fair value of the warrants was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected volatility 155%, expected dividend yield of 0%; risk free interest rate 1.90% and expected life of one year.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

#### 7. SHARE CAPITAL (CONTINUED)

##### d) Contributed Surplus

The following table identifies the changes in contributed surplus for the period:

Balance, December 31, 2008	\$ 668,132
Expiration of warrants	155,284
Stock based compensation	111,035
<b>Balance, December 31, 2009</b>	
<b>And June 30, 2010</b>	<b>\$ 934,451</b>

#### 8. RELATED PARTY TRANSACTIONS

The Company has entered into agreements with private companies controlled by directors of the Company for management consulting services, geological consulting and for such other services required by the Company.

During the six months ended June 30, 2010 the Company had the following related party transactions:

- \$63,020 (2009 - \$42,000) in management fees was charged by a company controlled by a director and CEO of the Company. \$10,937 (2009 - \$53,584) is owed to this company and is included in amounts payable to related parties. Another \$47,392 is owed to this director and CEO for expenses paid on behalf of the Company. This amount is included in amounts payable to related parties.
- \$Nil (2009 - \$40,000) in management fees was charged by a company controlled by a director and a former president of the Company. Of this amount, \$nil (2009 - \$30,000) is included in amounts payable to related parties.
- \$60,000 (2009 - \$nil) in geological fees was charged by a company controlled by a director and President of the Company and recorded as deferred exploration expenditures. \$12,232 (2009 - \$44,401) is owed to this company and is included in amounts payable to related parties.

#### 9. LOSS PER COMMON SHARE

The following table sets forth the computation of basic and fully diluted loss per common share:

For the three and six months ended June 30	Three months ended		Six months ended	
	2010	2009	2010	2009
Numerator:				
Net loss attributable to common shareholders				
- basic and fully diluted	\$ (458,125)	\$ (214,784)	\$ (583,519)	\$ (368,099)
Denominator:				
Weighted average common shares outstanding				
- basic	50,438,252	11,156,248	31,183,030	10,777,400
Basic and fully diluted loss per common share	\$ (0.009)	\$ (0.019)	\$ (0.018)	\$ (0.034)

The warrants and options outstanding were excluded from the computation of diluted loss per share in the current and prior year because their impact was anti-dilutive.

## **TAKARA RESOURCES INC.**

### **Notes to Consolidated Financial Statements**

Three and six months ended June 30, 2010 (unaudited)

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#### **10. CAPITAL MANAGEMENT**

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The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital, warrants, contributed surplus and options. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the six months ended June 30, 2010. The Company is not subject to externally imposed capital requirements.

#### **11. FINANCIAL INSTRUMENTS AND RISK FACTORS**

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##### Fair value of financial instruments

The fair value hierarchy in CICA Handbook Section 3862 establishes three levels to classify inputs to the valuation techniques used to measure fair value. Level 1 inputs are quoted market prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices). Level 3 inputs are unobservable (supported by little or no market activity), such as non-corroborative indicative prices for a particular instrument provided

The Company's financial instruments include cash, GST, and accounts receivable, shares of St. Eugene Mining Corporation Ltd., accounts payable and accrued liabilities and amounts payable to related parties. With respect to all these financial instruments with the exception of shares of St Eugene Mining Corporation Ltd., the Company estimates that the fair value of these financial instruments approximates the carrying values at June 30, 2010 and December 31, 2009, respectively, and as such they are classified within Level 1 of the fair value hierarchy.

The Company's investment in shares of St. Eugene Mining Corporation Ltd., is valued using quoted market prices in active markets and as such classified within Level 1 of the fair value hierarchy. The fair value of the securities is calculated as the quoted bid price of the investment equity security multiplied by the quantity of shares held by the Company.

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

##### **Credit Risk**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company is exposed to credit risk on its cash. The Company has deposited the cash with reputable Canadian financial institutions, from which management believes the risk of loss is minimized.. As at June 30, 2010, no amounts receivable are considered past due or impaired.

## TAKARA RESOURCES INC.

### Notes to Consolidated Financial Statements

Three and six months ended June 30, 2010 (unaudited)

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#### 11. FINANCIAL INSTRUMENTS AND RISK FACTORS (CONTINUED)

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##### Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, the Company had a cash balance of \$1,697,834 (December 31, 2009 - \$239,383) to settle current financial liabilities of \$285,183 (December 31, 2009 - \$209,182).

##### Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

##### (a) Interest rate risk

The Company is not exposed to interest rate risk as it does not have an interest bearing debt.

##### (b) Commodity price risk

The ability of the Company to develop its mineral properties and the future profitability of the Company is directly related to the market price of gold and nickel.

St. Eugene shares are a public listed TSX Venture company and a variance of 10% in the market value of St. Eugene Shares would affect comprehensive income by \$30,000.

#### 12. COMPARATIVE FIGURES

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

#### 13. SUPPLEMENTAL INFORMATION – STATEMENT OF CASH FLOWS

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For the six months ended June 30	2010	2009
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -
<b>Non-Monetary Transactions:</b>		
Shares issued in exchange for StrataGold Guyana Inc.	\$ 3,060,170	\$ -
Shares issued in exchange for debt	\$ 104,000	\$ -
Shares issued in exchange for mineral properties	\$ 15,000	\$ 97,500