

**COLIBRI RESOURCE CORPORATION**

51A Commercial Street, P.O. Box 714  
Nanaimo, BC V9R 5M2

Telephone: (250) 755-7871

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**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended August 31, 2010.

The accompanying unaudited interim consolidated financial statements of Colibri Resource Corporation have been prepared by and are the responsibility of the Company's management.

**COLIBRI RESOURCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE INCOME AND DEFICIT**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2010 AND 2009**

(Unaudited – Prepared by Management)

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2010	2009	2010	2009
<b>EXPENSES, ADMINISTRATIVE AND GENERAL</b>				
Accounting and audit fees	\$ 4,585	\$ 3,541	\$ 22,583	\$ 19,441
Advertising and promotion	-	1,167	974	1,941
Amortization	1,971	2,573	5,913	7,717
Consulting	-	15,000	-	15,000
Foreign exchange	1,503	1,641	3,475	10,754
Legal	1,410	1,482	13,268	4,456
Management fees	22,500	22,500	67,500	67,500
Office and miscellaneous	4,184	3,635	12,807	11,998
Rent	2,250	2,250	12,632	12,032
Stock-based compensation	-	-	30,583	-
Telephone	658	370	1,700	1,190
Transfer agent and filing fees	4,461	2,072	9,846	8,759
Travel and related costs	1,547	286	14,869	10,653
<b>LOSS BEFORE OTHER ITEMS</b>	<b>(45,069)</b>	<b>(56,517)</b>	<b>(196,150)</b>	<b>(171,441)</b>
<b>OTHER ITEMS</b>				
Mineral interest written off (Note 6)	-	(316,778)	-	(316,778)
Interest	796	867	2,071	3,829
	796	(315,911)	2,071	(312,949)
<b>NET LOSS FOR THE PERIOD</b>	<b>(44,273)</b>	<b>(372,428)</b>	<b>(194,079)</b>	<b>(484,390)</b>
<b>OTHER COMPREHENSIVE INCOME</b>				
(Note 2)	-	-	-	-
<b>DEFICIT, beginning of period</b>	<b>(2,187,166)</b>	<b>(1,553,961)</b>	<b>(2,037,360)</b>	<b>(1,441,999)</b>
<b>DEFICIT, end of period</b>	<b>\$(2,231,439)</b>	<b>\$(1,926,389)</b>	<b>\$(2,231,439)</b>	<b>\$(1,926,389)</b>
<b>BASIC AND DILUTED</b>				
<b>LOSS PER SHARE</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
Weighted average number of shares outstanding	34,611,010	34,327,314	34,611,010	34,316,484

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

**COLIBRI RESOURCE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**AUGUST 31, 2010**

(Unaudited – Prepared by Management)

	<u>August 31, 2010</u> (Unaudited)	<u>November 30, 2009</u> (Audited)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 592,425	\$ 984,025
Accounts receivable	-	-
GST receivable	15,002	11,685
Prepaid expenses	<u>7,974</u>	<u>12,026</u>
	615,401	1,007,736
<b>EQUIPMENT</b> (Note 5)	21,692	27,605
<b>MINERAL PROPERTIES</b> (Note 6)	<u>5,596,382</u>	<u>5,340,590</u>
	<u>\$6,233,475</u>	<u>\$6,375,931</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accruals	\$ 65,382	\$ 53,368
Accounts payable to related parties (Note 7)	<u>22,600</u>	<u>13,574</u>
	<u>87,982</u>	<u>66,942</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>CAPITAL STOCK</b> (Note 8)	5,822,413	5,822,413
<b>CONTRIBUTED SURPLUS</b> (Note 8)	2,554,519	2,523,936
<b>DEFICIT</b>	<u>(2,231,439)</u>	<u>(2,037,360)</u>
	<u>6,145,493</u>	<u>6,308,989</u>
	<u>\$6,233,475</u>	<u>\$6,375,931</u>

Approved on behalf of the Board:

“Lance D. Geselbracht”      Director

“William R. Walker”      Director

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

**COLIBRI RESOURCE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2010 AND 2009**

(Unaudited – Prepared by Management)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>August 31,</b>		<b>August 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss for the period	\$ (44,273)	\$ (372,428)	\$(194,079)	\$ (484,390)
Add: Items not requiring the use of cash				
Amortization	1,971	2,573	5,913	7,717
Write-off of mineral interests	-	316,778	-	316,778
Stock-based compensation	<u>-</u>	<u>-</u>	<u>30,583</u>	<u>-</u>
	(42,302)	(53,077)	(157,583)	(159,895)
Change in non-cash working capital items:				
(Increase) decrease in receivables	(4,592)	(1,507)	(3,317)	6,099
Decrease (increase) in prepaid expenses	2,251	(9,730)	4,052	803
(Decrease) increase in accounts payable and accrued liabilities	(57,531)	12,442	12,014	(74,340)
(Decrease) increase in accounts payable to related parties	<u>(7,605)</u>	<u>(5,914)</u>	<u>9,026</u>	<u>1,691</u>
Net cash used in operating activities	<u>(109,779)</u>	<u>(57,786)</u>	<u>(135,808)</u>	<u>(225,642)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of capital stock, and net cash used in financing activities	<u>-</u>	<u>9,000</u>	<u>-</u>	<u>9,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase of equipment	-	-	-	-
Acquisition of mineral properties and deferred exploration costs	<u>(32,047)</u>	<u>(111,156)</u>	<u>(255,792)</u>	<u>(292,683)</u>
Net cash used in investing activities	<u>(32,047)</u>	<u>(111,156)</u>	<u>(255,792)</u>	<u>(292,683)</u>
<b>DECREASE IN CASH DURING THE PERIOD</b>	(141,826)	(159,942)	(391,600)	(509,325)
<b>CASH, beginning of period</b>	<u>734,251</u>	<u>1,299,156</u>	<u>984,025</u>	<u>1,648,539</u>
<b>CASH, end of period</b>	<u>\$592,425</u>	<u>\$1,139,214</u>	<u>\$592,425</u>	<u>\$1,139,214</u>
Supplemental disclosure with respect to cash flows (Notes 9 and 10)				

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

**COLIBRI RESOURCE CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED AUGUST 31, 2010 AND 2009**  
**(Unaudited-Prepared by Management)**

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**1. NATURE AND CONTINUANCE OF THE BUSINESS**

Colibri Resource Corporation (“the Company”) was incorporated on February 20, 2004 in the province of British Columbia. The Company is pursuing opportunities in the exploration of mineral and natural resource properties in Mexico and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles with the assumption that the Company will continue on a going concern basis, which assumes the Company will be able to realize its assets and liabilities in the normal course of business. As at August 31, 2010, the Company has working capital of \$527,419 (2009 – \$1,136,130) and has a cumulative deficit of \$2,231,439 (2009 – \$1,926,389). The Company’s ability to continue as a going concern is dependent on its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations as they come due, and to continue its operations. Management is of the opinion that sufficient working capital will be obtained from external financing and/or joint venture arrangements to meet the Company’s liabilities and commitments as they become due and to fund capital projects, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. The obtaining of additional financing through debt or equity markets or joint venture arrangements is dependent on investor confidence in the markets in general, and in the Company itself. There can be no assurance that the Company will be able to continue to raise funds, in which case the Company may be unable to meet its obligations. In the event that the Company is unable to secure additional financing and continue as a going concern, material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used.

**2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial statements include the accounts of Colibri Resource Corporation and its wholly owned subsidiary, Minera Halcones S.A. de C.V. (“Halcones”). Halcones was incorporated on March 30, 2004 in Mexico. All inter-company accounts and transactions have been eliminated upon consolidation.

**Use of Estimates**

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Significant areas requiring the use of management estimates relate to the determination of asset retirement obligations, environmental obligations, impairment of mineral properties, the assumptions used in the determination of the fair value of stock-based compensation and warrants, rates for amortization, accrued liabilities, and the determination of a valuation allowance for future income tax assets. These estimates and assumptions are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the periods in which they become known.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Stock-based compensation**

The fair value of stock options granted is determined using the Black-Scholes option pricing model and recorded as stock-based compensation expense over the vesting period of the stock options, with a corresponding increase to contributed surplus. When stock options are exercised the corresponding fair value is transferred from contributed surplus to capital stock. In the event that unvested options are cancelled, previously recognized compensation expense associated with such options is reversed.

**Mineral Properties**

All costs related to the acquisition, exploration and development of mineral properties are capitalized by property. If economically recoverable ore reserves are developed, capitalized costs of the related property are reclassified as mining assets and amortized using the unit of production method. When a property is abandoned, all related costs are written off to operations. If, after management review, it is determined that the carrying amount of a mineral property is impaired, that property is written down to its estimated net realizable value. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

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

**Impairment of Long-lived Assets**

Long-lived assets consist of equipment and mineral properties. Long-lived assets held for use are measured and amortized as described in the applicable accounting policies.

The Company performs impairment testing on long-lived assets held for use wherever events or changes in circumstances indicate that the carrying value of an asset, or group of assets may not be recoverable. Impairment losses are recognized where undiscounted future cash flows from its use and disposal are less than the assets carrying amount. Impairment loss is measured as the amount by which the asset carrying value exceeds fair value. Discounted cash flows are used to measure fair value. Any impairment is included in loss for the year.

**Asset Retirement Obligations**

The Company recognizes the fair value of a liability for an asset retirement obligation in the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is recorded on a declining balance basis at the following annual rates:

Office furniture	20%
Computer equipment	30%
Computer software	100%
Automotive	30%

**Foreign Currency Translation**

The functional currency of the Company is the Canadian Dollar. The accounts of the Company's integrated foreign subsidiary are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated at the rate in effect at the balance sheet date. Non-monetary assets and liabilities and revenues and expenses are translated at the rates prevailing on the respective translation dates. Foreign exchange gains and losses are included in the determination of net loss for the year.

**Loss Per Share**

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

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

**Future income taxes**

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

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**2. SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Financial Instruments**

The Company classifies all financial instruments as either held-to-maturity, available for-sale, held for trading, loans and receivables, or other financial liabilities. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the current bid price. The carrying value less impairment provision, if necessary, of trade receivables and payables are assumed to approximate their fair values.

Transaction costs related to financial instruments classified as held for trading are recognized immediately into income. For financial instruments classified as other than as held for trading, transaction costs are added to the financial instrument in accordance with the provision of CICA Handbook Section 3855.

The following is a summary of the classifications the Company has elected to apply to each of its significant categories of financial instruments:

Cash	designated as held for trading
Accounts receivable	loans and receivables
Accounts payable and accrued liabilities	other liabilities
Accounts payable to related parties	other liabilities

**Comprehensive income**

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. In accordance with this standard, the Company is to report a statement of comprehensive income and a category, accumulated other comprehensive income, in the shareholders' equity section of the consolidated balance sheet. The components of this category may include unrealized gains and losses on financial assets classified as available-for-sale, exchange gains and losses arising from the translation of financial statements of a self-sustaining foreign operation and the effective portion of the changes in fair value of cash flow hedging instruments. As there are currently no differences between net income and comprehensive income, or shareholders' equity and accumulated other comprehensive income, no statement of comprehensive income has been included with these consolidated financial statements.

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**3. ADOPTION OF NEW ACCOUNTING STANDARDS**

(i) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaces Sections 3062 and 3450. This new standard, which the Company adopted December 1, 2008, establishes new standards for the recognition, measurement and disclosure of goodwill and intangible assets. It also provides guidance for the treatment of preproduction and startup costs and requires that these costs be expensed as incurred. The adoption of these new standards has had no significant impact on the Company's interim consolidated financial statements as at August 31, 2010.

(ii) Going Concern

In June 2007, the Canadian Institute of Chartered Accountants modified Section 1400, "General Standards of Financial Statement Presentation", in order to require that management make an assessment of the Company's ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. These new disclosure requirements have been implemented by the Company as of December 1, 2008, and have had no impact on the Company's interim consolidated financial statements as at August 31, 2010.

(iii) Mining Exploration Costs

In March 2009 the CICA approved EIC 174, Mining Exploration Costs. The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The guidance is applicable to fiscal periods ending after the issuance date. Adoption of this section has had no impact on the Company's interim consolidated financial statements.

(iv) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Canadian Institute of Chartered Accountants (CICA) issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The guidance requires that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 20, 2009. Adoption of this section has had no impact on the Company's interim consolidated financial statements.

**COLIBRI RESOURCE CORPORATION**  
**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
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**4. FUTURE ACCOUNTING POLICIES**

(i) Business Combinations, Consolidated Financial Statements and Non-controlling Interest

In January 2009, the CICA issued CICA Handbook Section 1582, “Business Combinations”, Section 1601, “Consolidations”, and Section 1602, “Non-controlling Interests”. These sections replace the former CICA Handbook Section 1581, “Business Combinations” and Section 1600, “Consolidated Financial Statements” and establish a new section for accounting for a non-controlling interest in a subsidiary.

CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to International Financial Reporting Standard (“IFRS”) 3, “Business Combinations” (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of 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” (January 2008).

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections on their consolidated financial statements.

(ii) International Financial Reporting Standards

In January 2006, the CICA Accounting Standards Board (ASB) adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards for public companies would be required to converge with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011 with comparative figures presented on the same basis. In February 2008, the CICA ASB confirmed the effective date of the initial adoption of IFRS. The transition date for the Company will be December 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended November 30, 2011. The Company is currently evaluating these new standards to determine the potential impact on its consolidated financial statements.

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**5. EQUIPMENT**

	August 31, 2010			November 30, 2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Office furniture	\$ 7,090	\$ 3,691	\$ 3,399	\$ 7,090	\$ 3,079	\$ 4,011
Computer equipment	24,056	16,123	7,933	24,056	13,831	10,225
Computer software	10,089	10,089	-	10,089	10,089	-
Automotive	32,100	21,740	10,360	32,100	18,731	13,369
	<u>\$ 73,335</u>	<u>\$ 51,643</u>	<u>\$ 21,692</u>	<u>\$ 73,335</u>	<u>\$ 45,730</u>	<u>\$ 27,605</u>

**6. MINERAL PROPERTIES**

**Title to Mineral Properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Colibri Property**

On June 16, 2004, the Company agreed to an option agreement with Minera Cadenza S de RL de CV (“Cadenza”), a private Mexican company wholly owned by Cadence Resource Corporation, a Canadian private company controlled by a director and a former director of the Company, to purchase a 90% interest in the Colibri property, located in the State of Sonora, Mexico. Upon signing the option agreement, the Company paid \$50,000 and issued 200,000 common shares with a value of \$30,000. The Company agreed to pay \$300,000, issue a total of 1,200,000 common shares and incur a total of \$1,800,000 (incurred) in exploration expenditures by June 16, 2009, to earn its 90% interest. The Company has paid the \$350,000 and issued all of the 1,400,000 common shares with a total value of \$244,500. The Company exercised its option and has acquired the 100% interest, and Cadence Resource Corporation retains a 3% Net Smelter Returns (“NSR”) royalty.

As part of the Colibri property, on June 16, 2004, the Company agreed to an assignment of contract agreement to have the right to purchase a 100% interest in two mineral claims known as the San Francisco and the Juarez claims for a total of US\$1,000,000 to be paid over a six year period ending January 1, 2010. All option payments made under this agreement will be applied to the purchase price of US\$1,000,000 if the Company elects to purchase these two mineral claims. To date, the Company has paid US\$131,000, but has decided not to pay the remaining option payments, as the costs did not warrant the cost of finalizing the option agreements. All previously capitalized costs relating to these two mineral claims have been written off in the previous year.

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**6. MINERAL PROPERTIES** *(Continued)*

**Ramaje Ardiente Property**

On June 16, 2004, the Company agreed to an option agreement with Minera El Sahuaro S.A. de C.V. ("Sahuaro"), a wholly-owned subsidiary of Cadenza, to purchase a 100% interest in the Ramaje Ardiente property, located in the State of Sonora, Mexico. Upon signing the option agreement the Company paid \$20,000 and issued 200,000 common shares with a value of \$30,000. The Company agreed to pay \$70,000, issue a total of 300,000 common shares, incur a total of \$500,000 (incurred) in exploration expenditures and initiate a scoping/pre-feasibility study by June 16, 2009, to earn its 100% interest. The Company has paid the \$90,000 and issued all of the 300,000 common shares with a value of \$45,000. The Company exercised its option and has acquired the 100% interest.

The property is subject to a 2.0% NSR royalty. The Company has the option to purchase 50% of the royalty for \$1,000,000.

**Leon Property**

On June 16, 2004, the Company agreed to an option agreement with Minera La Pitahaya S.A. de C.V. ("Pitahaya"), a private Mexican company, which is 50% owned by a former director of the Company, to purchase a 100% interest in the Leon property, located in the State of Sonora, Mexico. Upon signing the option agreement, the Company paid \$20,000 and issued 200,000 common shares with a value of \$30,000.

The Company agreed to pay a total of \$190,000, issue a total of 200,000 common shares, incur a total of \$500,000 (incurred) in exploration expenditures and commence a scoping/pre-feasibility study by December 16, 2008, to earn its 100% interest.

The Company has paid the \$210,000 and issued all of the 400,000 common shares with a value of \$48,000. The Company exercised its option and has acquired the 100% interest.

The property is subject to a 2.0% NSR royalty. The Company has the option to purchase 50% of the royalty for \$1,000,000.

**Evelyn Property**

In March 2009 the Company's subsidiary, Minera Halcones, acquired a 100% interest in the Evelyn III claim via a Mexican government "sorteo" or claim lottery. This 506.3 hectare claim is located in the State of Sonora, Mexico.

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**6. MINERAL PROPERTIES** *(Continued)*

<b>For the three months ended August 31, 2010</b>	Colibri Property	Ramaje Ardiente Property	Leon Property	Evelyn Property	August 31, 2010 Total
Balance, beginning of the period (unaudited)	\$2,478,174	\$ 810,695	\$2,263,301	\$ 12,165	\$5,564,335
<b>Additions</b>					
Mineral claims	-	-	-	-	-
Accommodation and meals	-	-	-	-	-
Assays and lab tests	-	-	-	-	-
Drilling / mobilization / demobilization	-	-	-	-	-
Field expenses and personnel	-	-	-	-	-
Geological consulting	4,334	4,333	10,833	-	19,500
Geophysics	-	-	2,639	-	2,639
Maps and reproduction	928	-	4,486	-	5,414
Miscellaneous	949	-	-	-	949
Property and claim taxes	605	299	653	1,609	3,166
Telephone	-	-	-	-	-
Travel and transport (recovery)	(323)	(323)	1,025	-	379
	<u>6,493</u>	<u>4,309</u>	<u>19,636</u>	<u>1,609</u>	<u>32,047</u>
Balance, August 31, 2010 (unaudited)	<u>\$2,484,667</u>	<u>\$ 815,004</u>	<u>\$2,282,937</u>	<u>\$ 13,774</u>	<u>\$5,596,382</u>
<b>For the year ended November 30, 2009</b>					
	Colibri Property	Ramaje Ardiente Property	Leon Property	Evelyn Property	November 30, 2009 Total
Balance, November 30, 2008 (audited)	\$2,496,426	\$ 767,859	\$2,013,463	\$ -	\$5,277,748
<b>Additions</b>					
Mineral claims	106,000	-	60,500	-	166,500
Accommodation and meals	3,487	269	3,348	126	7,230
Assays and lab tests (recovery)	28,437	-	(32,952)	-	(4,515)
Drilling / mobilization / demobilization	4,620	-	4,620	-	9,240
Field expenses and personnel	1,367	42	2,582	84	4,075
Geological consulting	55,911	4,904	25,263	4,200	90,278
Maps and reproduction	9,913	-	750	1,725	12,388
Miscellaneous	6,987	3,380	8,393	3,549	22,309
Property and claim taxes	28,897	11,482	14,506	-	54,885
Telephone	505	53	204	28	790
Travel and transport	7,830	538	7,721	351	16,440
	<u>253,954</u>	<u>20,668</u>	<u>94,935</u>	<u>10,063</u>	<u>379,620</u>
	<u>2,750,380</u>	<u>788,527</u>	<u>2,108,398</u>	<u>10,063</u>	<u>5,657,368</u>
Mineral interest written off (Note 6)	(316,778)	-	-	-	(316,778)
Balance, November 30, 2009 (audited)	<u>\$2,433,602</u>	<u>\$ 788,527</u>	<u>\$2,108,398</u>	<u>\$ 10,063</u>	<u>\$5,340,590</u>

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**7. RELATED PARTY TRANSACTIONS**

Accounts payable to related parties of \$22,600 (2009 – \$13,260) is comprised of reimbursable travel costs to directors of the Company, management fees due to a company controlled by a director of the Company, and geological consulting fees due to a company controlled by a former director of the Company.

The Company entered into the following transactions with related parties:

- a) As outlined in Note 6, Colibri Property, the Company paid or accrued \$988 (2009 – \$25,000) to a private Mexican company wholly-owned by Cadence Resource Corporation, a Canadian private company controlled by a former director of the Company. A director of the Company is also a director of the Canadian private company.
- b) Paid or accrued \$20,977 (2009 – \$15,000) in geological consulting fees, of which \$18,529 (2009 – \$15,000) are included in mineral properties, to a company controlled by a former director.
- c) Paid or accrued \$6,200 (2009 – \$10,500) in geological consulting fees and mapping and production, of which \$6,200 (2009 – \$10,500) are included in mineral properties, to a director of the Company.
- d) Paid or accrued \$22,500 (2009 – \$22,500) in management fees to companies controlled by directors of the Company.
- e) Paid or accrued \$2,250 (2009 – \$2,250) in office rent to a company controlled by a director of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

Authorized  
100,000,000 common shares without par value

Capital stock and contributed surplus is made up as follows:

	<u>August 31, 2010</u>		<u>November 30, 2009</u>	
	Capital Stock	Contributed Surplus	Capital Stock	Contributed Surplus
Common shares (i)	\$5,822,413	\$ -	\$5,822,413	\$ -
Warrants (ii)	-	-	-	-
Contributed surplus (i)	-	2,554,519	-	2,523,936
	<u>\$5,822,413</u>	<u>\$2,554,519</u>	<u>\$5,822,413</u>	<u>\$2,523,936</u>

(i) Common shares and contributed surplus consist of:

	Number of Shares	Amount	Contributed Surplus
Balance at November 30, 2007	34,111,010	\$5,775,413	\$ 514,384
Transfer to contributed surplus on expiry of warrants Pursuant to mineral property claims	-	-	1,996,883
Stock-based compensation	200,000	38,000	-
	<u>-</u>	<u>-</u>	<u>12,669</u>
Balance at November 30, 2008	34,311,010	\$5,813,413	\$ 2,523,936
Pursuant to mineral property claims	300,000	9,000	-
Balance at November 30, 2009	34,611,010	\$5,822,413	\$ 2,523,936
Stock-based compensation	-	-	30,583
Balance at February 28, 2010, May 31, 2010 and August 31, 2010	<u>34,611,010</u>	<u>\$5,822,413</u>	<u>\$ 2,554,519</u>

(ii) Warrants

There were no share purchase warrants outstanding as at August 31, 2010 and August 31, 2009.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS** *(Continued)*

**Stock Options**

The Company grants stock options in accordance with the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to a maximum of 1,896,136 of the issued and outstanding common shares of the Company. Under the policies, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years and vest immediately on the date of grant or over a period of time determined by the board of directors.

The number of stock options outstanding is summarized as follows:

	Number Of <u>Options</u>	Weighted Average <u>Exercise</u>
Balance, November 30, 2008	1,640,000	\$ 0.21
Options forfeited	<u>(250,000)</u>	<u>0.22</u>
Balance, November 30, 2009	1,390,000	0.21
Options granted – February 1, 2010	<u>450,000</u>	<u>0.10</u>
Balance, period ended August 31, 2010	<u>1,840,000</u>	<u>0.18</u>
Weighted average fair value per options granted		\$ 0.09

On February 1, 2010, an aggregate of 450,000 incentive stock options were granted to directors and officers of the Company. The options are exercisable at \$0.10 per share for a period of five years and will expire on January 31, 2015. The fair value of these options was \$30,583 and has been expensed in the statement of operations.

The Company used the Black-Scholes option pricing model to determine the value of the issued options. The assumptions were as follows: a 5 year expected term, a stock price volatility of 197% and a risk-free interest rate of 0.62%.

At August 31, 2010, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
450,000	\$0.10	October 20, 2011
940,000	\$0.26	October 29, 2012
450,000	\$0.10	January 31, 2015

At August 31, 2010, the 1,840,000 options outstanding have a weighted average life remaining of 2.47 years.

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**8. CAPITAL STOCK AND CONTRIBUTED SURPLUS** *(Continued)*

**Warrants**

The Company has NIL share purchase warrants outstanding at August 31, 2010 and August 31, 2009.

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	August 31, 2010	August 31, 2009
Cash paid during the period for income taxes	\$ -	\$ -
Cash paid during the period for interest	\$ -	\$ -

**10. SEGMENTED INFORMATION**

The Company primarily operates in one reportable business segment, being the acquisition and exploration of mineral properties located in Mexico. The net loss and assets identifiable with these geographic areas are as follows:

August 31, 2010 (unaudited)	Canada	Mexico	Total
Net loss for the period	\$ (42,535)	\$ (1,738)	\$ (44,273)
Current assets	595,952	19,449	615,401
Equipment	21,287	405	21,692
Mineral properties	-	5,596,382	5,596,382
Total assets	\$617,239	\$5,616,236	\$6,233,475
November 30, 2009 (audited)	Canada	Mexico	Total
Net loss for the year	\$ (229,316)	\$ (366,045)	\$ (595,361)
Current assets	975,880	31,856	1,007,736
Equipment	27,089	516	27,605
Mineral properties	-	5,340,590	5,340,590
Total assets	\$1,002,969	\$5,372,962	\$6,375,931

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**12. FINANCIAL INSTRUMENTS**

The Company, through its financial assets and liabilities is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date, August 31, 2010.

a) Fair Value

The carrying values of cash, accounts receivable, accounts payable to related parties, and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of the instruments.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances primarily in large Canadian chartered banks, and no interest bearing debt. The Company's current policy is to invest cash in Canadian bank savings accounts with interest that varies at prime.

If interest rates applicable to this floating rate bank account were to increase or decrease by 1%, the Company's annual interest income would increase or decrease by \$5,700 (2009 – \$11,000).

c) Credit Risk

The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable financial institutions, primarily in Canada, and is kept in highly liquid accounts that are closely monitored by management. Credit risk with respect to its accounts receivable is minimal due to the insignificant balance.

The Company's maximum exposure to credit risk is as follows:

August 31, 2010 (unaudited)	Canada	Mexico	Total
Cash and cash equivalents	\$ 573,945	\$ 18,480	\$ 592,425
Accounts receivable	-	-	-
	\$ 573,945	\$ 18,480	\$ 592,425
<hr/>			
November 30, 2009 (audited)	Canada	Mexico	Total
Cash and cash equivalents	\$ 953,151	\$ 30,874	\$ 984,025
Accounts receivable	-	-	-
	\$ 953,151	\$ 30,874	\$ 984,025

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**12. FINANCIAL INSTRUMENTS** *(Continued)*

d) Derivatives – Mineral Properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties (“NSR”), the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral property interests to which they relate are not sufficiently developed to reasonably determine value.

e) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rate. The Company’s cash flow exposure to foreign currency is due mainly to cash, option payments and costs incurred for the development of its mineral properties in Mexico. As at August 31, 2010, the Company’s interim consolidated balance sheets included \$13,381 (2009 – \$15,559) of cash denominated in U.S. currency and \$5,098 (2009 – \$7,597) denominated in Mexican currency; \$57,536 (2009 – \$NIL) of accounts payable which were U.S. currency denominated and \$1,280 (2009 – \$NIL) of accounts payable which were Mexico currency denominated. The Company does not use, hold or issue financial instruments for trading or speculative purposes. At August 31, 2010 there were no foreign exchange contracts outstanding.

A 10% increase or decrease in the value of the Mexican peso compared to the Canadian dollar would not have a material effect on the Company’s reported Mineral Properties and its expenses.

A 10% increase or decrease in the value of the US dollar compared to the Canadian dollar would not have a material effect on the Company’s reported Mineral Properties and expenses.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below. The Company has sufficient funds as at August 31, 2010 to settle its current accounts payable of \$87,982, and its long-term commitments on option payments as outlined in Note 6.

In the opinion of management, the working capital of \$527,419 at August 31, 2010 is sufficient to support the Company’s normal operating requirements through its current reporting period. However, taking into consideration the Company’s current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its exploration and development strategies.

The Company believes that external financing, likely in the form of equity offerings, will be required to complete its major exploration and development projects; however, it is not likely that there will be a need for financing until the first half of 2011.

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**13. CAPITAL MANAGEMENT**

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. As at August 31, 2010, total managed capital was \$6,145,493 (2009 – \$6,416,960)

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

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in interest-bearing accounts with Canadian chartered banks.

The Company expects the capital resources available to it will be sufficient to carry its exploration and development plans and operations for the next twelve months.

There were no changes in the Company's approach to capital management during the three month period ended August 31, 2010. The Company is not subject to externally imposed capital requirements.