



**ABERDEEN**  
INTERNATIONAL

**FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED**

**JULY 31, 2010 AND 2009**

**UNAUDITED**

# ABERDEEN INTERNATIONAL INC.

## BALANCE SHEET

As at,

*(Unaudited)*

|   | July 31, 2010      | January 31, 2010 |
|---|--------------------|------------------|
|   | \$                 | \$               |
| <b>ASSETS</b>   |                    |                  |
| Current   |                    |                  |
| Cash and cash equivalents                             | 3,618,403          | 3,266,356        |
| Investments, at fair value (Notes 3(a) and 12)        | 48,685,063         | 56,227,559       |
| Equity accounted investments (Note 3(b))              | -                  | 800,000          |
| Amounts receivable (Notes 5 and 12)                   | 2,534,344          | 2,206,775        |
| Income taxes recoverable                              | 443,730            | 1,727,615        |
| Loan - Simmer & Jack (Note 5)                         | 10,283,000         | 10,693,000       |
| Loans receivable (Note 4)                             | 6,770,934          | 8,246,565        |
| Prepaid expenses                                      | 160,612            | 14,508           |
|   | <b>72,496,086</b>  | 83,182,378       |
| Long-term   |                    |                  |
| Loans receivable (Note 4)                             | 1,100,000          | -                |
| Royalty interests on mineral properties, net (Note 6) | 33,320,173         | 35,045,928       |
| Equipment, net  | 45,006             | 54,000           |
|   | <b>106,961,265</b> | 118,282,306      |
| <b>LIABILITIES</b>                                    |                    |                  |
| Current   |                    |                  |
| Accounts payable and accrued liabilities (Note 12)    | 233,607            | 1,716,233        |
| Deferred revenue (Note 4)                             | 6,794              | 414,400          |
| Future income taxes                                   | 543,000            | 4,468,000        |
|   | <b>783,401</b>     | 6,598,633        |
| Long-term   |                    |                  |
| Future income taxes                                   | 8,144,000          | 8,516,000        |
|   | <b>8,927,401</b>   | 15,114,633       |
| <b>SHAREHOLDERS' EQUITY</b>                           |                    |                  |
| Common shares (Note 7)                                | 44,174,159         | 44,174,159       |
| Warrants (Note 8)                                     | 15,750,000         | 15,750,000       |
| Contributed surplus (Note 10)                         | 12,549,335         | 12,016,560       |
| Retained earnings                                     | 30,826,934         | 35,501,715       |
| Comprehensive loss (Note 6)                           | (5,266,564)        | (4,274,761)      |
|   | <b>98,033,864</b>  | 103,167,673      |
|   | <b>106,961,265</b> | 118,282,306      |

COMMITMENTS AND CONTINGENCIES (Notes 5 and 13)

SUBSEQUENT EVENTS (Notes 4, 11, and 16)

The accompanying notes are an integral part of the financial statements

# ABERDEEN INTERNATIONAL INC.

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME AND LOSS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

|  | Three months        |                         | Six months          |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|
|  | 2010                | <i>Restated</i><br>2009 | 2010                | <i>Restated</i><br>2009 |
|  | \$                  | \$                      | \$                  | \$                      |
| <b>Net investment gains (losses)</b>                               |                     |                         |                     |                         |
| Realized gain (loss) on investments, net                           | <b>778,005</b>      | (757,523)               | <b>7,038,644</b>    | (1,048,023)             |
| Unrealized gain (loss) on investments, net                         | <b>(10,528,148)</b> | 7,897,304               | <b>(12,360,449)</b> | 15,192,385              |
| Loss from equity accounted investments                             | <b>(195,194)</b>    | (6,854)                 | <b>(353,189)</b>    | (30,354)                |
|  | <b>(9,945,337)</b>  | 7,132,927               | <b>(5,674,994)</b>  | 14,114,008              |
| <b>Other revenue</b>   |                     |                         |                     |                         |
| Royalties  | <b>439,715</b>      | 409,835                 | <b>953,789</b>      | 862,108                 |
| Unrealized gain on Simmer & Jack convertible royalty loan (Note 5) | -                   | (1,155,002)             | -                   | (1,361,015)             |
| Interest income (Note 12)  | <b>184,149</b>      | 287,924                 | <b>385,893</b>      | 507,413                 |
| Advisory service fees (Note 12)                                    | <b>129,572</b>      | 144,500                 | <b>375,459</b>      | 179,500                 |
|  | <b>753,436</b>      | (312,743)               | <b>1,715,141</b>    | 188,006                 |
| <b>Expenses</b>  |                     |                         |                     |                         |
| General and administration (Note 12)                               | <b>768,556</b>      | 1,249,950               | <b>1,653,783</b>    | 1,750,921               |
| Stock-based compensation (Note 9)                                  | <b>27,116</b>       | -                       | <b>532,775</b>      | -                       |
| Transaction costs  | -                   | 38,537                  | <b>2,396</b>        | 59,882                  |
| Interest expenses  | <b>165</b>          | -                       | <b>22,109</b>       | -                       |
| Depletion on royalty interests on mineral properties (Note 6)      | <b>171,298</b>      | 194,418                 | <b>384,027</b>      | 418,481                 |
| Amortization   | <b>3,836</b>        | 3,313                   | <b>8,994</b>        | 6,543                   |
|  | <b>970,971</b>      | 1,486,218               | <b>2,604,084</b>    | 2,235,827               |
| Income (loss) before the undernoted                                | <b>(10,162,872)</b> | 5,333,966               | <b>(6,563,937)</b>  | 12,066,187              |
| Foreign exchange gain (loss)                                       | <b>272,443</b>      | (365,209)               | <b>(653,557)</b>    | (476,671)               |
| Income (loss) before income taxes                                  | <b>(9,890,429)</b>  | 4,968,757               | <b>(7,217,494)</b>  | 11,589,516              |
| <b>Income taxes</b>  |                     |                         |                     |                         |
| Current income tax recovery (provision)                            | <b>372,092</b>      | 661,139                 | <b>(1,402,287)</b>  | 664,109                 |
| Future income tax recovery (provision)                             | <b>3,044,000</b>    | (2,325,327)             | <b>3,945,000</b>    | (4,555,260)             |
| <b>Net income (loss) for the period</b>                            | <b>(6,474,337)</b>  | 3,304,569               | <b>(4,674,781)</b>  | 7,698,365               |
| <b>Other comprehensive income items</b>                            |                     |                         |                     |                         |
| Currency translation adjustment, net of taxes (Note 6)             | <b>299,096</b>      | (2,824,816)             | <b>(991,803)</b>    | (4,203,255)             |
| <b>Comprehensive income (loss) for the period</b>                  | <b>(6,175,241)</b>  | 479,753                 | <b>(5,666,584)</b>  | 3,495,110               |
| <b>Basic income (loss) per share</b>                               |                     |                         |                     |                         |
| Basic income (loss) per share                                      | <b>(0.07)</b>       | 0.04                    | <b>(0.05)</b>       | 0.08                    |
| <b>Diluted income (loss) per share</b>                             |                     |                         |                     |                         |
| Diluted income (loss) per share                                    | <b>(0.07)</b>       | 0.04                    | <b>(0.05)</b>       | 0.08                    |
| <b>Weighted average common shares outstanding</b>                  |                     |                         |                     |                         |
| - basic  | <b>87,503,839</b>   | 89,426,393              | <b>87,503,839</b>   | 92,048,077              |
| - diluted  | <b>87,503,839</b>   | 89,426,393              | <b>87,503,839</b>   | 92,048,077              |

The accompanying notes are an integral part of the financial statements

# ABERDEEN INTERNATIONAL INC.

## STATEMENTS OF CASH FLOWS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

|  | Three months       |                  | Six months          |                  |
|--|--------------------|------------------|---------------------|------------------|
|  | 2010               | Restated<br>2009 | 2010                | Restated<br>2009 |
|  | \$                 | \$               | \$                  | \$               |
| <b>CASH AND CASH EQUIVALENTS (USED IN) PROVIDED BY</b>                                 |                    |                  |                     |                  |
| <b>OPERATING ACTIVITIES:</b>   |                    |                  |                     |                  |
| Net income (loss) for the period   | <b>(6,474,337)</b> | \$ 3,304,569     | <b>(4,674,781)</b>  | 7,698,365        |
| Adjustments to reconcile net income (loss) to cash provided from operating activities: |                    |                  |                     |                  |
| Unrealized (gain) loss on investments, net   | <b>10,528,148</b>  | (7,897,304)      | <b>12,360,449</b>   | (15,192,385)     |
| Realized (gain) loss on investments, net   | <b>(778,005)</b>   | 757,523          | <b>(7,038,644)</b>  | 1,048,023        |
| Loss from equity accounted investments   | <b>195,194</b>     | 6,854            | <b>353,189</b>      | 30,354           |
| Unrealized gain on Simmer & Jack convertible royalty loan                              | -                  | 1,155,002        | -                   | 1,361,015        |
| Depletion on royalty interests on mineral properties                                   | <b>171,298</b>     | 194,418          | <b>384,027</b>      | 418,481          |
| Arrangement fee income   | <b>(381,327)</b>   | (1,998)          | <b>(543,434)</b>    | (1,998)          |
| Stock-based compensation (Note 9)  | <b>27,116</b>      | -                | <b>532,775</b>      | -                |
| Amortization   | <b>3,836</b>       | 3,313            | <b>8,994</b>        | 6,543            |
| Unrealized foreign exchange  | <b>(204,600)</b>   | 123,416          | <b>579,377</b>      | 181,500          |
| Future income tax  | <b>(3,044,000)</b> | 2,325,327        | <b>(3,945,000)</b>  | 4,555,260        |
| Net change in non-cash working capital   | <b>(892,740)</b>   | (60,913)         | <b>137,106</b>      | 17,454           |
|  | <b>(849,417)</b>   | (89,793)         | <b>(1,845,942)</b>  | 122,612          |
| <b>FINANCING ACTIVITIES:</b>   |                    |                  |                     |                  |
| Shares repurchased and cancelled (Note 11)   | -                  | (1,710,000)      | -                   | (1,782,057)      |
|  | -                  | (1,710,000)      | -                   | (1,782,057)      |
| <b>INVESTING ACTIVITIES:</b>   |                    |                  |                     |                  |
| Purchase of investments  | <b>(2,375,218)</b> | (5,868,562)      | <b>(16,233,390)</b> | (7,331,535)      |
| Disposal of investments  | <b>6,084,292</b>   | 5,637,801        | <b>20,430,879</b>   | 8,137,001        |
| Short-term loans provided  | <b>(200,000)</b>   | (392,460)        | <b>(5,188,500)</b>  | (701,415)        |
| Short-term loans repaid  | -                  | 1,550,000        | <b>3,189,000</b>    | 1,550,000        |
| Purchase of equipment  | -                  | (2,520)          | -                   | (10,240)         |
|  | <b>3,509,074</b>   | 924,259          | <b>2,197,989</b>    | 1,643,811        |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>   | <b>2,659,657</b>   | (875,534)        | <b>352,047</b>      | (15,634)         |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                                  | <b>958,746</b>     | 2,216,336        | <b>3,266,356</b>    | 1,356,436        |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>  | <b>3,618,403</b>   | 1,340,802        | <b>3,618,403</b>    | 1,340,802        |
| <b>Cash and cash equivalents consist of :</b>  |                    |                  |                     |                  |
| Cash   | <b>3,618,403</b>   | 1,340,802        | <b>3,618,403</b>    | 1,340,802        |
| Cash equivalents   | -                  | -                | -                   | -                |
|  | <b>3,618,403</b>   | 1,340,802        | <b>3,618,403</b>    | 1,340,802        |
| <b>SUPPLEMENTAL INFORMATION</b>  |                    |                  |                     |                  |
| Special warrants received in conversion of debenture receivable (Note 4)               | -                  | -                | <b>2,160,000</b>    | -                |
| Shares received for extension and settlement of loan receivable (Note 4)               | <b>141,875</b>     | -                | <b>141,875</b>      | -                |
| Warrants received on debt financing (Note 4)   | <b>16,950</b>      | -                | <b>16,950</b>       | -                |
| Income taxes paid, net of refund   | <b>56,361</b>      | 177,419          | <b>112,722</b>      | 426,226          |
| Interest paid  | <b>165</b>         | -                | <b>22,109</b>       | -                |

The accompanying notes are an integral part of the financial statements

**ABERDEEN INTERNATIONAL INC.**  
**STATEMENTS OF SHAREHOLDERS' EQUITY**

*(Unaudited)*

|   | Common shares     |                   | Share purchase warrants | Contributed surplus | Retained earnings | Other Comprehensive income Item | Shareholders' equity |
|---|-------------------|-------------------|-------------------------|---------------------|-------------------|---------------------------------|----------------------|
|   | #                 | \$                | \$                      | \$                  | \$                | \$                              | \$                   |
| <b>Balance - January 31, 2009</b>         | <b>94,874,339</b> | <b>47,894,974</b> | <b>17,203,500</b>       | <b>8,503,997</b>    | <b>13,886,722</b> | -                               | <b>87,489,193</b>    |
| Cancellation of repurchased common shares | (7,370,500)       | (3,720,815)       | -                       | 1,938,758           | -                 | -                               | (1,782,057)          |
| Warrants expired unexercised              | -                 | -                 | (1,453,500)             | 1,453,500           | -                 | -                               | -                    |
| Stock-based compensation expense          | -                 | -                 | -                       | 120,305             | -                 | -                               | 120,305              |
| Net income for the year                   | -                 | -                 | -                       | -                   | 21,614,993        | -                               | 21,614,993           |
| Currency translation adjustment (Note 6)  | -                 | -                 | -                       | -                   | -                 | (4,274,761)                     | (4,274,761)          |
| <b>Balance - January 31, 2010</b>         | <b>87,503,839</b> | <b>44,174,159</b> | <b>15,750,000</b>       | <b>12,016,560</b>   | <b>35,501,715</b> | <b>(4,274,761)</b>              | <b>103,167,673</b>   |
| Stock-based compensation expense          | -                 | -                 | -                       | 532,775             | -                 | -                               | 532,775              |
| Net income (loss) for the period          | -                 | -                 | -                       | -                   | (4,674,781)       | -                               | (4,674,781)          |
| Currency translation adjustment (Note 6)  | -                 | -                 | -                       | -                   | -                 | (991,803)                       | (991,803)            |
| <b>Balance - July 31, 2010</b>            | <b>87,503,839</b> | <b>44,174,159</b> | <b>15,750,000</b>       | <b>12,549,335</b>   | <b>30,826,934</b> | <b>(5,266,564)</b>              | <b>98,033,864</b>    |

The accompanying notes are an integral part of the financial statements

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

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### 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Aberdeen International Inc. ("Aberdeen", or the "Company") operates as a publicly traded global investment and merchant banking company focused on small capitalization companies in the resource sector. Aberdeen seeks to acquire equity participation in pre-IPO and early stage public resource companies with undeveloped or undervalued high-quality resources. Aberdeen focuses on companies that: (i) are in need of managerial, technical and financial resources to realize their full potential; (ii) are undervalued in foreign capital markets; and, (iii) operate in jurisdictions with low to moderate local political risk.

These interim financial statements are unaudited and have not been reviewed by the Company's auditors.

The Company's management has prepared these unaudited interim financial statements in accordance with generally accepted accounting principles in Canada ("GAAP"). These unaudited interim financial statements have incorporated new accounting standards, the impact of which is summarized in Note 2. The disclosures in these unaudited interim financial statements do not include the full disclosure required under GAAP for annual financial reporting. These unaudited interim financial statements should be read in conjunction with the audited financial statements of the Company for the year ended January 31, 2010.

In the opinion of management, all adjustments considered necessary for fair presentation have been included in these unaudited interim financial statements. Operating results for the three and six months ended July 31, 2010 are not indicative of the results that may be expected for the full year ending January 31, 2011.

Certain comparative amounts have been reclassified to conform to the current quarter's presentation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below, these unaudited interim financial statements are prepared using the same accounting policies and methods of application as those disclosed in Note 2 to the Company's annual audited financial statements for the year ended January 31, 2010.

#### Future accounting pronouncements

- (a) In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. The previous Section was removed in order to adopt the relevant extracts of the International Financial Reporting Standard, IFRS 3, *Business Combinations*. The new Section establishes standards for the recognition, measurement, presentation and disclosure of business combinations.

This new standard is applicable to business combinations realized during fiscal years beginning on or after January 1, 2011. The Company expects to implement this standard in its first quarter of fiscal year 2012. This new Section requires that most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at "full fair value" and that liabilities associated with restructuring or exit activities be recognized only if they meet the definition of a liability as of the acquisition date. In addition, direct acquisition costs must be expensed when incurred. As a result, if the Company realizes significant business combinations, this new Section could have a material impact on its consolidated financial statements because the Company's current policy is to include these costs in the purchase price of the acquired business.

At July 31, 2010, the Company does not believe the adoption of this standard will have a material impact on the Company.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### New accounting pronouncements (Continued)

- (b) Section 1601, *Consolidated Financial Statements*, replaces and carries forward existing guidance from Section 1600, *Consolidated Financial Statements*, on the aspects of the preparation of consolidated financial statements subsequent to a business combination other than non-controlling interests. Section 1602, *Non-controlling interests*, provides guidance on accounting for non-controlling interests subsequent to a business combination. This Section replicates the provisions of IAS 27, *Consolidated and Separate Financial Statements*, other than the disclosure requirements. Under this new Section, non-controlling interests in subsidiaries must be presented in the consolidated balance sheet with equity, but separated from the parent shareholders' equity. In the statements of operations, a non-controlling interest must not be deducted in arriving at the consolidated net income, but must be allocated to the controlling interest and the non-controlling interest according to their percentage of ownership.

Sections 1601 and 1602 must be implemented concurrently with Section 1582, *Business Combinations*, discussed above. Both Sections are applicable for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. Section 1602 is to be applied retrospectively, with certain exceptions. Entities planning business combinations for the years beginning on or after January 1, 2010 should consider adopting these new standards in or before that year to avoid restatement on transition to IFRS in 2011. The Company is currently assessing the impact of these standards on any future acquisitions.

- (c) In 2005, the Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. In April 2008, the AcSB published the exposure draft: *Adopting IFRS in Canada* ("Exposure Draft"). The AcSB proposes to incorporate the IFRS as set out in this Exposure Draft into the CICA Handbook – Accounting ("Handbook"). The Handbook will be updated as necessary thereafter so that, at any point in time, it includes the full body of IFRS then in effect. Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, IFRS will replace current Canadian GAAP for most publicly accountable enterprises. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement these standards in its first quarter of fiscal year 2012 (April 30, 2011) and is currently evaluating the impact of their adoption on its financial statements.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 3. INVESTMENTS

(a) At July 31, 2010, the Company's investments consisted of the following:

| Issuer                          | Note       | Security description  | Cost                 | Estimated Fair value | % of FV       |
|---------------------------------|------------|---|----------------------|----------------------|---------------|
| Alderon Resources Corp.         | (iii)      | 500,000 common shares   | 500,000              | 700,000              | 1.4%          |
| Allana Resources Inc.           | (i,iii)    | 3,796,414 common shares<br>2,000,000 w warrants expire May 22, 2011<br>2,375,000 w warrants expire June 16, 2011  | 831,731              | 1,999,820            | 4.1%          |
| Apogee Minerals Ltd.            | (i,iii)    | 9,850,000 common shares<br>1,175,000 w warrants expire April 30, 2011<br>1,250,000 w warrants expire Dec 22, 2011                                       | 1,851,977            | 837,903              | 1.7%          |
| Auger Resources Ltd.*           | (iii)      | 2,000,000 common shares<br>1,000,000 w warrants expire Sept 16, 2010  | 1,000,000            | 200,000              | 0.4%          |
| Avion Gold Corporation          | (iii)      | 6,524,400 common shares<br>2,500,000 w warrants expire May 8, 2011  | 2,861,062            | 2,992,236            | 6.1%          |
| Belo Sun Mining **              | (iii)      | 4,000,000 common shares<br>3,000,000 w warrants expire March 3, 2012  | 1,126,875            | 2,111,500            | 4.3%          |
| Brazil Potash Corp.*            | (iii)      | 1,650,062 common shares   | 2,500,000            | 1,696,759            | 3.5%          |
| Castillian Resources Corp.      | (iii)      | 11,660,000 common shares<br>500,000 w warrants expire June 30, 2011   | 2,051,620            | 646,800              | 1.3%          |
| Crocodile Gold Inc.             | (iii)      | 3,700,366 common shares<br>2,500,000 w warrants expire June 15, 2012  | 2,529,717            | 6,665,203            | 13.8%         |
| Dacha Capital Inc.***           | (i,ii,iii) | 6,453,500 common shares<br>2,501,551 w warrants expire June 16, 2012  | 2,811,568            | 2,614,461            | 5.4%          |
| Forbes & Manhattan (Coal) Inc.* | (iii)      | 1,100,000 common shares<br>1,100,000 performance shares<br>605,196 special w arrants  | 2,641,360            | 4,774,549            | 9.8%          |
| Kria Resources Ltd.             | (iii)      | 2,599,000 common shares   | 2,599,000            | 311,880              | 0.6%          |
| Largo Resources Inc.            | (iii)      | 3,983,333 common shares   | 551,000              | 717,000              | 1.5%          |
| Longford Energy Inc.            | (iii)      | 3,659,869 common shares   | 1,245,449            | 878,375              | 1.8%          |
| Rodinia Lithium Inc.            | (iii)      | 3,000,000 common shares   | 1,500,000            | 900,000              | 1.8%          |
| Scandinavian Metals Inc.*       | (ii,iii)   | 2,000,000 common shares<br>1,000,000 w arrants expire Sept 12, 2010   | 1,000,000            | 500,000              | 1.0%          |
| Stetson Oil & Gas Ltd.          | (iii)      | 10,000,000 preferred shares<br>10,000,000 w arrants expire Sept 17, 2010  | 740,290              | 100,000              | 0.2%          |
| Sulliden Gold Corporation Ltd.  | (iii)      | 11,877,195 common shares<br>769,231 w arrants expire April 23, 2011<br>1,361,946 w arrants expire October 6, 2012                                       | 5,878,313            | 7,996,242            | 16.6%         |
| Temujin Mining Corp*            | (ii,iii)   | 11,000,909 common shares<br>1,910,000 w arrants expire Nov 26, 2011<br>600,000 w arrants expire Jan 14, 2012<br>4,545,455 w arrants expire Jan 29, 2012 | 5,657,000            | 6,157,000            | 12.6%         |
| Vast Exploration Inc.           | (iii)      | 1,350,000 common shares<br>1,000,000 w arrants expire June 5, 2011  | 600,402              | 1,132,500            | 2.3%          |
| Total of 13 other investments   | (iv)       |   | 4,754,631            | 4,752,835            | 9.8%          |
| <b>Total investments</b>        |            |   | <b>\$ 45,231,995</b> | <b>\$ 48,685,063</b> | <b>100.0%</b> |

\* Private company

\*\* Formerly Verena Minerals Corp.

\*\*\* Exercise price at \$0.42 until June 16, 2012, \$0.50 after June 16, 2012

- (i) The Company has issued a Section 101 report under the Ontario Securities Act for this investment.
- (ii) The Company owns, on a partially diluted basis, at least a 10% interest in the investee as at July 31, 2010.
- (iii) A director and/or officer of the Company is a director and/or officer of the investee corporation.
- (iv) Total other investments held by the Company, which are not individually listed as at July 31, 2010. Directors and officers may hold investments personally.



# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 3. INVESTMENTS (Continued)

At January 31, 2010, the Company's investments consisted of the following:

| Issuer                         | Note       | Security description  | Cost                 | Estimated Fair value | % of FV       |
|--------------------------------|------------|---|----------------------|----------------------|---------------|
| <b>Alana Resources Inc.</b>    | (iii)      | <b>6,750,000 common shares</b><br><b>2,000,000 warrants expire May 22, 2011</b><br><b>2,375,000 warrants expire June 16, 2011</b>                             | 1,220,000            | 3,348,300            | 6.0%          |
| <b>Apogee Minerals Ltd.</b>    | (i,ii,iii) | 9,850,000 common shares<br>5,000,000 w warrants expire May 23, 2010<br>1,175,000 w warrants expire April 30, 2011<br>1,250,000 w warrants expire Dec 22, 2011 | 2,391,000            | 1,226,528            | 2.2%          |
| Auger Resources Ltd.*          | (i,ii)     | 2,000,000 common shares<br>1,000,000 w warrants expire Sept 16, 2010  | 1,000,000            | 500,000              | 0.9%          |
| Avion Gold Corporation         | (iii)      | 8,774,400 common shares<br>2,500,000 w warrants expire May 8, 2011  | 3,631,919            | 6,002,634            | 10.7%         |
| Brazil Potash Corp.*           | (iii)      | <b>1,650,062 common shares</b>  | 2,500,000            | 1,776,127            | 3.2%          |
| Castilian Resources Corp.      | (iii)      | 11,660,000 common shares<br>500,000 w warrants expire June 30, 2010   | 2,034,670            | 1,179,350            | 2.1%          |
| Crocodile Gold Inc.            | (ii,iii)   | 6,319,478 common shares<br>2,500,000 w warrants expire June 15, 2012<br>317,460 w warrants expire Feb 9, 2010<br>1,017,429 w warrants expire Feb 9, 2010      | 3,546,424            | 16,929,174           | 30.1%         |
| Crow flight Minerals Inc.      | (iii)      | 3,379,724 common shares<br><b>1,470,612 warrants expire April 30, 2011</b>  | 1,508,039            | 607,682              | 1.1%          |
| Dacha Capital Inc.**           | (i,ii,iii) | 2,501,551 common shares<br>2,501,551 common shares expire June 16, 2014   | 825,512              | 2,345,204            | 4.2%          |
| Kria Resources Inc.            | (iii)      | 2,599,000 common shares<br>375,000 w warrants expire November 19, 2009<br>1,000,000 w warrants expire June 9, 2010<br>50,000 w warrants expire June 16, 2010  | 2,599,000            | 561,880              | 1.0%          |
| Largo Resources Inc.           | (iii)      | 3,983,333 common shares   | 551,000              | 896,250              | 1.6%          |
| Longford Energy Inc.           | (iii)      | 3,659,869 common shares<br>3,296,296 w warrants expire February 28, 2010<br>1,000,000 w warrants expire June 5, 2011  | 1,941,090            | 1,207,170            | 2.2%          |
| Scandinavian Metals Inc*       | (ii,iii)   | 2,000,000 common shares<br>1,000,000 w warrants expire Sept 12, 2010  | 1,000,000            | 500,000              | 0.9%          |
| Stetson Oil & Gas Ltd.         | (i,ii,iii) | 10,000,000 preferred shares<br>10,000,000 w warrants expire Sept 17, 2010   | 740,290              | 177,000              | 0.3%          |
| Sulliden Gold Corporation Ltd. | (iii)      | 10,403,303 common shares<br>769,231 w warrants expire April 23, 2011<br>625,000 w warrants expire October 6, 2012   | 4,920,283            | 7,621,216            | 13.6%         |
| <b>Temujin Mining Corp*</b>    | (i,ii)     | 7,364,545 common shares<br>7,364,545 w warrants expire Nov 26, 2011<br>600,000 w warrants expire Jan 14, 2012   | 3,667,200            | 3,758,400            | 6.7%          |
| Vast Exploration Inc.          | (iii)      | 1,350,000 common shares<br>2,050,000 w warrants expire June 12, 2010<br>1,000,000 w warrants expire June 5, 2011  | 1,062,686            | 1,518,170            | 2.7%          |
| Total of 11 other investments  | (iv)       |   | 5,274,928            | 6,072,471            | 10.8%         |
| <b>Total investments</b>       |            |   | <b>\$ 40,414,041</b> | <b>\$ 56,227,556</b> | <b>100.0%</b> |

\* Private company

\*\* Exercise price at \$0.42 until June 16, 2012, \$0.50 after June 16, 2012

- (i) The Company has issued a Section 101 report under the Ontario Securities Act for this investment.
- (ii) The Company owns, on a partially diluted basis, at least a 10% interest in the investee as at January 31, 2010.
- (iii) A director and/or officer of the Company is a director and/or officer of the investee corporation.
- (iv) Total other investments held by the Company, which are not individually listed as at January 31, 2010. Directors and officers may hold investments personally.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 3. INVESTMENTS (Continued)

(b) The Company's equity accounted investment is its ownership in Tucano Exploration Inc. ("Tucano") prior to Tucano's combination with Castillian Resources Corp. ("Castillian"), whereby Castillian acquired all of the issued and outstanding common shares of Tucano. Prior to the combination, Aberdeen held 4,000,000 shares of Tucano which represent an equity interest of approximately 36.7%. Following the completion of the combination on January 29, 2010, in which shareholders of Tucano received 2.29 Castillian shares for each share Tucano, the Company's ownership was reduced below 20% and the investment was no longer accounted for using the equity method. Directors of Aberdeen are also directors of Castillian.

Through the fourth quarter of 2010 and the first quarter of 2011, the Company made an investment of \$800,000 and \$500,000 respectively for a total of 40.7% interest in Forbes & Manhattan (Coal) Inc. ("Forbes Coal"). The investment has been accounted for as an equity investment. Following the acquisition of 100% of Slater Coal (Pty) Ltd., a South African coal company on July 30, 2010, by Forbes Coal through issuing of shares, the Company's ownership was reduced to 16.57%. The Company also purchased 605,196 special warrants of Forbes Coal in July 2010 for \$1,694,549, which will further reduce the Company's ownership to 8.3% upon conversion. As of July 31, 2010, the investment in Forbes Coal was no longer accounted for using the equity method. Directors and officers of Aberdeen also serve as directors and an officer of Forbes Coal.

The following is a schedule of the Company's equity accounted investments as at July 31, 2010 and January 31, 2010:

|  | Six months<br>ended<br>July 31, 2010 | Twelve months<br>ended<br>January 31, 2010 |
|--|--------------------------------------|--|
| Equity accounted investment – carrying value –<br>beginning of period      | \$ 800,000                           | \$ 1,924,387                               |
| Acquisition of equity accounted investment                                 | 500,000                              | 800,000                                    |
| Loss on equity investment  | (353,189)                            | (972,268)                                  |
| Reclassification of equity accounted investment<br>to portfolio investment | (946,811)                            | (952,119)                                  |
| Equity accounted investment – carrying value –<br>end of period            | \$ -                                 | \$ 800,000                                 |

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### 4. LOANS RECEIVABLE

#### Kria Resources Ltd.

In June 2009, the Company entered into a secured debenture agreement with Kria Resources Inc. ("Kria Resources") to loan up to \$600,000, with any amounts drawn being due and repayable on December 31, 2010 and shall be subject to interest at a rate of 10% per annum. Kria Resources is a base metals exploration and development company whose properties are located in Manitoba and in New Brunswick. In July 2009, Kria Resources completed the acquisition of Beartooth Platinum Corporation ("Beartooth") by way of reverse take-over and began trading on the TSX Venture Exchange under the name Kria Resources Ltd. Consideration provided to the Company by Kria Resources for entering into the secured debenture agreement included a \$25,000 fee plus up to 250,000 share purchase warrants, of which 50,000 have been issued, with each share purchase warrant entitling Aberdeen to purchase one common share for a period of one year from the date of grant. The grant date fair value of the warrants issued was determined to be nominal and no value was recorded. These warrants expired unexercised on June 16, 2010. Kria Resources paid the \$25,000 fee in April 2010 and drew down \$500,000 under the secured debenture agreement subsequent to July 31, 2010. The \$25,000 fee was recorded as deferred revenue and is being recognized as income over the term of the agreement. An additional 200,000 warrants were issued to the Company upon the drawn-down to acquire Kria's common shares for a period of one year from the date of grant. The grant date fair value of the warrants issued was estimated to be \$9,280, which was discounted to the loan and will be recognized as income over the term of the agreement.

Directors of Aberdeen serve as directors and an officer of Kria Resources. Also, a director of Aberdeen served as a director of Beartooth.

#### Castillian Resources Corp.

In January 2010, the Company entered into a secured debenture agreement with Castillian Resources Corp ("Castillian Resources") to loan up to \$500,000, with any amounts drawn being due and repayable on June 30, 2010 and shall be subject to interest at a rate of 10% per annum. The debenture was previously secured against Castillian's interest in the Kagera property in Tanzania. Castillian paid Aberdeen a advisory service fee in the amount of \$25,000 and issued 500,000 share purchase warrants to Aberdeen, which entitle the Company to acquire one Castillian Resources common share at a price of \$0.10 at any time prior to June 30, 2010. Castillian shall also issue 100,000 of the same share purchase warrants per \$100,000 subsequent drawn against the line of credit. The warrants are subject to a statutory four month hold period. The grant date fair value of the warrants issued was estimated to be \$7,550. The \$25,000 advisory service fee and the \$7,550 fair value of the warrants was discounted to the loan and recognized as income over the term of the agreement. During the three months ended April 30, 2010, Castillian Resources drew down the \$500,000 under the secured debenture agreement with an additional 375,000 share purchase warrants to be issued.

Castillian Resources did not repay the loan on June 30, 2010. The Company entered into an amending agreement with Castillian Resources whereby the term of the loan was extended to December 31, 2012 with a conversion right granted to the Company to convert the loan into units consisting of one common share and one-half of one common share purchase warrants of Castillian Resources at a conversion price of \$0.06 per unit at anytime on or before the maturity date. Each of the warrants will entitle the Company to acquire one common share of Castillian at \$0.10 until December 31, 2012. In addition, the security interest with respect to the loan was amended to Castillian's Mangabal property, located in Brazil. At July 31, 2010, the Company adjusted the fair value of the 500,000 share purchase warrants issued based on the extended term. An additional \$16,950 fair value of the warrants was discounted to the loan and is being recognized as income over the term of the amended agreement. The terms of the amended loan remain subject to receipt of all regulatory approvals. Directors of Aberdeen serve as directors of Castillian Resources.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### 4. LOANS RECEIVABLE (Continued)

#### Temujin Mining Corp.

On January 14, 2010, the Company entered into a loan agreement with Temujin Mining Corp. ("Temujin"). The Company loaned Temujin US\$6,000,000 (\$6,169,800), repayable on or before January 14, 2011 with 10% interest per annum calculated monthly and payable on maturity. As consideration for arranging the loan, Temujin agreed to pay the Company advisory service fees of US\$360,000 (\$370,188), repayable on demand, and issued 600,000 warrants to purchase the common shares of Temujin at an exercise price of \$0.55 per share until January 14, 2012. On February 11, US\$3,000,000 (\$3,084,900) of the loan was repaid. At July 31, 2010, the balance of the loan of US\$3,000,000 (\$3,084,900) and the advisory service fees of US\$360,000 (\$370,188) remained outstanding.

A director and an officer of Aberdeen serve as directors of Temujin.

#### Pitchblack Resources Ltd. (Formerly Cash Minerals Ltd.)

On February 2, 2010, the Company entered into a secured debenture subscription agreement with Pitchblack Resources Ltd. ("Pitchblack"), a Canadian based energy company focussed on uranium and coal exploration and development, which owns the Division Mountain Coal Deposit and other prospective coal properties in the Yukon, and owns a 100% interest in the Mike Lake Gold Project, also in the Yukon. The Company loaned Pitchblack \$500,000, which will mature and become due and repayable on February 2, 2013. The debenture bears interest at a rate of 10% calculated and payable semi-annually on the last day of June and December commencing June 30, 2010 until full and complete payment of this debenture. This debenture is secured against all of the assets of Pitchblack and shall rank senior in priority to any and all other debts of the Pitchblack subsequently incurred subject to applicable laws. At July 31, 2010, interest of \$20,411 due on June 30, 2010 remained outstanding.

A director of Aberdeen serves as a director of Cash Minerals.

#### Dacha Capital Inc

On February 8, 2010, the Company entered into a secured convertible debenture agreement with Dacha Capital Inc. ("Dacha"), a global investment company focused on the purchase, storage and trading of certain strategic metals. The Company loaned to Dacha \$2,156,830, which matured and was repayable on March 31, 2010. Dacha agreed to pay a 5% advisory service fee in consideration of the debenture and 10% interest per annum calculated monthly and payable on maturity. The Company had the option to convert the principal and interest outstanding, in whole or in part, into funds to be used for a participation in Dacha's private placement announced on March 1, 2010.

On March 24, 2010, the Company exercised its conversion right in the participation of Dacha's private placement. The Company converted the debenture plus interest totaling \$2,160,000 in exchange of 4,800,000 units of special warrants of Dacha at \$0.45 per unit. The advisory service fees plus the remaining balance of accrued interest totaling \$132,593 were repaid to the Company.

A director and an officer of Aberdeen serve as a director and an officer of Dacha.

#### Rodinia Lithium Inc.

On July 20, 2010, the Company entered into a short term bridge loan agreement with Rodinia Lithium Inc. ("Rodinia"), a Canadian mineral exploration company with a primary focus on lithium exploration and development in North and South America. The Company loaned Rodinia \$200,000, which is due and repayable on September 30, 2010. Rodinia agreed to a 10% interest per annum calculated monthly and payable on maturity. Subsequent to July 31, 2010 the \$200,000 loan plus accrued interest totalling \$202,904 was repaid to the Company. The loan remains subject to receipt of all necessary regulatory approvals.

A director and an officer of Aberdeen also serve as directors of Rodinia.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### 4. LOANS RECEIVABLE (Continued)

#### Avion Gold Corporation. (formerly Avion Resources Corp.)

On March 20, 2008, the Company entered into a short-term loan agreement with Avion Gold Corporation ("Avion"). The Company loaned Avion US\$1,000,000 (\$1,009,500) which was repayable on or before September 30, 2008 with interest payable monthly commencing April 30, 2008 at an annual rate of 10%. In addition, Avion provided, as consideration, 250,000 common share purchase warrants with an exercise price of \$0.38 per common share and an expiry date of September 30, 2008. The grant date fair value of the warrants was estimated to be \$36,100 which was applied against the carrying value of the loan receivable and was recognized as income over the term of the loan. The 250,000 common share purchase warrants expired unexercised.

Avion did not repay the loan by September 30, 2008. The Company and Avion agreed to an extension of the loan receivable to September 30, 2009. As consideration for extending the note receivable the Company received US\$50,000 (C\$62,285) cash and 2,000,000 common share purchase warrants entitling Aberdeen to purchase one common share of Avion at a price of \$0.20 per share until September 30, 2009. The grant date fair value of the warrants was estimated to be \$96,000, which was applied against the carrying value of the loan receivable to be recognized as income over the remaining term of the loan. In September 2009, the Company exercised its options to acquire 2,000,000 Avion common shares at a cost of \$400,000.

Pursuant to the sale of Ethiopian property rights to Avion, completed during the year ended January 31, 2008 for \$2,000,000, the instalment payment of \$750,000 and \$1,000,000 due on June 30 and December 31, 2008 respectively were not received by the Company. Following discussions between Aberdeen and Avion, the \$1,750,000 owed was added to the US\$1,000,000 loan. At January 31, 2009, Avion had aggregate loans outstanding payable to Aberdeen of \$1,750,000 and US\$1,000,000, plus accrued interest.

#### Avion Gold Corporation. (Assignment of Amazon Potash Loan)

On May 6, 2009, Avion acquired all of the issued and outstanding common shares of Dynamite Resources Ltd. ("Dynamite") at an exchange ratio of 0.75 Avion common shares for each Dynamite common share. Following the acquisition, Avion repaid all of its outstanding loans to Aberdeen through a cash payment of \$1,550,000, plus accrued interest of \$38,004, and the assignment of the rights to a secured note receivable from Amazon Potash Corp. ("Amazon Potash") for US\$1,250,000. Amazon Potash is a private company with potash properties in Brazil. The note receivable was due June 30, 2009 with an annual interest rate of 12%, calculated monthly and payable upon maturity and was secured by Amazon Potash's assets. In addition, the note agreement also provided Aberdeen with the option to convert the principal, in whole or in part, into common shares of Amazon Potash on or before June 30, 2009 at \$1.00 per share. The secured note receivable was recorded on Aberdeen's books at a discounted value of US\$1,170,488 (\$1,373,100) against a face value of US\$1,250,000 and no gain or loss was recorded on the retirement of loans outstanding from Avion to the Company in exchange for cash and the Amazon Potash secured note receivable.

#### Amazon Potash Corp.

On May 27, 2009, the Company loaned an additional US\$250,000 that was added to the existing secured note receivable balance from Amazon Potash of US\$1,250,000. As consideration, the Company received a US\$25,000 advisory service fee and 100,000 shares of Amazon Potash. Interest receivable accrued between assuming the secured note receivable on May 6, 2009 and May 27, 2009, totalling US\$8,630, was capitalized as part of the loan. Amazon Potash did not repay the loan on the June 30, 2009. The Company and Amazon Potash agreed to four separate quarterly extensions to the secured note receivable to June 30, 2010. As consideration for extending the note receivable the Company received an aggregate of US\$100,000 and 200,000 Amazon Potash shares.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### 4. LOANS RECEIVABLE (Continued)

#### Amazon Potash Corp. (Continued)

In September 2009, Amazon Potash spun out some of its potash claims in Brazil to a wholly-owned subsidiary named Brazil Potash Corp. ("Brazil Potash"). The shares in Brazil Potash were distributed to its Amazon Potash shareholders. Aberdeen, as a shareholder of Amazon Potash, received 1,650,062 shares of Brazil Potash. Subsequent to the distribution of the shares, Brazil Potash completed a private placement equity financing for gross proceeds of US\$25,000,000 at a price of US\$1.00 per common share.

In June 2010, Falcon Metais Ltda., a 100% owned subsidiary of Amazon Potash, sold its 100% ownership in Aguia Metais Ltda. to Newport Mining Corp. ("Newport"), an Australian mining company. The transaction included the conversion of 50% of the Amazon Potash loan to be paid in common shares, Performance A Shares and Performance B Shares of Newport. Through this transaction, the Company received 477,845 common shares, 666,426 Performance A Shares and 883,375 Performance B Shares of Newport. As for the conversion of 50% of the Amazon Potash loan outstanding (US\$902,468 or AUD\$1,043,739), Newport issued 1,043,739 common shares at a price of AUD\$0.15 per share, and 3,479,130 Performance A Shares and 2,435,388 Performance B Shares of Newport. Consequently, the value of the 1,043,738 shares in the amount of US\$135,974 (AUD\$156,561) was applied as reduction to the Amazon Potash loan. The remaining balance of the loan (US\$766,493 or AUD\$887,178) will be carried by the Company interest free and redeemed upon the conversion of the Performance A and B Shares at any time prior to June 22, 2013. All the Newport shares are to be held in escrow until June 22, 2011. The Performance A Shares will convert to common shares upon the completion of a technical report evidencing a combined Mineral Resource Estimate (including all categories of resources) of not less than 30,000,000 tonnes with a grade of not less than 10% P<sub>2</sub>O<sub>5</sub> at the Mata da Corda or Lucena Project within 3 years of being issued. The Performance B Shares will convert to common shares upon the completion of a technical report evidencing a combined Mineral Resource Estimate (including all categories of resources) of not less than 70,000,000 tonnes with a grade of not less than 10% P<sub>2</sub>O<sub>5</sub> at the Mata da Corda or Lucena Project within 3 years of being issued.

In June 2010, Amazon Potash sold the 100% ownership of its subsidiary Potassio do Atlantico Ltda. to Potash Atlantico Corp. in exchange for shares that were issued to the shareholders of Amazon Potash (including Aberdeen), assumption of certain obligations and the issuance of an additional 1,005,965 shares of Potash Atlantico Corp. to the Company. This represents 50% of the Amazon Potash loan (US\$902,468) owed to the Company. The proposed financing for Potash Atlantico Corp. is being done at a valuation that would represent US\$1.00 per share minimum. Consequently, the 50% of the Amazon Potash loan outstanding and due June 30, 2010 was extended to September 30, 2010 with an annual interest rate of 12%. Pursuant to this transaction, the 50% of Amazon Potash loan outstanding will be converted into shares of Potash Atlantico Corp. upon the completion of its proposed financing.

At July 31, 2010, the carrying value of the secured note receivable was US\$1,668,961 (\$1,716,193), excluding accrued interest.

Avion Directors of Aberdeen hold director positions in Avion, and Aberdeen officers and directors may hold investments personally in Avion. Directors of Aberdeen hold a director and officer position in Amazon Potash and Brazil Potash and held director positions in Dynamite. Aberdeen officers and directors also may hold, or have held, investments personally in Amazon Potash, Brazil Potash and Dynamite.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### 4. LOANS RECEIVABLE (Continued)

#### Russo-Forest Corporation

Through August 2008 to August 2009, the Company loaned an aggregate total of US\$663,710 (\$682,493) and CND\$500,000 to Russo-Forest Corporation ("Russo-Forest"), a privately held company with timber operations in the Russian northwest. These loans were repayable on or before August 18, 2009 with interest payable on maturity at an annual rate of 15%. The loan is secured against all of the assets of Russo-Forest and its subsidiaries.

On February 2, 2009, Russo-Forest entered into a share exchange agreement with Nyah Resources Corp. ("Nyah"), a junior resource company traded on the TSX Venture Exchange. On October 13, 2009, Nyah's shareholders voted in favour of the share exchange agreement; however, the finalization of the acquisition was delayed past October 31, 2009 which triggered a required payment from Russo-Forest to Nyah for \$500,000, as outlined in the agreement. In December 2009, Nyah exercised its right to terminate the share exchange agreement.

As a result of the Russo-Forest's inability to finalize its share exchange agreement with Nyah and its difficulties executing its business plans and securing financing, the Company has recorded a provision against loans of \$1,209,705 and accrued interest of \$107,971 outstanding from Russo-Forest.

In May 2010, the Company issued a legal letter to Russo-Forest demanding a repayment of the loan and interest owed to the Company by Russo-Forest by May 31, 2010. Russo-Forest has not responded and the Company is examining its options with respect to the receivable.

A director of Aberdeen is also a director of Russo-Forest. A director and an officer of Aberdeen also hold a director and an officer position in Nyah. Aberdeen officers and directors may hold investments personally in Russo-Forest and Nyah.

### 5. SIMMER & JACK LOAN

During the fourth quarter of fiscal year 2006, the Company loaned US\$10,000,000 to Simmer and Jack Mines, Limited ("Simmers"). The loan had a three-year term maturing December 31, 2008, a 3% coupon at gold prices up to US\$400 per ounce (2.5% at gold prices above US\$400 per ounce) and a net smelter royalty ("NSR"), tied to the price of gold, ranging from a 0.5% NSR at US\$300 per ounce to a 4.75% NSR at gold prices of US\$750 per ounce or higher, on a graduated scale. The NSR was payable against gold produced from Simmers' northwest assets and included First Uranium Corporation's (First Uranium) Mine Waste Solutions tailings recovery operation.

The loan also had an option that allowed Aberdeen to call for its conversion into equity of Simmers at, ZAR 0.80 per share at any time from January 1, 2007 to December 31, 2008, subject to Simmers' shareholders' approval. On October 16, 2008, the Company called for conversion to equity and a shareholder vote was held on February 16, 2009, where the Simmers' shareholders voted against the conversion as unanimously recommended by Simmers' board of directors. As a result, it is Aberdeen's position that the US\$10,000,000 loan was due, as of its maturity date of December 31, 2008, and Aberdeen was entitled to a 1% NSR on the gold produced on the underlying assets starting October 16, 2008. In addition, it is the Company's position that a payment of approximately US\$1,363,000 is due from Simmers which is the interest and graduated royalty calculated at a rate of 4.75% on the gold produced between October 16, 2008 and December 31, 2008, the maturity date of the loan, in addition to a 1% NSR royalty on gold produced starting October 16, 2008.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

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*(Unaudited)*

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### 5. SIMMER & JACK LOAN (Continued)

However, it is Simmers' position that the request for conversion into equity has caused the loan facility to terminate, ending the remaining graduated royalty payment and forfeiting repayment on the US\$10,000,000 principal and remaining interest payments. Accordingly, Simmers' management contends that the shareholder vote to deny the conversion request has resulted in Aberdeen receiving only the 1% NSR, but not the US\$10,000,000 principal.

Aberdeen's balance sheet, as at July 31, 2010, reflects Aberdeen's interpretation of the agreement. As a result, the US\$10,000,000 (\$10,283,000) loan was still outstanding at July 31, 2010 and is recorded on the balance sheet. In addition, as at July 31, 2010, the Company had recorded receivables from Simmers and First Uranium totaling US\$1,597,762 (\$1,642,979). This includes the amount related to the interest and graduated royalty for the period between October 16, 2008 and December 31, 2008. It is Simmers' contention that these amounts are not due.

Management's interpretation is that, pursuant to section 2.6 of the Convertible Royalty Loan Agreement (the "Agreement"), the graduated royalty is calculated on production until December 31, 2008, notwithstanding Aberdeen's request for conversion. In addition, pursuant to section 2.10 of the Agreement, if the Simmers' shareholders do not approve the loan conversion, the 1% NSR would be in addition to the repayment of the US\$10,000,000 principal and, pursuant to section 2.4 of the Agreement, the principal is repayable in cash until shareholders approve the equity conversion. Aberdeen intends to aggressively contest any alternative interpretation of the Agreement. The Company provided Simmers' management and directors with a demand letter and a letter from Aberdeen's legal counsel outlining Aberdeen's interpretation of the Agreement in advance of the February 16, 2009 Simmers' shareholder meeting. Aberdeen has also filed the Agreement between the Company and Simmers on SEDAR ([www.sedar.com](http://www.sedar.com)) under the Company's profile. Following the vote by Simmers' shareholders not to allow for the conversion, the Company provided Simmers' board and management with a letter reiterating Aberdeen's understanding of Simmers' obligations under the Agreement. Aberdeen was informed by Simmers' board and management that their position regarding the Agreement, as described above, had not changed. As a result, the Company engaged a leading South African law firm and in July 2009 filed a claim against Simmers and First Uranium to recover the outstanding US\$10,000,000 principal and balance payable on the graduated gold royalty from the fourth quarter of calendar 2008. The aggregate amount of damages claimed by the Company is approximately US\$11,400,000. Aberdeen firmly believes that its interpretation of the Agreement is correct and expects to realize the values attached to the royalty and loan on the balance sheet as of July 31, 2010. In November 2009, Simmers filed a statement of defense. The description of the Agreement herein is subject to, and qualified in all respects by, the provisions of the Agreement. The case moves forward and the trial date have been set for November 18, 2010.

In connection with the Agreement, Aberdeen holds a notarial special covering bond in the amount of US\$10,000,000 plus ZAR5,000,000 (\$705,500) over the assets of the North Plant on Simmers' greater Buffels property.

Aberdeen's balance sheet, as at July 31, 2010, reflects the Simmers' shareholders' February 16, 2009 vote to deny the conversion requested by Aberdeen, along with the Company's interpretation of the Agreement. At July 31, 2010, the Simmers' loan was carried at US\$10,000,000 (\$10,283,000), excluding accrued interest, based on a US/Cdn dollar foreign exchange rate of 1.0283 (January 31, 2010 – 1.0693).



# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 6. ROYALTY INTERESTS ON MINERAL PROPERTIES

The following table summarizes the Company's royalty interests as at July 31, 2010 and January 31, 2010:

|                                | July 31, 2010 |                          |               |
|--------------------------------|---------------|--------------------------|---------------|
|                                | Cost          | Accumulated<br>Depletion | Net           |
| Royalty interests              |               |                          |               |
| Simmer and Jack Mines, Limited | \$ 23,508,621 | \$ (649,403)             | \$ 22,859,218 |
| First Uranium Corporation      | 10,970,714    | (509,759)                | 10,460,955    |
| Total                          | \$ 34,479,335 | \$ (1,159,162)           | \$ 33,320,173 |

|                                | January 31, 2010 |                          |               |
|--------------------------------|------------------|--------------------------|---------------|
|                                | Cost             | Accumulated<br>Depletion | Net           |
| Royalty interests              |                  |                          |               |
| Simmer and Jack Mines, Limited | \$ 24,445,948    | \$ (501,983)             | \$ 23,943,965 |
| First Uranium Corporation      | 11,408,134       | (306,171)                | 11,101,963    |
| Total                          | \$ 35,854,082    | \$ (808,154)             | \$ 35,045,928 |

The Company owns a 1% NSR royalty interest on gold production from Simmers' producing Northwest assets and on First Uranium's Mine Waste Solutions tailings recovery operation. The Company received both the Simmers and First Uranium royalties as a result of the Simmers' shareholder February 16, 2009 voted against the conversion of the US\$10,000,000 loan outstanding as more fully described above in Note 5, "Simmer & Jack Loan". Prior to the vote to deny the conversion of the loan into shares of Simmers, the Company had carried the convertible loan on its balance sheet at its estimated fair market value based on a discounted cash flow analysis. Following the vote to deny conversion, the Company began accounting for the resulting 1% NSR royalties as tangible assets with the carrying value being the estimated fair market value of the royalty portion on February 16, 2009. The fair value was estimated using the following assumptions: 1) life of mines and gold production estimates as per Simmers and First Uranium; 2) US\$850 gold price through fiscal 2010, and US\$700 thereafter; and, 3) 5% discount rate. The carrying value of royalty interests are depleted using the units-of-production method over the life of the property to which the royalty interest relates.

The functional currency of the Company's royalty interests on mineral properties is the US dollar. All assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at rates of exchange in effect during the period. Gains and losses on translation are included in equity as separate component of other comprehensive income or loss. During the six months ended July 31, 2010, a translation adjustment loss of \$1,343,803 (net of taxes - \$991,803), (2009 - \$6,273,515 (net of taxes - \$4,203,255)) was recorded.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 7. COMMON SHARES

**Authorized:** Unlimited common shares with no par value

**Issued and outstanding:**

|  | Number<br>of shares | Amount               |
|--|---------------------|----------------------|
| <b>Balance, January 31, 2009</b>                       | <b>94,874,339</b>   | <b>\$ 47,894,974</b> |
| Shares repurchased and cancelled (NCIB) <sup>(1)</sup> | (7,370,500)         | (3,720,815)          |
| <b>Balance, January 31 and July 31, 2010</b>           | <b>87,503,839</b>   | <b>\$ 44,174,159</b> |

<sup>(1)</sup> See Note 11.

### 8. WARRANTS

|                               | Six months ended<br>July 31, 2010 |                                       | Twelve months<br>January 31, 2010 |                                       |
|-------------------------------|-----------------------------------|---------------------------------------|-----------------------------------|---------------------------------------|
|                               | Number of<br>warrants             | Weighted<br>average<br>exercise price | Number of<br>warrants             | Weighted<br>average<br>exercise price |
| Balance, beginning of period  | 37,500,000                        | \$1.00                                | 42,000,000                        | \$0.98                                |
| Granted                       | -                                 | -                                     | -                                 | -                                     |
| Expired *                     | -                                 | -                                     | (4,500,000)                       | \$0.80                                |
| <b>Balance, end of period</b> | <b>37,500,000</b>                 | <b>\$1.00</b>                         | <b>37,500,000</b>                 | <b>\$1.00</b>                         |

\* Compensation Options were exercisable into Units at a price of \$0.80 per Unit consisting of one common share of the Company and one-half of one common share purchase warrant. Compensation Options expired unexercised June 6, 2009.

The following is a summary of the outstanding warrants as of July 31, 2010:

| Estimated grant date<br>fair value | Number of<br>Warrants | Exercise price | Expiry date  |
|------------------------------------|-----------------------|----------------|--------------|
| \$ 15,750,000                      | 37,500,000            | \$1.00         | June 6, 2012 |

### 9. STOCK-BASED COMPENSATION

The following are the stock option transactions during the six months ended July 31, 2010 and the year ended January 31, 2010:

|                               | Six months ended<br>July 31, 2010 |  | Twelve months ended<br>January 31, 2010 |  |
|-------------------------------|-----------------------------------|--|---|--|
|                               | Number of<br>stock option         | Weighted<br>average<br>exercise<br>price | Number of<br>stock option               | Weighted<br>average<br>exercise<br>price |
| Balance, beginning of period  | 6,900,000                         | \$0.31                                   | 5,850,000                               | \$0.34                                   |
| Granted                       | 1,785,000                         | \$0.44                                   | 1,300,000                               | \$0.27                                   |
| Expired                       | -                                 | -  | -                                       | -  |
| Forfeited                     | -                                 | -  | (250,000)                               | \$0.71                                   |
| <b>Balance, end of period</b> | <b>8,685,000</b>                  | <b>\$0.34</b>                            | <b>6,900,000</b>                        | <b>\$0.31</b>                            |

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 9. STOCK-BASED COMPENSATION (Continued)

As of July 31, 2010, the following stock options were outstanding:

| Estimated grant date fair value | Number of options outstanding | Number of options exercisable | Exercise price | Expiry date        | Weighted Average Remaining Contractual Life |
|---------------------------------|-------------------------------|-------------------------------|----------------|--------------------|---|
| \$33,150                        | 50,000                        | 50,000                        | \$0.85         | September 19, 2010 | 0.14  |
| 269,500                         | 500,000                       | 500,000                       | \$0.69         | October 25, 2010   | 0.24  |
| 62,500                          | 100,000                       | 100,000                       | \$0.80         | January 20, 2011   | 0.47  |
| 32,100                          | 50,000                        | 50,000                        | \$0.82         | February 28, 2011  | 0.58  |
| 437,400                         | 900,000                       | 900,000                       | \$0.80         | October 4, 2012    | 2.18  |
| 30,640                          | 100,000                       | 100,000                       | \$0.48         | August 11, 2013    | 3.03  |
| 11,890                          | 50,000                        | 50,000                        | \$0.35         | September 5, 2013  | 3.10  |
| 39,400                          | 200,000                       | 200,000                       | \$0.29         | October 1, 2013    | 3.17  |
| 234,330                         | 3,650,000                     | 3,650,000                     | \$0.12         | January 14, 2014   | 3.46  |
| 200,125                         | 1,250,000                     | 625,000                       | \$0.27         | September 1, 2014  | 4.09  |
| 13,465                          | 50,000                        | 18,750                        | \$0.43         | January 5, 2015    | 4.44  |
| 76,000                          | 250,000                       | 250,000                       | \$0.47         | February 1, 2015   | 4.51  |
| 13,320                          | 50,000                        | 12,500                        | \$0.45         | February 23, 2015  | 4.57  |
| 390,407                         | 1,485,000                     | 1,485,000                     | \$0.43         | February 25, 2015  | 4.58  |
| <b>\$1,844,227</b>              | <b>8,685,000</b>              | <b>7,991,250</b>              | <b>\$0.34</b>  |                    | <b>3.38</b>                                 |

During the six months ended July 31, 2010, 1,785,000 stock options were granted to certain directors, officers and consultant of the Company (July 31, 2009 – nil). Of the total options granted, 1,735,000 vest immediately. The fair value of these options was estimated on the date of grant using the Black-Scholes option pricing model, with the weighted average assumptions of expected dividend yield – 0%; expected volatility – ranging from 70% to 79%; risk free interest rate – ranging from 2.47% to 2.49%; expected life – 5 years. The remaining 50,000 options vest quarterly in eight equal tranches with the first tranche vesting on the date of grant. The fair value of these options was estimated on the date of grant using the Black-Scholes option pricing model, with the weighted average assumptions of expected dividend yield – 0%; expected volatility – 70%; risk free interest rate – 2.51%; expected life – 5 years.

### 10. CONTRIBUTED SURPLUS

|  | Six months ended<br>July 31, 2010 | Twelve months ended<br>January 31, 2010 |
|--|-----------------------------------|---|
| Balance, beginning of period                           | \$ 12,016,561                     | \$ 8,503,997                            |
| Stock options granted and/or vested during the period: |                                   |   |
| Consultant   | 62,878                            | 2,978                                   |
| Officers and directors                                 | 443,606                           | 117,327                                 |
| Advisory board member                                  | 26,290                            | -                                       |
| Warrants expired, reallocation of valuation            | -                                 | 1,453,500                               |
| Cancellation of repurchased common shares (Note 11)    | -                                 | 1,938,758                               |
| Balance, end of period                                 | \$ 12,549,335                     | \$ 12,016,560                           |

# **ABERDEEN INTERNATIONAL INC.**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### **11. NORMAL COURSE ISSUER BID**

On February 4, 2010, the Company announced its intention to make a Normal Course Issuer Bid ("NCIB"), subject to TSX approval, to buy back its common shares through the facilities of the Exchange.

The maximum number of common shares that may be purchased for cancellation pursuant to the NCIB is that number of common shares that represents 10% of the common shares in the public float on the date that the Exchange approves the NCIB. Based on the 75,350,006 common shares in the public float as at January 29, 2010, the maximum number of shares would be 7,535,000. The number of shares in the Company's public float is less than the 87,503,839 issued and outstanding Aberdeen common shares as of January 29, 2010, because the public float number does not include common shares held by Aberdeen insiders. Daily purchases will be limited to 70,144 common shares other than block purchase exceptions. The actual number of common shares that would be purchased, if any, and the timing of such purchases will be determined by Aberdeen considering market conditions, stock prices, its cash position, and other factors.

Purchases under the NCIB were permitted to commence on February 5, 2010 and will terminate on February 4, 2011 or the date upon which the maximum number of common shares have been purchased by Aberdeen pursuant to the NCIB. Aberdeen intends that any shares acquired pursuant to the NCIB will be cancelled.

Any purchases made pursuant to the NCIB will be made in accordance with the rules of the TSX and will be made at the market price of the common shares at the time of the acquisition. Aberdeen will make no purchases of common shares other than open market purchases that may be made during the period that the NCIB is outstanding.

Subsequent to July 31, 2010, the Company purchased and cancelled 558,000 common shares available under the NCIB at an average price of \$0.38 per share.

### **12. RELATED PARTY TRANSACTIONS**

All of the related party transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The Company's officers and directors may have investments in and hold management and/or director and officer positions in some of the investments that the Company holds. The following is a list of the investments and the nature of the relationship of the Company's officers or directors with the investment:

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 12. RELATED PARTY TRANSACTIONS (Continued)

| Investment                      | Nature of relationship               | Estimated<br>Fair value |
|---------------------------------|--------------------------------------|-------------------------|
| Alderon Resources Corp.         | Directors and shareholders           | \$ 700,000              |
| Allana Resources Inc.           | Shareholders                         | 1,999,820               |
| Apogee Minerals Ltd.            | Directors and shareholders           | 837,903                 |
| Auger Resources Ltd.*           | Directors and shareholders           | 200,000                 |
| Avion Gold Corporation          | Directors and shareholders           | 2,992,236               |
| Belo Sun Mining**               | Directors and shareholders           | 2,111,500               |
| Brazil Potash Corp.*            | Directors and shareholders           | 1,696,759               |
| Castillian Resources Corp.      | Directors and shareholders           | 646,800                 |
| Crocodile Gold Inc.             | Directors, officers and shareholders | 6,665,203               |
| Dacha Capital Inc.              | Directors, officers and shareholders | 2,614,461               |
| Forbes & Manhattan (Coal) Inc.* | Directors, officers and shareholders | 4,774,549               |
| Kria Resources Ltd.             | Directors, officers and shareholders | 311,880                 |
| Largo Resources Inc.            | Directors and shareholders           | 717,000                 |
| Longford Energy Inc.            | Directors and shareholders           | 878,375                 |
| Rodinia Lithium Inc.            | Directors, officers and shareholders | 900,000                 |
| Scandinavian Metals Inc.*       | Directors and shareholders           | 500,000                 |
| Stetson Oil & Gas Ltd.          | Directors and shareholders           | 100,000                 |
| Sulliden Gold Corporation Ltd.  | Directors and shareholders           | 7,996,242               |
| Temujin Mining Corp*            | Directors and shareholders           | 6,157,000               |
| Vast Exploration Inc.           | Directors and shareholders           | 1,132,500               |
| Total of 13 other investments   | Shareholders/w arrant holders        | 4,752,835               |
| Total Investments               |                                      | \$ 48,685,063           |

\* Private company

\*\* Formerly Verena Minerals Corp.

In addition to the investments listed above, Aberdeen has loans receivable from Amazon Potash Corp., Temujin Mining Corp., Pitchblack Resources Ltd. (formerly Cash Minerals Limited), Castillian Resources Corp., Rodinia Lithium Inc. and undrawn loan facilities with Kria Resources Ltd. Directors and officers of Aberdeen hold director and officer positions in these companies and may hold investments.

The Company was charged \$45,000 during the six months ended July 31, 2010 (2009 - \$45,000) by a corporation controlled by a director of the Company for administration services.

During the six months ended July 31, 2010, the Company earned advisory service fees of \$375,459 from Amazon Potash Corp., Castillian Resources Corp., Dacha Capital Inc., Kria Resources Ltd., and Temujin Mining Corp., (2009 - \$179,500 from Alliance Resources Inc., Crowflight Minerals Inc., Dacha Capital Inc., Largo Resources Inc., and Sulliden Gold Corporation Ltd.). Of the total service fees earned, \$226,419 were receivable at July 31, 2010 (January 31, 2010 - \$Nil). The Company also earned or accrued interest income of \$334,299 during the six months ended July 31, 2010 from Temujin Mining Corp., Amazon Potash Corp., Dacha Capital Inc., Kria Resources Ltd., Castillian Resources Corp, Pitchblack Resources Ltd. (formerly Cash Minerals Limited) and Rodinia Lithium Inc., (2009 - \$391,175 from Avion Gold Corp., Kria Resources Ltd., and Russo-Forest Corporation), all of which have certain common directors and officers with Aberdeen. Of the total interest earned or accrued, \$289,223 was receivable at July 31, 2010 (January 31, 2010 - \$514,907).

At July 31, 2010 and January 31, 2010, the Company has a provision of \$1,317,676 against the outstanding loan and interest receivable from Russo-Forest.

The Company shares its premises with other corporations that have common directors and/or officers. The Company reimburses and recovers from the related corporation for their proportional share of expenses. Included in accounts payable at July 31, 2010 is \$Nil (January 31, 2010 - \$44,282) owing to, \$Nil (January 31, 2010 - \$2,320) owing from, and \$7,228 (January 31, 2010 - \$2,862) advanced to such corporations. Such amounts are unsecured, non-interest bearing, with no fixed terms of repayment.

# **ABERDEEN INTERNATIONAL INC.**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### **13. COMMITMENTS AND CONTINGENCIES**

The Company is party to certain management contracts. These contracts contain minimum commitments of approximately \$785,000 and additional contingent payments of approximately \$4,699,000 upon the occurrence of a change of control. As the likelihood of a change of control is not determinable, the contingent payments have not been reflected in these financial statements.

As outlined in Note 5, "Simmer & Jack Loan", Simmers' management has adopted an interpretation of the Convertible Royalty Loan Agreement different to that of Aberdeen's interpretation. The amounts under dispute on the balance sheet as at July 31, 2010 include the Simmers' loan valued at \$10,283,000 and a receivable for \$1,642,979. While the Company is confident that its interpretation of the agreement is correct and has filed a claim against Simmers and First Uranium to recover the outstanding US\$10,000,000 principal and balance payable on the graduated gold royalty, some uncertainty surrounds the timing and actual collectability of these amounts.

In June 2009, the Company entered into a secured debenture agreement to loan up to \$600,000 to Kria Resources with any amounts drawn being due and payable on December 31, 2010. Subsequent to July 31, 2010, \$500,000 was drawn down. Additional details are provided under Note 4, "Loans Receivable".

### **14. CAPITAL DISCLOSURE**

The Company considers its capital to consist of its common shares, warrants and contributed surplus balances. The Company's objectives when managing capital are:

- a) to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining the Company's ability to purchase new investments;
- b) to give shareholders sustained growth in value by increasing shareholders' equity; while
- c) taking a conservative approach towards financial leverage and management of financial risks.

The Company's management reviews its capital structure on an on-going basis and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying investments. The Company's current capital is composed of its shareholders' equity and, to-date, has adjusted or maintained its level of capital by:

- a) raising capital through equity financings;
- b) realizing proceeds from the disposition of its investments; and
- c) repurchasing the Company's own shares for cancellation pursuant to its normal course issuer bid.

The Company may on occasion utilize leverage in the form of broker margin or bank indebtedness. Aberdeen is not subject to any capital requirements imposed by a regulator and there were no changes to capital management since January 31, 2010. The Company expects that its capital resources will be sufficient to discharge its liabilities as of the current balance sheet date. Aberdeen does not currently pay a dividend and does not expect to pay one in the foreseeable future.

# **ABERDEEN INTERNATIONAL INC.**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the three and six months ended July 31, 2010 and 2009

*(Unaudited)*

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### **15. FINANCIAL INSTRUMENTS**

Aberdeen's operations involve the purchase and sale of securities and, in addition, the Company has loans outstanding. Accordingly, the majority of the Company's assets are currently comprised of financial instruments which can expose it to several risks, including market, liquidity, interest rate, credit and currency risks. There have been no changes in the risks, objectives, policies and procedures from the previous period. A discussion of the Company's use of financial instruments and their associated risks is provided below:

#### **Market risk**

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate because of changes in market prices. The Company is exposed to market risk in trading its investments and unfavourable market conditions could result in dispositions of investments at less than favourable prices. In addition, most of the Company's investments are in the resource sector. The Company manages this risk by having a portfolio which is not singularly exposed to any one issuer.

For the six months ended July 31, 2010, a 10% decrease in the closing prices on its portfolio investments would result in an estimated increase in net after-tax loss of \$3.4 million, or \$0.04 per share. This estimated impact on net after-tax loss includes the estimated value of the non-traded warrants held, as determined using the Black-Scholes option pricing model.

#### **Liquidity risk**

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if the Company's access to the capital markets is hindered, whether as a result of a downturn in stock market conditions generally or related to matters specific to the Company, or if the value of the Company's investments declines, resulting in losses upon disposition. In addition, some of the investments the Company holds are lightly traded public corporations or not publicly traded and may not be easily liquidated. The Company generates cash flow from its royalty interests, interest on loans, financing activities and proceeds from the disposition of its investments, in addition to interest income and advisory service fees. As the Company currently has no debt, Aberdeen believes that it has sufficient marketable securities which are freely tradable and relatively liquid to fund its obligations as they become due under normal operating conditions.

#### **Commodity price risk**

Commodity price risk is the risk that the fair value of the Company's financial instruments will fluctuate because of changes in commodity prices. The estimated fair market value of the Company's investments are sensitive to the prevailing and expected commodity prices and changes in commodity prices could have a significant adverse effect on the value of the Company's investment.

The estimated fair value of the Company's royalty assets and related royalty income are sensitive to the prevailing and expected gold price.

#### **Interest rate risk**

The Company's interest rate risk is primarily related to the Company's loans receivable. The loans were extended based partially on interest rates in effect at the time. Changes in market interest rates affect the fair market value of the loans receivable. However, as substantially all of the loans are short-term in nature, the impact of changes in market interest rates would likely not be significant.

# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 15. FINANCIAL INSTRUMENTS (Continued)

#### Credit risk

Credit risk is the risk associated with the inability of a third party to fulfill its payment obligations. The Company is exposed to the risk that third parties that owe it money or securities will not perform their underlying obligations. The Company's largest credit risk is the counterparty to its loan outstanding with Simmers. Security was obtained against specific assets of the counterparty, in case of non-performance.

The Company also has credit risk in the form of other loans receivable and amount receivable. The total carrying value of these financial instruments at July 31, 2010 was \$20,688,278.

At July 31, 2010, the Company has a provision of \$1,317,676 against the outstanding loan and interest receivable from Russo-Forest.

#### Currency risk

Currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company's operations are exposed to foreign exchange fluctuations, which could have a significant adverse effect on its results of operations from time to time. The Company currently has financial instruments denominated in U.S. dollars, Australian dollars and South African Rand.

A change in the foreign exchange rate of the Canadian dollar versus another currency may change the value of its financial instruments.

The following assets and liabilities were denominated in foreign currencies as of July 31, 2010 and January 31, 2010.

|  | July 31, 2010        | January 31, 2010     |
|--|----------------------|----------------------|
| Denominated in U.S dollars:              |                      |                      |
| Cash                                     | \$ 180,759           | \$ 7,928             |
| Amounts receivables                      | 2,122,797            | 2,124,913            |
| Loans receivable                         | 6,086,468            | 8,246,565            |
| Simmer & Jack loan                       | 10,283,000           | 10,693,000           |
| Accounts payable                         | (2,343)              | (472)                |
| Denominated in Australian dollars:       |                      |                      |
| Amounts receivables                      | -                    | 397,794              |
| Denominated in South African Rand:       |                      |                      |
| Income taxes recoverable                 | 1,335,556            | 1,329,877            |
| Accounts payable and accrued liabilities | -                    | (8,767)              |
|  | <u>\$ 20,006,239</u> | <u>\$ 22,790,838</u> |

A 10% increase in the value of the Canadian dollar against all foreign currencies in which the Company had financial instrument exposure as of July 31, 2010 would result in an estimated increase in net after-tax loss of approximately \$1.4 million, or \$0.02 per share. The Company does not currently hedge its foreign currency exposure.



# ABERDEEN INTERNATIONAL INC.

## NOTES TO THE FINANCIAL STATEMENTS

For the three and six months ended July 31, 2010 and 2009

(Unaudited)

### 15. FINANCIAL INSTRUMENTS (Continued)

#### Fair value of financial instruments

The Company has determined the carrying values of its financial instruments as follows:

- i. The carrying value of cash equivalents, amounts receivable, loans receivable and accounts payable approximate their fair values due to the short-term nature of these instruments.
- ii. Investments are carried at amounts in accordance with the Company's accounting policy as set out in Note 2 of the annual audited financial statements.
- iii. Prior to maturity, the outstanding loans receivable are carried at their discounted value. Following their maturity, loans receivable are carried at their estimate realizable value.

The following table illustrates the classification of the Company's financial instruments, measured at fair value on the balance sheet as at July 31, 2010, categorized into levels of the fair value hierarchy in accordance with Section 3862 of the CICA Handbook.:

|  | <b>Level 1</b><br><i>(Quoted<br/>Market price)</i> | <b>Level 2</b><br><i>(Valuation technique-<br/>observable market<br/>Inputs)</i> | <b>Level 3</b><br><i>(Valuation technique-<br/>non-observable<br/>market inputs)</i> |
|--|--|--|--|
| Cash and cash equivalents                  | \$ 3,618,403                                       | \$ -   | \$ -   |
| Investments                                |  |  |  |
| Publicly traded investments                | \$ 28,126,372                                      | \$ -   | \$ -   |
| Non-trading warrants on public investments | \$ -   | \$ 4,317,472   | \$ -   |
| Private investments                        | \$ -   | \$ -   | \$ 16,241,219  |

The following table presents the changes in fair value measurements of financial instruments classified as Level 3 for the six months ended July 31, 2010. These financial instruments are measured at fair value utilizing non-observable market inputs. The net realized losses and net unrealized gains are recognized in the statement of operations and comprehensive income and loss.

#### **Investments, fair value**

|                                     |                      |
|-------------------------------------|----------------------|
| Opening balance, January 31, 2010   | \$ 6,934,527         |
| Net purchases                       | 7,161,992            |
| Change in unrealized gains, net     | 2,144,700            |
| <b>Ending balance July 31, 2010</b> | <b>\$ 16,241,219</b> |

### 16. SUBSEQUENT EVENTS

Subsequent to July 31, 2010, Kria Resources Inc. drew down \$500,000 under the secured debenture agreement and issued 200,000 share purchase warrants to the Company.

Subsequent to July 31, 2010, Rodinia Lithium Inc. repaid the bridge loan plus interest totaling \$202,904.

Subsequent to July 31, 2010, 558,000 common shares were repurchased and cancelled under the NCIB at an average price of \$0.38 per share.