



**INTERIM FINANCIAL REPORT**

**JUNE 30, 2011**

## **MDN INC.**

### **MANAGEMENT DISCUSSION AND ANALYSIS**

**(FOR THE PERIOD ENDED JUNE 30, 2011)**

#### **SCOPE OF MANAGEMENT'S FINANCIAL ANALYSIS**

The following analysis should be read in conjunction with the financial statements of MDN Inc. (the "Company" or "MDN") and the accompanying notes to the financial statements for the three-month periods ended June 30<sup>th</sup>, 2011 and 2010. The reader should also refer to the audited annual financial statements as at December 31, 2010, including the section describing the risks and uncertainties. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board. Comparative information included in the June 30, 2011 interim financial statements and in this MD&A has been restated in accordance with IFRS.

#### **ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE**

This Management Discussion and Analysis was prepared as of August 2<sup>nd</sup>, 2011, and complies with Rule 51-102A of the Canadian Securities Administrators on continuous disclosure. This analysis is a supplement to the Company's unaudited interim financial statements for the three-month period ended June 30, 2011, and is intended to help the reader understand and assess the material changes and trends affecting the Company's results and financial position. It represents the view of management on the Company's ongoing activities and its current and past financial results and presents an overview of activities planned for the coming months. The Company regularly discloses additional information through press releases and financial statements available on the Company's website at [www.mdn-mines.com](http://www.mdn-mines.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **NATURE OF OPERATIONS**

The business of the Company consists of acquiring, exploring and developing mining properties. In the context of realizing its objectives, the Company is likely to sign various agreements specific to the mining industry, such as the purchase and options to purchase mining claim agreements as well as joint venture agreements. Under a joint venture agreement with African Barrick Gold, MDN holds a 30% interest in the Tulawaka gold mine. It also carries on exploration on other mining properties, but has not yet determined whether these other properties contain economically viable mineral assets.

The Company also holds interests in properties located in the following areas:

Tanzania, East Africa: MDN is involved in various gold exploration projects totalling 757 km<sup>2</sup> in the area of Lake Victoria Goldfield, as well as in a joint venture with African Barrick Gold, ABG 70% and MDN 30%, in the Tulawaka mine and its adjacent permits.

Quebec: Le Tac, Lac Shortt, Lespérance and MCGold in the Chibougamau area, and Isle-Dieu in the Matagami area. MDN is also preparing a feasibility study for the Crevier project in Lac-St-Jean, controlled at 72.5%.

## **SECOND QUARTER 2011 HIGHLIGHTS**

### **MDN**

- The Company's total revenues net of finance expenses for the quarter were \$1,272,122 with \$1.2 million obtained from the available cash declared at the Tulawaka mine.
- The Company posted a net loss of \$154,162 or \$0.002 per share attributable to its shareholders, compared to a net loss of \$1,457,009 or \$0.015 per share for the same period in 2010. The available cash from the Tulawaka mine resulted in a reduced deficit compared to the same period in 2010.
- Pursuant to the Board of Director's decision to approve the issuance of common shares to acquire an additional 5% interest in CMI on March 16, 2011, the Company issued 1,531,863 shares at \$0.408 per share on April 4, 2011, thus increasing the Company's interest in CMI from 67.5% to 72.5%.
- The Crevier project feasibility study continued throughout the second quarter. Work was essentially focused on metallurgy.
- A drilling program on the Ikungu project began in the first quarter to pursue exploration on the east and west extensions of this mineralized structure. The Ikungu structure has now been traced over more than 4 km. The second part of the drilling program began in the second quarter, with diamond drilling aimed at increasing confidence in the continuity of the mineralized zones.
- In June, MDN acquired 175 claims to the southeast of the Crevier niobium-tantalum project, covering an area of 98 km<sup>2</sup>. These new acquisitions allow MDN a control on an area covering a geophysical response similar to the one associated with the Niobec niobium mine. This magnetic signature lies 23 km southeast of the Crevier deposit and 130 km northwest of the Niobec mine.

### **TULAWAKA**

- The Tulawaka gold mine in Tanzania produced 21,511 ounces of gold at an average milled grade of 6.69 g/t of gold and a 95.06% average mill recovery. Production for the same period in 2010 was 12,923 ounces of gold at an average milled grade of 3.5 g/ of gold. This significant increase was due to higher production from the underground operation and a better ore grade.

- In the second quarter of 2011, the underground Tulawaka gold mine generated 43,971 tonnes grading 13.2 g/t, compared to 23,886 tonnes grading an average of 9.14 g/t of gold produced in the same period in 2010. This increase in production is the result of investments in 2010 to increase the general efficiency of the underground mine.
- Total cash costs to produce one ounce of gold were US \$645, compared to US \$759 in 2010.
- The Tulawaka gold mine sold 22,500 ounces of gold on the spot market at an average price of US \$1,511.
- Mine capital investments for the quarter amounted to \$4.3 million, compared to \$3.1 million in the same period last year. Tulawaka continued its exploration drilling program during the quarter, aimed at extending the mine's useful life. This program was supported by an underground mine development program.

## **CREVIER PROJECT DEVELOPMENT**

The feasibility study that started in early 2010 is progressing. However, a delay in the preparation and execution of pilot plant testing has impacted the preparation of the overall feasibility study. The study could not be completed as planned by the end of the first half of the year, and will now be finished by the end of fiscal 2011.

The main activities during this quarter were:

- Mine plan and in-pit mineral resource
- Metallurgical development
- Search for a strategic partner

### **Mine Plan and In-Pit Mineral Resource**

Our consultant Met-Chem continued to work on optimizing the economic value of the pit during the second quarter. They are currently reviewing the quantity of waste in the pit and optimization of the waste-to-ore ratio. This work will be completed once the final data from the metallurgical process has been determined.

### **Metallurgical Development**

In the second quarter, efforts were primarily focused on analysing the results, explaining and understanding the differences between the results of the pilot testing performed in the first quarter and the laboratory testing done in the fall of 2010. Additional work is required because of differences in recovery and quantity of reagents used to process the ore. This process is currently underway and will be completed in the third quarter. The final report on pilot plant testing will be available once the final analysis will be complete. SGS Lakefield is in charge of this part of the

feasibility study.

One of the objectives of the pilot trial was to produce the enriched niobium/tantalum concentrate required to continue the hydrometallurgy process development work. The work plan was designed by SGS Lakefield, a work proposal is under review and work will begin in the third quarter. This part of the program will allow the entire mineral processing circuit to be completed and refinery design and cost evaluation to begin.

All the other elements of the feasibility study are temporarily on hold pending the results of the metallurgical testing, as these are needed to proceed.

Also in relation with the Crevier project development, MDN entered into an agreement with PricewaterhouseCoopers Corporate Finance Inc. (PwCCF), who will act as financial advisor.

PwCCF's mandate has two major elements:

- Technical support for the financial modeling of the Crevier project, with analysis and financial modeling of any transaction involving a strategic investor; and
- Responsibility for identification of a strategic partner to facilitate and support the Crevier project development.

MDN has access to PwCCF's personnel in Canada, as well as their global network to seek a strategic partner.

## EXPLORATION ACTIVITIES

As in the first quarter, drilling on the Ikungu property was the main exploration activity in the second quarter.

### **Ikungu**

The goal of the first part of the 2011 drilling program was to test the east and west extensions of the main structure. Positive results confirmed the extension of the structure by 1 km toward the west, and Hole IKBH-71 returned very encouraging results in the eastern sector. Interpretation of the drilling program results, mapping work and earlier geochemical and geophysical work indicate that the mineralized structure extends to the southeast over a distance of some 1,400 m, with Hole IKBH-71 lying in the middle of this zone. The Ikungu structure has now been traced over a distance of more than 4 km.

In the eastern part of the property, drill fences were completed to locate the favourable stratigraphic structure. The holes on the southern part of the drill fences intercepted volcanic rocks favourable to mineralization, unlike those on the northern part, which intercepted intrusive granites unfavourable to gold mineralization. The holes that intersected the volcanic rocks lie between 500 and 800 metres southeast of the last intersection, in Hole IKD-43 (1.21 g/t Au over 2.73 m).

On May 17, 2011, MDN reported positive assay results for Hole IKBH-71, confirming the existence of the Ikungu mineralized zone to the southeast. Hole IKBH-71 intersected two zones that returned **13.43 g/t over 2.0 m** and 1.83 g/t over 5.0 metres. A total of 21 reverse circulation holes 70 to 125 m deep were drilled systematically, forming two drill fences on sections 4180E and 4590E. The two drill fences were designed to locate the eastern extension of the Ikungu zone between the last intersection (the most easterly gold value for the Ikungu structure), in Hole IKD-43 (1.21g/t over 3.73 m), and the granite intrusive at the edge of the property. The results indicate that the eastern extension of the mineralization has been substantially displaced southward. Most of the holes drilled in the direct extension intersected granite, which is not favourable to mineralization. The eastern extension of the structure favourable to mineralization was located by Hole IKBH-71 (13.43 g/t over 2.0 m and 1.83 g/t over 5.0 m), the most southerly hole of the drill fence. The hole intersected the structure 860 m southeast of the mineralization in Hole IKD-43. This displacement to the southeast has the positive consequence of opening up more space for exploration to the east than anticipated prior to the program.

Drilling was suspended in early May due to technical difficulties encountered by our contractor, and resumed on June 14 with a new contractor. A total of 351 metres of diamond drilling have been completed since and are now being assayed. These holes were drilled to test favourable areas and reduce the spacing between the mineralized blocks intercepted during earlier MDN drilling programs. This will lead to greater confidence in the continuity of the mineralization.

A total of 418 metres of RC drilling was done in parallel. This preparatory work with the first 70 to 100 metres of each hole drilled by reverse circulation, before using the diamond drilling, represents significant savings on drilling costs.

## **QUEBEC**

### **MCGold**

Planning of the next drilling program was completed with the Company's partner, and work should begin in the next quarter. Holes will be drilled at regular intervals to test the western extension of the resource presumed to exist over a distance of 1 km toward the west.

### **Samaqua**

In June, MDN acquired 175 claims covering 98 km<sup>2</sup> southeast of the Crevier niobium-tantalum project. This new acquisition means that MDN now controls the ground covering a geophysical response similar to the one associated with the Niobec niobium mine. The magnetic signature lies 23 km southeast of the Crevier deposit and 130 km northeast of the Niobec mine.

MDN staked this strategic position based on its analysis of geophysical mapping of the airborne magnetic survey published by the Canadian government and compilation of previous work in the area.

A magnetic signature similar to the Niobec magnetic response has been identified, with a halo of high magnetic intensity surrounding a low-intensity magnetic core. In the case of Niobec, the core corresponds to a niobium carbonatite with a rare-earth centre.

The circular anomaly lies at the southeast end of a lineament visible on the geophysical maps. The lineament coincides with the porphyry syenite dike hosting the Crevier deposit, and could be the southeast extension of the dyke, in which case the two systems would be related.

The new claims are also part of a structural corridor that includes the Saint-Honoré (Niobec) and Crevier carbonatites in the Grenville and the Lac Shortt and Montviel carbonatites in the Abitibi.

Historical prospecting work located pegmatitic syenite outcrops within the magnetic halo, which is highly indicative of the presence of an alkaline intrusive favourable to metals like those at Crevier (niobium-tantalum) and /or Niobec (niobium and rare earths).

Reconnaissance work will be carried out on the ground during the year to confirm the presence of a carbonatite and its metal content. This work will also enable the Company to check whether the Crevier system and this circular anomaly are related by the dike, as suggested by the presence of the lineament.

## **BUSINESS DEVELOPMENT**

MDN remains first and foremost a gold exploration company, and plans to continue developing the Tulawaka mine with African Barrick Gold. On its exploration properties, most of the Tanzanian exploration budget will be allocated to the Ikungu gold property.

MDN will continue with the feasibility study preparation throughout the year, with the goal of determining the financial and technical parameters it needs to make a decision on the future of the Crevier project development.

Numerous meetings were held with financial institutions to publicize the quality of our exploration properties and the Crevier project. Many meetings were also held with financial institutions to assess our financing options for the Crevier project construction.

## SUMMARY OF OPERATING RESULTS

<b>For the three months ended June 30</b>	<b>2011</b>	<b>2010</b>
<i>(In thousands of dollars, except for amounts per share)</i>		
Revenues net of financial charges	<b>\$1,272</b>	\$142
Administrative expenses	<b>\$1,069</b>	\$1,70
Net income (loss) attributable to the shareholders of the company	<b>(\$154)</b>	(\$1,467)
Basic and diluted net earnings (loss) per share	<b>(\$.003)</b>	(\$0.015)
Weighted-average number of shares outstanding (in thousands)	<b>99,976</b>	97,126

### Operating results

MDN's revenues are generated mainly from royalties derived from the production at the Tulawaka gold mine. Underway since 2010, the aggressive exploration program necessary to increase the life of mine continued during the second quarter of 2011 with the investment for new equipment. Subsequently to the above decisions, royalties were not declared in the 2010 second quarter results, the royalties declared for the second quarter of 2011, was \$1,187,830. Other revenues (\$118,190 in 2011 and \$155,969 in 2010), consisted of interest income from the Company's various investments.

Administrative expenses totalled \$1,069,460 compared with \$1,069,781 in 2010. Administrative expenses included management fees of \$180,570 (\$131,179 in 2010) representing 3% of all operating expenses of the Tulawaka project invoiced by the operator; professional fees of \$202,768 (\$314,555 in 2010), decrease mainly due to the termination of one consulting contract (advisor to the president) representing \$42,976 and the reclassification of a contractual position into a salaried position (\$48,877). Stock base compensation of \$6,603 (\$230,126 in 2010), decrease due to the recorded payment in 2010 of stock base compensation in conformity with the long-term incentive plan, salary costs of \$449,798 (\$215,874 in 2010), increase mainly due a notice of assessment received from Revenue Quebec for the periods between 2007 and 2010 changing the rates used for the Health and service fund (HSF) in the past representing a charge of \$150,127 coupled with the reclassification of a contractual position into a salaried position and the creation of a new position in accounting. Transfer fees \$34,963 (10,243 in 2010) increase due the registration cost of the shareholder rights plan voted at the last shareholder annual meeting, travel cost of \$28,905 (\$68,380 in 2010) and Office expenses \$28,332 (\$7,211 in 2010) increase mainly due to communication expenses in Tanzania.

Since the amounts distributed by the Tulawaka gold mine are now recorded as royalties in the income statement, the Company is reporting amortization charges for the cost of exploration conducted prior to the opening of the mine based on royalties paid; this amount was \$46,325 in 2011 and no amortization was recorded in the second quarter of 2010.

**Change in refundable credit on mining duties:**

The Quebec government's Bill 5 has received first reading on May 4, 2011, making it substantively enacted for IFRS purposes on that date. The bill includes proposals to amend the mining duties regime, as announced in the 2010 Quebec budget, for expenses incurred after March 30, 2010. As a result, the mining duties rate has increased from 12% to 16% after March 30, 2010, while credit on mining duties rates has decreased from 12% to 7% from March 30, 2010 to December 31, 2010 and has increased to 7.5% from January 1, 2011 to December 31, 2011.

During the quarter ending June 30, 2011, these changes will result in an increase in deferred tax liabilities and deferred tax expenses of \$319,644 and a decrease in mining taxes receivable and current taxes of \$117,731.

**Net loss**

For the six-month period ended June 30, 2011, the Company recorded a net loss attributable to Owners of the Company of \$794,099 or \$0.009 per share compared to net loss of \$2,615,733 or \$0.027 per share for the same period in 2010.

The net loss per share is based on weighted-average number of 99,975,887 common shares outstanding as at June 30, 2011, compared with a weighted-average number of 97,125,690 common shares outstanding as at June 30, 2010.

**Future results**

The Company's future results will be influenced mainly by the amount of royalty income received from its 30% participation in the Tulawaka gold mine and from its exploration programs.

<b>Financial position</b>	<i>June 30</i> <b>2011</b>	<i>December 31</i> <b>2010</b>
<i>(In thousands of dollars)</i>		
Cash and cash equivalents	<b>\$1,621</b>	\$4,975
Investments	<b>\$4,637</b>	\$5,739
Mining taxes receivable	<b>\$366</b>	\$ 346
Accounts receivables	<b>\$3,711</b>	\$1,660
Exploration and evaluation assets	<b>\$34,004</b>	\$31,687
Total assets	<b>\$47,326</b>	\$47,272
Share Capital	<b>\$63,449</b>	\$62,824
Total equity attributable to equity holders of the Company	<b>\$41,908</b>	\$42,594

## **LIQUIDITY AND FINANCIAL POSITION**

### **Cash, cash equivalents and term deposits**

As at June 30, 2011, the Company's cash position, consisting of cash, investments and term deposits, amounted to \$6,258,413 compared with \$10,713,786 as at December 31, 2010. This decrease is mainly due to the investment in exploration and evaluation assets and the increase in the deficit of the Company.

### **Mining taxes receivables**

As of June 30, 2011, tax credit receivables amounted to \$365,740 compared with \$346,004. The mining taxes receivable are mainly attributable to the Crevier project.

### **Accounts receivables**

As of June 30, 2011, accounts receivable amounted to \$3,710,716 mainly due to Resources credit (\$1,473,458) coupled with Royalties receivable from Pangea Goldfield (\$1,187,380) receivable interests on investments (\$42,544), \$201,474 for GST and QST reimbursements, and \$659,470 for Tanzanian sales tax reimbursements.

### **Mining properties**

During the three-month period ended June 30, 2011, MDN acquired 175 claims covering 98 km<sup>2</sup> southeast of the Crevier niobium-tantalum project at the cost of \$9,525. This new acquisition means that MDN now controls the ground covering a geophysical response similar to the one associated with the Niobec niobium mine. The name of the new project is Samaqua

### **Exploration and evaluation assets**

During the three-month period ended June 30, 2011, the Company increase by \$999 658 his exploration and evaluation assets. Of this amount, \$838 365 was spent for properties in Tanzania, mainly for the Ikungu property. The Company also expensed \$161,293 in the province of Quebec, mainly for the Crevier property.

### **Assets, equity attributable to equity holders of the Company and liquidity**

Total assets amount to \$47,326,042 as at June 30, 2011, compared to \$47,272,468 as of December 31, 2010.

Équity attributable to equity holders of the Company amounted to \$41,907,784 as of June 30, 2011, compared to \$42,594,241 as of December 31, 2010, with the decrease being attributable to the loss for the period.

The Company's liquidity, short-term and long-term, is sufficient for the payment of administrative expenses, the financing of exploration activities and to support the Company's growth plan.

### **LIQUIDITY AND FINANCIAL POSITION**

#### **Equity**

During the three-month period ended June 30, 2011, following the decision of the Board of Directors to approve the issuance of 1,531,863 common shares for the acquisition of an additional interest of 5% in CMI on March 16, 2011, the Company issued the number of outstanding shares is 99,975,887 compared with 98,444,024 as of December 31, 2010.

#### **Liquidity needs for the current financial year**

Gold production at the Tulawaka gold mine started in March 2005. Based on the operation of the mining property and the available liquidities based on the JVA, the Company receives a 30% share of surplus distributed. For the current financial year ending on December 31, 2010, the Company's liquidity needs are estimated at \$9,000,000, which includes fixed costs and exploration expenses in Tanzania, in Québec and for the investment in Crevier Minerals Inc. Notwithstanding the future distribution of royalties from the mine in 2011, the Company's available liquidity exceeds the amount required to meet its financial needs.

### **RISKS AND UNCERTAINTIES**

The Company's principal revenue is derived from the operation of the Tulawaka gold mine, which has been in operation since March 2005. The lifespan of the mine is linked to the exploitable gold-bearing reserves. Exploration is underway at Tulawaka to extend the mine's life. As of June 30, 2011, the mine operator has yet to define the lifespan of the mine in the context of underground development. Presently the life of mine is estimated to last until the second quarter of 2012. A final assessment is expected by the end of this year.

Except for the Company's investment in MCI, which is at the evaluation phase, all of the Company's other resource properties are exploration properties. The Company's long-term profitability depends on the costs and success of its evaluation, exploration and development programs, which may also be influenced by different factors. Among these factors, one must consider the attributes of future mineral deposits, including the quantity and quality of the resources, the development costs of a production infrastructure, financing costs, the market value

of gold, and the competitive nature of the industry.

Substantial investments are necessary to carry out evaluation and exploration programs and to develop reserves. In the absence of cash flows generated by mining operations, the Company depends on capital markets to fund its exploration and development activities. Market conditions and other unforeseen events could affect the Company's ability to obtain the funds required for its development.

### **Mineral prices**

Factors that influence the market value of gold, base metals and any other mineral discovered are outside of the Company's control. Resource prices can fluctuate widely, and have done so in recent years. The impact of these factors cannot be accurately predicted.

### **Uninsured risks**

The Company may become subject to claims arising from natural phenomena, pollution or other risks against which it cannot or chooses not to insure itself due to the high cost of premiums or for other reasons. Payment of such claims would decrease and could eliminate funds available for exploration and mining activities. Furthermore, as the Company carries on business in foreign countries, it is subject to governmental decisions and policies.

### **Related party transactions**

In relation with the acquisition of CMI, the Company paid \$459,000 and issued 1,488,790 shares to its actual president and to a director in consideration of the 600,000 shares they held in CMI (representing 15% of the outstanding shares of CMI). Furthermore, during the period, the Company paid professional fees of \$18,000 to the same director.

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

Since the third quarter of 2010, following the issuance of shares of the long-term incentive plan, the Company provided a loan to two of its key managers to the amount of \$62,400. This loan, which carries a rate of 1% per year, is reimbursable at all times either in part or in full and will mature in December 31, 2012. If the borrower ceases to be an employee of the Company, the loan becomes due immediately.

### **Eventuality**

#### **Communication with Tanzania Revenue Authority:**

On May 10, 2011, the Company received a request from the Tanzania Revenue Authority ("TRA") to file certain documents in respect of the Tulawaka mine operation and the legal structure of the Company's share in the royalties from this mining property. This request included also preliminary calculations made by TRA presuming that the Company owes substantial amounts to the Tanzanian government related to corporate taxes on gold sales from the Tulawaka mining property and other various withholding taxes for the fiscal years 2004 to 2010. The

Company subsequently sent the requested information to TRA and discussions are presently in progress in order to clarify this situation. Pursuant to the Joint Venture Agreement between the Company, Pangea Goldfields Inc. and Pangea Minerals Limited (the “Operator”), the Operator cannot distribute the cash flow from the Tulawaka mine before first paying taxes to the TRA. The Company has obtained a confirmation from the Operator that since the beginning of the production at the Tulawaka Mine in 2004, the Operator has paid the taxes due to the TRA.

No provisions have been recorded in the Company’s financial statements as at March 31, 2011 as management is in the opinion that amounts included in this communication are not founded and that the Company does not owe any taxes to the TRA in respect of these mining operations. Any amounts that may become payable related to this contingency could have a negative impact on the Company.

### **Financial instruments and financial risk management:**

#### **Financial instruments**

##### **(a) Fair value:**

Certain of the Group's accounting policies and disclosures require the determination of fair value. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

Accounts receivable and trade accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

The fair value of the temporary investments, long-term investments and other long-term liability is based on quoted market price when applicable or obtained by discounting future cash flows or forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets. The following table summarizes the book value and fair value of those instruments:

	June 30 2011	June 30 2011	December 31 2010	December 31 2010
	Book value	Fair value	Book value	Fair value
Temporary investments	\$4, 637,450	\$4, 644,950	\$4, 406,886	\$4, 406,886
Long-term investments	-	-	1, 332,163	1, 332,163
Other long-term liability	192,272	192,272	226,375	226,375

The input level used by the Company to measure the fair value of its financial assets at fair value through profit or loss is Level 3.

The fair value of these instruments was determined using a Black-Scholes model as well as discounted future cash flows.

#### Financial risk management

##### (b) Foreign exchange risk:

The Company receives royalty revenues and incurs prospecting and evaluation costs as well as certain other fees in US dollars, and is consequently exposed to foreign exchange risk.

The balances denominated in foreign currency are as follows:

	June 30, 2011	December 31, 2010
	\$ US	\$ US
Cash	31,754	176,492
Accounts receivable	1,231,422	-
Trase accounts payable and accrued liabilities	680,982	337,827

As at June 30, 2011, if the exchange rate (CA\$/US\$) had increased or decreased by 5%, the total results would have been higher or lower by approximately \$29,000 (approximately \$8,000 as at December 31, 2010).

##### (c) Credit risk:

The Company invests its cash and cash equivalents and its investments in fully guaranteed high quality titles issued by Canadian financial institutions. Also, the Company invests a portion of its cash and cash equivalents in guaranteed investment certificates and in bonds of public companies in order to reduce its exposure to credit risk.

##### (d) Liquidity risk:

The Company manages its liquidity risk by using budgets allowing to determine the necessary funds required to meet its exploration plans. Moreover, the Company makes sure that the working capital is sufficient to meet its current obligations.

(d) Liquidity risk (continued):

As at June 30, 2011, the Company has accounts receivable of \$3,710,716 and trade accounts payable and accrued liabilities of \$2,015,679 coming to maturity within the next twelve months.

As at June 30, 2011, the Company was holding cash and cash equivalents and temporary investments totaling \$6,258,413. Given the Company's available liquidities as compared with the timing of the payments of liabilities, management assesses that the Company's liquidity risk is low.

(e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company holds the majority of its cash and cash equivalent balance in interest-bearing accounts which are therefore only exposed to future cash flow fluctuations coming from changes in market interest rates. Temporary investments and long-term investments consist of bonds and guaranteed investment certificates and are classified as loans and receivables. A fluctuation of 100 basis points on market interest rate would not have an impact on the financial results of the Company.

## **DIVIDEND POLICY**

The Company has neither declared nor paid any dividends on its common shares since incorporation. Any decision to pay dividends to the Company's common shareholders will be made by the Board of Directors based on its assessment of the Company's financial position, taking into account the financial requirements to ensure its future growth and other factors that the Board might deem pertinent under the circumstances.

## **International Financial Reporting Standards**

Effective January 1, 2011, International Financial Standards ("IFRS") became Canadian GAAP ("CDN GAAP") for publicly accountable enterprises. As a result, MDN Inc. interim financial statements for the first quarter of 2011 are reported in accordance with IFRS, with comparative information for 2010 restated.

The Company developed and executed a changeover plan in order to begin reporting in accordance with IFRS from January 1, 2011. The changeover plan included an assessment phase, a design phase, and an implementation phase, each of which set out activities to be performed over the life of the project, resulting in the Company's first interim reporting under IFRS for the first quarter of 2011. The implementation phase will continue to culminate in the preparation of our financial reporting under IFRS in 2011.

Throughout 2011, we will continue to execute the final phase of our changeover plan. Activities in this respect include continuing to execute business process and internal control changes, testing internal controls impacted by our IFRS changeover, monitoring accounting and regulatory developments and evaluating impacts on our financial reporting, and continuing to

fulfill presentation and reporting requirements.

### **Explanation of transition to IFRS:**

For this note, the term “Canadian GAAP” denotes Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

As stated in note 2, the condensed consolidated interim financial statements of the Group have been prepared in accordance with IFRS.

IFRS accounting policies have been applied after establishing the interim financial statements for the three-month period and six-month period ending June 30, 2011, with information comparing to the interim financial statements for the three-month and six-month periods ending June 30, 2010.

The notes below explain the impact that the transition from Canadian GAAP to IFRS has had on the Group’s financial situation, financial performance and cash flow.

### **Material adjustments to the statement of cash flows for 2010**

Interests received have been presented separately in the body of the Statement of Cash Flows, within operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

### **Notes to the reconciliations**

#### **(a) Acquisition of CMI:**

As explained in note 4, on February 16, 2010, the Company obtained the control of CMI. Under Canadian GAAP, CMI was not considered to be a business and this acquisition was not accounted for as a business combination, but rather as an acquisition of net assets. However, since the Company took control over CMI, this latter was considered a subsidiary whose assets and liabilities were consolidated. The accounting treatment is compliant with IFRS, except for the following two differences:

- Non-controlling interests were accounted for at the pro rata share of the net book value of CMI’s net assets while under IFRS they are accounted for at their fair value at the date on which the Company obtained control of CMI. This difference resulted in an increase in non-controlling interest of \$1,518,089, the counterpart being an increase in mining properties for the same amount.

- Deferred tax liabilities were recorded under Canadian GAAP as a result of this transaction, while under IFRS a deferred tax liability (asset) is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. Therefore, the deferred tax liabilities of \$1,866,601 recorded under Canadian GAAP were reversed under IFRS with a corresponding decrease in mining properties.

(b) Classification of other financial instruments:

Cash, cash equivalents, temporary investments and long-term investments do not meet the criteria for the fair value through profit and loss designation under IFRS, as they are not managed on a fair value basis but yield to maturity basis, and as they are not traded on an active market. Under Canadian GAAP, they met the classification of financial assets designated as held for trading.

As a result of the IFRS, cash, cash equivalents, temporary investments and long-term investments are classified as loans and receivables. With regard to cash and cash equivalents, this change in classification does not have a financial impact on the consolidated financial statements as the fair value of those instruments approximates cost; therefore, this is only a disclosure difference.

With regard to temporary investments and long-term investments, this change resulted in an immaterial impact. However, reclassification entries were recorded in the condensed consolidated interim statements of financial position and the condensed consolidated interim statements of comprehensive income.

Interests receivable under Canadian GAAP were presented in temporary investments in the amounts of \$31,474 as at June 30, 2010. Under IFRS, this amount was reclassified in accounts receivable.

The differences in fair value of items held for trading with ending balances of \$4,254 and \$29,518 for the three-month and six-month periods ending June 30, 2010, respectively, had been recorded in accordance with Canadian GAAP. In accordance with IFRS, these amounts have been reclassified against the net finance expense (income) in the condensed consolidated interim statement of comprehensive income.

(c) Change of functional currency of MDN Tanzania Ltd.:

The foreign currency adjustments related to an integrated foreign operation under Canadian GAAP. IFRS do not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities whose functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS

As at June 30, 2010, this change resulted in a currency translation account of \$85,116, recorded in accumulated other comprehensive income. Losses of \$451,190 and \$187,943 were recorded in other comprehensive income for the three-month period and six-month period ended June 30, 2010, respectively.

Also, losses (gains) on foreign exchange of \$9,652 and (\$2,656) for each three-month and six-month periods ending June 30, 2010, respectively, were recorded from finance expense to other comprehensive income. This only concerns adjustments that had an impact on the deficit.

The assets as at June 30, 2010 were adjusted as follows:

Mining properties	\$72,898
Exploration and evaluation assets	(152,442)
Équipement	(2916)
	\$(82,460)

(d) Reclassification in the statement of comprehensive income:

Interest received on bank accounts, bank charges, accretion of the other liability and foreign exchange losses were reclassified within the finance income and expense line items under IFRS, while they were presented under revenue, administrative expenses and other separate line items under Canadian GAAP.

#### **IFRS accounting policies**

Our significant accounting policies under IFRS are disclosed in our interim financial statements for the first quarter of 2011, and resulting accounting changes are highlighted in our reconciliations from previous CDN GAAP reporting. The exemptions from full retrospective application elected by the Company in accordance with IFRS 1 “First time adoption of International Financial Reporting Standards” are also disclosed in our interim financial statements for the first quarter of 2011.

#### **Information disclosure controls and procedure**

The president and the chief financial officer have designed or supervised the design of disclosure controls and procedures to provide reasonable assurance that the material information relating to the Company is made known to them, particularly during the period in which the interim and annual documents are prepared. Company management, including the President, the Chief Financial Officer, participated in an assessment of the effectiveness of information disclosure controls and procedures since March 31, 2010. Based on this assessment, the President and the Chief Financial Officer have concluded that such controls and procedures were not effective for the reasons enunciate on the following paragraph.

Companies of small capitalization such as MDN do not necessarily have all the technical knowhow related to financial information, in particular in the interpretation of new chapters of the CICA handbook and in the extreme technical complexity of certain transactions which require an in-depth knowledge of generally recognised accounting principles of Canada. Therefore, some transactions could be incorrectly reported resulting in a significant discrepancy in the financial statements of the Company.

To address this risk, the Company hires and takes advice from accounting specialists to help in the selection and interpretation of these uncommon transactions.

The management of the Company realized that this control was not efficient during the preparation of the unaudited financial statements of the first quarter of 2010, specifically in the selection and application of the new chapter 1582 of the CICA handbook in relation to the Company amalgamation related to the acquisition of Les Minéraux Creviers Inc. and in the interpretation of a contract signed with an ex- employee of the Company. The Company therefore had the obligation to amend and restate the financial statements of the first quarter of 2010.

Subsequent to the period ending March 31<sup>st</sup> 2010, management of the Company brought necessary improvements to control processes in order to allow efficient controls in the future.

## **Outlook**

In 2011, MDN will continue to operate in all its key activity sectors. Most of the Tulawaka mine production will come from the underground mine and the low-grade surface stockpile. A major underground exploration program is also underway to extend the mine life by renewing the reserves already mined.

MDN will remain active on its own exploration programs in Tanzania, focusing most of its efforts on the Ikungu property. In Canada, efforts will primarily be focused on the Crevier project feasibility study and drilling work currently being planned for the MCGold property.

The technical team will be pursuing business opportunities throughout the year, continuing to seek out advanced projects with potential for rapid development, as well as acquisitions with the potential to enhance the quality of our exploration property portfolio.

Serge Bureau

Chairman & CEO

Yves Therrien, CMA

Vice President, Finance

Montreal, Canada  
August 02<sup>nd</sup> 2011

## FINANCIAL SUMMARIES

The tables below provide a summary of the main financial information on the Company for the last three years and for the last eight quarters.

### FOR THE LAST THREE YEARS

	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<i>6 months</i>	<i>12 months</i>	<i>12 months</i>
Total revenue net of finance expenses	<b>\$1,253,967</b>	\$134,367	\$7,109,664
Net income (loss)	<b>(\$794,099)</b>	(\$3,441,896)	\$824,029
Net income (loss) per share	<b>(\$0.009)</b>	(\$0.035)	\$0.09
Addition on Exploration and evaluation assets	<b>\$3,145,650</b>	\$6,397,268	\$2,716,069
Accounts receivable	<b>\$4,076,456</b>	\$2,005,826	\$3,358,402
Total assets	<b>\$47,326,042</b>	\$47,272,467	\$45,245,826
<b>Shareholders' equity</b>			
Total	<b>\$41,907,784</b>	\$44,971,578	\$44,566,803

### FOR THE LAST EIGHT QUARTERS

	<b>2011</b>	
	<i>1<sup>st</sup> quarter</i>	<i>2<sup>nd</sup> quarter</i>
Total revenue net of finance expenses	\$18,155	\$1,272,122
Net income (loss)	(\$639,637)	(\$154,462)
Net income (loss) per share	(.006)	(0,002)

	<b>2010</b>			
	<i>1<sup>st</sup> quarter</i>	<i>2<sup>nd</sup> quarter</i>	<i>3<sup>rd</sup> quarter</i>	<i>4<sup>th</sup> quarter</i>
Total revenue	\$33,347	\$38,315	\$27,285	35,420
Net income (loss)	(1,149,072)	(729,878)	(\$500,610)	(\$1,062,336)
Net income (loss) per share	(\$0.12)	(\$0.08)	(\$0.005)	(\$0.020)

	<b>2009</b>	
	<i>3<sup>rd</sup> quarter</i>	<i>4<sup>th</sup> quarter</i>
Total revenue	\$2,790,286	(\$445,506)
Net income (loss)	\$737,649	(\$1,861,164)
Net income (loss) per share	\$0.008	(\$0.020)

Note : 2009 are expressed on Canadian GAAP

Condensed Consolidated Interim Financial Statements of  
(Unaudited)

## **MDN INC.**

Periods ended June 30, 2011 and 2010

# MDN INC.

Condensed Consolidated Interim Financial Statements  
(Unaudited)

Periods ended June 30, 2011 and 2010

## Financial Statements

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# MDN INC.

## Condensed Consolidated Interim Statements of Financial Position (Unaudited)

June 30, 2011 and December 31, 2010

	June 30, 2011	December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,620,963	\$ 4,974,737
Temporary investments (note 5)	4,637,450	4,406,886
Accounts receivable	3,710,716	1,659,822
Mining taxes receivable	365,740	346,004
Prepaid expenses	13,346	31,473
Total current assets	10,348,215	11,418,922
Non-current assets:		
Long-term investments (note 6)	–	1,332,163
Mining properties (note 7)	10,099,331	10,040,154
Exploration and evaluation assets (note 8)	23,904,594	21,646,987
Equipment	51,436	38,222
Intangible asset	132,695	179,020
Deferred tax assets	2,789,771	2,617,000
Total non-current assets	36,977,827	35,853,546
Total assets	\$ 47,326,042	\$ 47,272,468
<b>Liabilities and Equity</b>		
Current liabilities:		
Trade accounts payable and accrued liabilities	\$ 2,015,679	\$ 1,228,514
Total current liabilities	2,015,679	1,228,514
Non-current liabilities:		
Other long-term liability	192,272	226,375
Deferred tax liabilities	1,291,659	846,000
Total non-current liabilities	1,483,931	1,072,375
Equity:		
Share capital (note 9)	63,448,630	62,823,630
Contributed surplus	6,534,525	6,515,339
Accumulated other comprehensive income	(1,085,643)	(810,573)
Deficit	(26,989,728)	(25,934,155)
Total equity attributable to equity holders of the Company	41,907,784	42,594,241
Non-controlling interests	1,918,648	2,377,338
Total equity	43,826,432	44,971,579
Contingencies (note 16)		
Total liabilities and equity	\$ 47,326,042	\$ 47,272,468

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statements of Comprehensive Income (Unaudited)

Periods ended June 30, 2011 and 2010

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Revenue:				
Operating royalties from the Tulawaka mine	\$ 1,187,830	\$ –	\$ 1,187,830	\$ –
Administrative expenses (note 11)	1,069,460	1,069,781	1,876,869	2,546,876
Income (loss) before net finance expense and income taxes	118,370	(1,069,781)	(689,039)	(2,546,876)
Net finance income (note 12):				
Finance income	(118,190)	(155,969)	(116,206)	(71,662)
Finance expense	33,898	14,236	50,069	43,130
	(84,292)	(141,733)	(66,137)	(28,532)
Income (loss) before income taxes	202,662	(928,048)	(622,902)	(2,518,344)
Income tax (recovery):				
Current taxes (recoverable)	104,837	–	(6,527)	–
Deferred taxes	333,032	550,896	272,888	130,289
	437,869	550,896	266,361	130,289
Net loss	(235,207)	(1,478,944)	(889,263)	(2,648,633)
Other comprehensive income for the period:				
(Loss) gain on foreign currency translation differences of foreign operations	(38,676)	451,191	(275,070)	187,943
Net comprehensive loss for the period	\$ (273,883)	\$ (1,027,753)	\$ (1,164,333)	\$ (2,460,690)
Net loss attributable to:				
Owners of the Company	\$ (154,462)	\$ (1,466,661)	\$ (794,099)	\$ (2,615,733)
Non-controlling interests	(80,745)	(12,283)	(95,164)	(32,900)
Total comprehensive loss attributable to:				
Owners of the Company	\$ (193,138)	\$ (1,015,470)	\$ (1,069,169)	\$ (2,427,790)
Non-controlling interests	(80,745)	(12,283)	(95,164)	(32,900)
Basic and fully diluted net loss per share	\$ (0.003)	\$ (0.015)	\$ (0.009)	\$ (0.027)

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statement of Changes in Equity (Unaudited)

Periods ended June 30, 2011 and 2010

	Number of shares outstanding	Share capital	Number of warrants outstanding	Warrants	Contributed surplus	Accumulated other comprehensive income	Deficit	Total equity attributable to equity holders	Non-controlling interests	Total equity
Balance, January 1, 2010	93,775,913	\$ 60,505,590	300,000	\$ 74,219	\$ 6,569,228	\$ (273,059)	\$ (22,582,234)	\$ 44,293,744	\$ –	\$ 44,293,744
Shares issued	3,349,777	1,641,391	–	–	–	–	–	1,641,391	–	1,641,391
Share issuance costs	–	–	–	–	–	–	(4,955)	(4,955)	–	(4,955)
Share-based payments	–	–	–	–	379,746	–	–	379,746	–	379,746
Acquisition of a participation giving the control of CMI (note 4)	–	–	–	–	–	–	–	–	2,471,268	2,471,268
Foreign currency translation differences of foreign operations	–	–	–	–	–	187,943	–	187,943	–	187,943
Net loss	–	–	–	–	–	–	(2,615,733)	(2,615,733)	(32,900)	(2,648,633)
<b>Balance, June 30, 2010</b>	<b>97,125,690</b>	<b>\$ 62,146,981</b>	<b>300,000</b>	<b>\$ 74,219</b>	<b>\$ 6,948,974</b>	<b>\$ (85,116)</b>	<b>\$ (25,202,922)</b>	<b>\$ 43,882,136</b>	<b>\$ 2,438,368</b>	<b>\$ 46,320,504</b>
Balance, July 1, 2010	97,125,690	\$ 62,146,981	300,000	\$ 74,219	\$ 6,948,974	\$ (85,116)	\$ (25,202,922)	\$ 43,822,136	\$ 2,438,368	\$ 46,320,504
Share issuance costs	–	–	–	–	–	–	999	999	–	999
Share-based payments	1,318,334	676,649	–	–	(507,854)	–	–	168,795	–	168,795
Foreign currency translation differences of foreign operations	–	–	–	–	–	(725,457)	–	(725,457)	–	(725,457)
Warrants expired	–	–	(300,000)	(74,219)	74,219	–	–	–	–	–
Net loss	–	–	–	–	–	–	(732,232)	(732,232)	(61,030)	(793,262)
<b>Balance, December 31, 2010</b>	<b>98,444,024</b>	<b>\$ 62,823,630</b>	<b>–</b>	<b>\$ –</b>	<b>\$ 6,515,339</b>	<b>\$ (810,573)</b>	<b>\$ (25,934,155)</b>	<b>\$ 42,594,241</b>	<b>\$ 2,377,338</b>	<b>\$ 44,971,579</b>
Balance, January 1, 2010	98,444,024	\$ 62,823,630	–	\$ –	\$ 6,515,339	\$ (810,573)	\$ (25,934,155)	\$ 42,594,241	\$ 2,377,338	\$ 44,971,579
Acquisition of an additional participation in CMI (note 4)	1,531,863	625,000	–	–	–	–	(261,474)	363,526	(363,526)	–
Share-based payments	–	–	–	–	19,186	–	–	19,186	–	19,186
Foreign currency translation differences of foreign operations	–	–	–	–	–	(275,070)	–	(275,070)	–	(275,070)
Net loss	–	–	–	–	–	–	(794,099)	(794,099)	(95,164)	(889,263)
<b>Balance, June 30, 2011</b>	<b>99,975,887</b>	<b>\$ 63,448,630</b>	<b>–</b>	<b>\$ –</b>	<b>\$ 6,534,525</b>	<b>\$ (1,085,643)</b>	<b>\$ (26,989,728)</b>	<b>\$ 41,907,784</b>	<b>\$ 1,918,648</b>	<b>\$ 43,826,432</b>

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

## Condensed Consolidated Interim Statement of Cash Flows (Unaudited)

Periods ended June 30, 2011 and 2010

	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
<b>Cash flows from operating activities:</b>				
Net loss	\$ (235,207)	\$ (1,478,944)	\$ (889,263)	\$ (2,648,633)
Adjustments for:				
Share-based payments	6,603	230,126	19,186	379,746
Deferred taxes	333,032	550,896	272,888	130,289
Depreciation of equipment	1,467	1,434	2,932	2,804
Depreciation of intangible asset	46,325	–	46,325	–
Accretion expense related to other long-term liability	7,738	9,362	15,897	19,105
Interest income (note 12)	(60,365)	(38,315)	(106,135)	(71,662)
(Payment) severance benefit expense presented in other long-term liability	(25,000)	–	(50,000)	389,729
Change in non-cash working capital items (note 15)	(1,943,878)	(247,151)	(871,400)	2,524,064
Interest received	74,050	24,926	162,330	33,605
	(1,795,235)	(947,666)	(1,397,240)	759,047
<b>Cash flows from financing activities:</b>				
Share issuance costs	–	–	–	(4,955)
<b>Cash flows from investing activities:</b>				
Acquisition of a participation giving the control of CMI, net of cash acquired (note 4)	–	–	–	(1,127,500)
Investment in a company under significant influence (note 4)	–	–	–	(441,432)
Acquisition of investments	(150,000)	(1,002,772)	(662,320)	(1,519,427)
Disposal of investments	1,228,615	1,800,000	1,728,615	1,800,000
Acquisition of equipment	(16,373)	–	(16,673)	–
Additions to mining properties	(9,525)	(20,000)	(68,180)	(57,338)
Increase in exploration and evaluation assets	(218,180)	(610,729)	(2,933,548)	(1,468,408)
	834,537	166,499	(1,952,106)	(2,814,105)
Foreign exchange loss on cash and cash equivalents related to translation of foreign operations	(307)	1,341	(4,428)	(2,488)
<b>Net decrease in cash and cash equivalents</b>	<b>(961,005)</b>	<b>(779,826)</b>	<b>(3,353,774)</b>	<b>(2,062,501)</b>
Cash and cash equivalents, beginning of period	2,581,968	10,917,354	4,974,737	12,200,029
Cash and cash equivalents, end of period	\$ 1,620,963	\$ 10,137,528	\$ 1,620,963	\$ 10,137,528

The notes on pages 5 to 26 are an integral part of these unaudited condensed consolidated interim financial statements.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 1. Reporting entity:

MDN Inc. (the "Company") is a company domiciled in Canada, incorporated under Part 1A of the *Québec Companies Act*. The address of the Company's registered office is 1010 de la Gauchetière West, Montréal, Québec, Canada.

The condensed consolidated interim financial statements of the Company as at June 30, 2011 and for the periods ended June 30, 2011 and 2010 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The Group is primarily involved in the exploration of mineral resources. Under a joint venture agreement with African Barrick Gold, the Group also holds an interest of 30% in the excess cash flows generated by the operating activities of the Tulawaka gold mine which is presented as "operating royalties from the Tulawaka mine" in the condensed consolidated interim statements of comprehensive income.

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

Recovery of amounts indicated under mining properties and the related exploration and evaluation assets are subject to the discovery of economically recoverable reserves, the Group's ability to obtain the financing required to complete development and profitable future production or the proceeds from the sale of such assets. At June 30, 2011, management determined that the net carrying value of mining properties represented the best estimate of their net recoverable value. This value may nonetheless be reduced in the future.

## 2. Basis of preparation:

### Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, or "IFRS" applicable to the preparation of interim financial statements. Subject to certain transition elections disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 17 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies, from those used in the Company's consolidated financial statements for the three-month period and six-month period ending June 30, 2010.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## **2. Basis of preparation (continued):**

### **Statement of compliance (continued)**

The policies applied in these condensed consolidated interim financial statements are based on IFRS issued and outstanding as of August 2, 2011, the date on which the Board of Directors approved the condensed consolidated interim financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these condensed consolidated interim financial statements, including the transition adjustments recognized on transition to IFRS.

The condensed consolidated interim financial statements have been prepared following the same basis of preparation as those applied to the condensed consolidated interim financial statements for the period ended March 31, 2011.

The condensed consolidated interim financial statements should be read in conjunction with the Company's Canadian Generally Accepted Accounting Principles ("Canadian GAAP") annual financial statements for the year ended December 31, 2010. The notes disclose IFRS information for the year ended December 31, 2010, not provided in the 2010 annual financial statements.

## **3. Significant accounting policies:**

The condensed consolidated interim financial statements have been prepared following the same accounting policies used in the condensed consolidated interim financial statements for the period ended March 31, 2011.

The accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated.

The accounting policies have been applied consistently by Group entities.

## **4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation:**

In February 2009, the Company had the opportunity to evaluate the economic potential of CMI. After analysis, the Company concluded that a progressive acquisition of the project conducted by CMI could highly benefit its shareholders.

On January 29, 2010, in accordance with its exclusive option to acquire additional shares of CMI, the Company increased its participation from 28.75% to 38.75% for a consideration of \$950,000 in cash paid to CMI's shareholders and by completing investment in exploration costs in CMI for an amount totaling \$2,000,000.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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#### **4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):**

On February 16, 2010, the Company obtained control of CMI by acquiring an additional 28.75% of voting common shares for a cash consideration of \$582,750 and by the issuance of 3,349,777 shares of the Company valued at \$1,641,391. The Company's interest in CMI therefore increased from 38.75% to 67.5%.

The acquisition of the interest in CMI allowed the Company to acquire an advanced project with a national instrument 43-101 known resource and a possibility to be in production in a relatively short period of time.

The acquisition has been recorded as an asset acquisition since CMI does not meet the definition of a business according to IFRS 3, *Business Combinations*.

Net assets acquired were accounted for at their net book value in CMI's books, with the exception of mining properties, which includes the difference between the amount of consideration paid and the book value of net assets acquired, as well as the counterpart of the reevaluation of non-controlling interest at fair value.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

The major components of assets acquired and liabilities assumed are the following:

Assets acquired:	
Cash	\$ 141,318
Term deposits	215,000
Tax credit receivable	800,086
Sales tax recoverable	85,959
Accrued interest receivable	8,647
Long-term investments	200,000
Mining property <sup>(i)</sup>	7,472,676
Exploration and evaluation assets	1,277,883
Equipment	675
	<hr/>
	10,202,244
Liabilities assumed:	
Accounts payable and accrued liabilities	114,207
Deferred tax liability	136,900
	<hr/>
	251,107
	<hr/>
	9,951,137
Non-controlling interests	2,471,268
	<hr/>
Net assets acquired	\$ 7,479,869
<hr/>	
Consideration paid:	
Acquisition of a participation of 28.75% as of June 1, 2009, in cash	\$ 825,000
Acquisition of an additional participation of 10% on January 29, 2010, in cash	950,000
Investment in exploration costs completed up to January 29, 2010	2,000,000
Share of cumulative losses on investment from June 1, 2009 to February 16, 2010	(19,272)
Convertible debenture held in CMI	1,500,000
Acquisition of an additional participation of 28.75% on February 16, 2010:	
Cash	582,750
Issuance of 3,349,777 common shares <sup>(ii)</sup>	1,641,391
	<hr/>
	\$ 7,479,869

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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#### 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

The net cash flows related to this acquisition for the period are detailed as follows:

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Total consideration paid	\$ 7,479,869
Less:	
Acquisition on June 1, 2009	825,000
Acquisition on January 29, 2010	950,000
Convertible debenture acquired on June 1, 2009	1,500,000
Advances relating to exploration work	2,000,000
Share issuance	1,641,391
Acquired cash	141,318
Plus:	
Share of cumulated losses on investment up to February 16, 2010	19,272
Net cash consideration paid	<u>\$ 441,432</u>

The net cash flows related to the increase in the investment up to January 29, 2010 are detailed as follows:

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Acquisition of a participation of 28.75% as of June 1, 2009, in cash	\$ 825,000
Convertible debenture held in CMI	1,500,000
Advances relating to exploration work as at December 31, 2009	1,822,500
Investment in a company under significant influence as at December 31, 2009	4,147,500
Acquisition of an additional participation of 10% on January 29, 2010, in cash	950,000
Advances relating to exploration work (\$2,000,000), less advances already made as at December 31, 2009	177,500
Investment in a company under significant influence from January 1, 2010 to January 29, 2010	1,127,500
	<u>\$ 5,275,000</u>

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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#### 4. Acquisition of a participation giving the control of CMI and subsequent increase in the participation (continued):

- (i) The mining property value was increased by \$6,871,333.
- (ii) The fair value of common shares issued in consideration was \$0.49 based on the Company's quoted market price as at February 16, 2010.

Following the transaction giving the control to the Company, the options allowing the Company to increase its participation have been modified.

On April 1, 2011, the Company exercised the option to increase its participation in CMI by 5% by investing an additional \$2,000,000 in exploration work by February 2011 and by granting 1,531,863 shares, corresponding to \$625,000, to the non-controlling shareholder. The Company's participation in CMI therefore increased from 67.5% to 72.5%.

The Company also has the option to obtain an additional participation of 15% in CMI by completing an investment in an additional \$2,000,000 of exploration costs by June 2012 and paying \$750,000, in cash or in shares at the Company's option, to the non-controlling shareholder.

#### 5. Temporary investments:

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	June 30, 2011	December 31, 2010
Guaranteed investment certificates, rate of 1.00%, maturing in April 2012 (rate of 0.25% as at December 31, 2010)	\$ 1,000,000	\$ 1,000,000
Current portion of long-term investments (note 6)	3,637,450	3,406,886
	<hr/> \$ 4,637,450	<hr/> \$ 4,406,886

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# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 6. Long-term investments:

	June 30, 2011	December 31, 2010
Guaranteed investment certificates, rates varying from 1.25% to 4.00%, maturing in September 2011 and December 2013, redeemable at the option of the Company once a month without penalty	\$ 1,026,150	\$ 1,026,150
Bonds, rates varying from 3.03% to 4.53%, maturing from October 2011 to June 2012 (rates varying from 3.03% to 4.80% in December 2010)	2,611,300	3,712,899
	3,637,450	4,739,049
Current portion of long-term investments	(3,637,450)	(3,406,886)
	\$ -	\$ 1,332,163

## 7. Mining properties:

Mining properties can be detailed as follows:

Properties	Interest at end	December 31, 2010	Additions	Effect of foreign exchange	June 30, 2011
Tanzania:					
Kunga (Viyonza)	65.9% - 100%	\$ 976,035	\$ -	\$ -	\$ 976,035
Simba (Isambara)	100	655,645	-	(1,801)	653,844
Baraka (PL-1561-1562)	90	237,690	-	(3,602)	234,088
Baraka (PL-2479)	100	169,101	-	(3,600)	165,501
Ikungu	60	144,185	43,632	-	187,817
Nikonga	100	10,290	15,023	-	25,313
Québec:					
Lac Shortt	50	170,461	-	-	170,461
Lespérance	50	78,000	-	-	78,000
Le Tac	50	43,052	-	-	43,052
Isle Dieu	100	24,180	-	-	24,180
Crevier	72.5	7,481,515	-	-	7,481,515
MC Gold	-	50,000	-	-	50,000
Samaqua	100	-	9,525	-	9,525
		\$ 10,040,154	\$ 68,180	\$ (9,003)	\$ 10,099,331

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 8. Exploration and evaluation assets:

Exploration and evaluation assets by properties can be detailed as follows:

	December 31, 2010	Tax credits related to resources	Exploration and evaluation costs	Effect of foreign exchange	June 30, 2011
Properties:					
Tanzania:					
Tulawaka	\$ 290,040	\$ -	\$ 13,216	\$ (5,190)	\$ 298,066
Simba (Isambara)	4,277,010	-	3,277	(75,636)	4,204,651
Baraka					
(PL-1561-1562)	278,968	-	582	(4,934)	274,616
Baraka (PL-2479)	267,084	-	-	(4,721)	262,363
Kunga (Viyonza)	4,997,323	-	12,393	(88,398)	4,921,318
Msasa	921,575	-	22,919	(16,401)	928,093
Ikungu	3,121,819	-	1,052,577	(60,289)	4,114,107
Nikonga	2,655	-	19,879	(299)	22,235
Québec:					
Lac Shortt	1,371,023	-	-	-	1,371,023
Lespérance	485,188	-	-	-	485,188
Le Tac	885,981	(1,028)	2,937	-	887,890
Des Meloïses	898,991	10	(29)	-	898,972
Isle Dieu	556,307	(398)	1,139	-	557,048
Crevier	3,084,955	(623,196)	1,995,150	-	4,456,909
MC Gold	208,068	(7,563)	21,610	-	222,115
	\$ 21,646,987	\$ (632,175)	\$ 3,145,650	\$ (255,868)	\$ 23,904,594

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 9. Share capital and warrants:

Authorized:

The Company is authorized to issue an unlimited number of common shares, with no par value.

## 10. Share-based payments:

(a) Share option plan:

Under the share option plan, the Company may grant up to a maximum of 8,000,000 share options to employees, directors and officers to acquire share capital.

The Board of Directors sets the conditions for acquiring the share options according to quantity and exercise prices which they established in accordance with in-force regulations, for a contractual period not to exceed ten years.

Prior to 2010, options were vesting immediately. Since 2010, options are vesting immediately or over a maximum period of 5 years.

The table below presents a summary of the share option plan:

	June 30, 2011		December 31, 2010	
	Number of outstanding options	Weighted average exercise price	Number of outstanding options	Weighted average exercise price
Balance, beginning of period	4,799,438	\$ 0.67	3,884,438	\$ 0.75
Granted	-	-	1,425,000	0.50
Cancelled	(1,670,000)	0.84	(510,000)	0.80
Expired	(509,438)	0.80	-	-
Balance, end of period	2,620,000	\$ 0.55	4,799,438	\$ 0.67
Exercisable options, end of period	2,275,000	\$ 0.56	4,264,438	\$ 0.67

No options were exercised in 2011 (2010 - none).

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 10. Share-based payments (continued):

### (a) Share option plan (continued):

The table below presents supplemental information about the share option plan:

Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life (years)	Weighted average exercise price
\$0.45 - \$0.51	2,160,000	3.97	\$ 0.49
\$0.73 - \$0.79	150,000	2.79	0.73
\$0.80 - \$0.84	100,000	1.54	0.84
\$0.90 - \$0.91	90,000	0.82	0.90
Undetermined <sup>(i)</sup>	120,000	11.55	Undetermined
	2,620,000	4.04	\$ 0.52

<sup>(i)</sup> 200,000 options have been granted and are vesting linearly once a year over a five-year period. The exercise price is then determined when options are vesting.

### (b) Long-term incentive plan ("LTIP"):

On June 1, 2007, the Company had established a LTIP for several directors, members of management and consultants of the Company for a period of three years. According to this incentive plan, they granted shares of the Company if certain performance conditions were met. A total of 1,318,334 shares had been granted and acquired as at June 30, 2010, which represents the final total shares that will be granted according to this incentive plan.

The fair value of the shares granted during 2010 was established at the grant date according to the value of the Company's shares on that date. The average fair value of the shares granted under the incentive plan was \$0.51 per share.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 11. Administrative expenses:

	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
Professional fees	\$ 202,768	\$ 314,555	\$ 381,988	\$ 726,497
Salaries	449,798	215,874	705,989	775,231
Share-based payments	6,603	230,126	19,186	379,746
Transfer fees	34,963	10,243	55,884	30,751
Travelling expenses	28,905	68,380	89,840	141,839
Rent	36,220	33,806	65,873	58,275
Office expenses	28,332	7,211	59,876	26,032
Promotion expenses	16,410	24,825	29,107	58,819
Reports to shareholders	3,143	7,310	12,149	14,076
Insurance, taxes and permits	13,596	7,908	24,126	32,272
Membership and training	3,368	-	25,156	-
Telecommunications	2,742	4,532	5,920	7,745
Management fees	180,570	131,179	338,214	242,116
Project development	14,250	12,398	14,304	50,673
Depreciation of equipment	1,467	1,434	2,932	2,804
Depreciation of intangible assets	46,325	-	46,325	-
	\$ 1,069,460	\$ 1,069,781	\$ 1,876,869	\$ 2,546,876

## 12. Net finance income:

	Three months ended		Six months ended	
	June 30		June 30	
	2011	2010	2011	2010
Gain on sale of investments	\$ (10,071)	\$ -	\$ (10,071)	\$ -
Interest income on cash and cash equivalents and temporary and long-term investments	(60,365)	(38,315)	(106,135)	(71,662)
Net foreign exchange gain	(47,754)	(117,654)	-	-
Finance income	(118,190)	(155,969)	(116,206)	(71,662)
Interest and bank charges	26,160	4,874	30,962	10,111
Accretion expense on other long-term liability	7,738	9,362	15,897	19,105
Net foreign exchange loss	-	-	3,210	13,914
Finance expense	33,989	14,236	50,069	43,130
Net finance income	\$ (84,292)	\$ (141,733)	\$ (66,137)	\$ (28,532)

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 13. Financial instruments and financial risk management:

### Financial instruments

#### (a) Fair value:

Certain of the Group's accounting policies and disclosures require the determination of fair value for financial assets and financial liabilities as well as non-financial assets and non-financial liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

In establishing fair value, the Company uses a fair value hierarchy based on levels as defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data and, therefore, requiring entities to develop their own assumptions.

Cash and cash equivalents, accounts receivable and trade accounts payable and accrued liabilities are financial instruments whose fair value approximates their carrying value due to their short-term maturity.

The fair value of the temporary investments, long-term investments and other long-term liability is based on quoted market price when applicable or obtained by discounting future cash flows or forward interest rates derived from interest rates at the close of business on the balance sheet date for similar instruments available on capital markets. The following table summarizes the book value and fair value of those instruments:

	June 30, 2011		December 31, 2010	
	Book value	Fair value	Book value	Fair value
Temporary investments	\$ 4,637,450	\$ 4,644,950	\$ 4,406,886	\$ 4,406,886
Long-term investment	-	-	1,332,163	1,332,163
Other long-term liability	192,272	192,272	226,375	226,375

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 13. Financial instruments and financial risk management (continued):

### Financial risk management

#### (b) Foreign exchange risk:

The Company receives royalty revenues and incurs prospecting and evaluation costs as well as certain other fees in US dollars, and is consequently exposed to foreign exchange risk.

The balances denominated in foreign currency are as follows:

	June 30, 2011	December 31, 2010
	US\$	US\$
Cash	31,754	176,492
Accounts receivable	1,231,422	–
Trade accounts payable and accrued liabilities	680,982	337,827

As at June 30, 2011, if the exchange rate (CA\$/US\$) had increased or decreased by 5%, the total results would have been higher or lower by approximately \$29,000 (approximately \$8,000 as at December 31, 2010).

#### (c) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and it arises primarily from the Company's accounts receivable.

The Company also has credit risk relating to cash, cash equivalents and temporary investments. The Company manages its risk by generally dealing with major North-American institutions and investing only in instruments having an excellent credit rating.

The carrying amounts of financial assets, as disclosed in the "financial instruments - fair value" represent the Company's maximum credit exposure.

#### (d) Liquidity risk:

The Company manages its liquidity risk by using budgets allowing to determine the necessary funds required to meet its exploration plans. Moreover, the Company makes sure that the working capital is sufficient to meet its current obligations.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 13. Financial instruments and financial risk management (continued):

### Financial risk management (continued):

#### (d) Liquidity risk (continued):

As at June 30, 2011, the Company has accounts receivable of \$3,710,716 and trade accounts payable and accrued liabilities of \$2,015,679 coming to maturity within the next twelve months.

As at June 30, 2011, the Company was holding cash and cash equivalents and temporary investments totaling \$6,258,413. Given the Company's available liquidities as compared with the timing of the payments of liabilities, management assesses that the Company's liquidity risk is low.

#### (e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company holds the majority of its cash and cash equivalent balance in interest-bearing accounts which are therefore only exposed to future cash flow fluctuations coming from changes in market interest rates. Temporary investments and long-term investments consist of bonds and guaranteed investment certificates and are classified as loans and receivables. A fluctuation of 100 basis points on market interest rate would not have an impact on the financial results of the Company.

## 14. Related parties:

The Company has no ultimate parent.

### Transactions with key management personnel

#### Loans to key management personnel

In 2010, the Company provided a loan to two of its key managers in the amount of \$62,400, which is included in accounts receivable as at June 30, 2011 and December 31, 2010. This loan, bearing interest at 1% per year, is reimbursable at all times either in part or in full and will mature on December 31, 2012. If the borrower ceases to be an employee of the Company, the loan will become due immediately.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 14. Related parties (continued):

### Transactions with key management personnel (continued):

Key management personnel compensation

Key management personnel compensation comprises:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Short-term employee benefits	\$ 210,532	\$ 181,725	\$ 385,767	\$ 372,295
Share-based payments	6,603	115,294	19,186	190,020

### Other related party transactions

In relation with the acquisition of CMI, the Company paid \$459,000 during the first quarter of 2010 and issued 1,488,790 shares to a shareholder of CMI who became the president and director of the Company, and to a shareholder of CMI who was already a director of the Company, in consideration for the 600,000 shares they held in CMI (representing 15% of the outstanding shares of CMI). Furthermore, during 2010, the Company paid professional fees of \$18,000 to a director.

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

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 15. Statement of cash flows:

	Three months ended		Six months ended	
	2011	June 30 2010	2011	June 30 2010
Changes in non-cash working capital items:				
Accounts receivable and mining taxes receivable	\$ (1,260,746)	\$ (419,571)	\$ (1,469,475)	\$ 2,713,432
Prepaid expenses	5,748	3,031	18,127	17,441
Trade accounts payable and accrued liabilities	(654,516)	161,078	575,063	(206,641)
Foreign currency translation of foreign operations	(34,364)	8,311	4,885	(168)
	<u>\$ (1,943,878)</u>	<u>\$ (247,151)</u>	<u>\$ (871,400)</u>	<u>\$ 2,524,064</u>
Operations without impact on cash related to:				
Operating activities:				
Change in accounts payable and accrued liabilities related to exploration and evaluation assets	\$ (781,478)	\$ (11,829)	\$ (212,102)	\$ (11,829)
Investing activities:				
Change in exploration and evaluation assets for which tax credits related to resources are included in accounts receivable	40,893	116,650	632,155	160,272

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 16. Contingencies:

### *Communication with Tanzania Revenue Authority:*

On May 10, 2011, the Company received a request from the Tanzania Revenue Authority (“TRA”) to file certain documents in respect of the Tulawaka mine operation and the legal structure of the Company’s share in the royalties from this mining property. This request included also preliminary calculations made by TRA presuming that the Company owes substantial amounts to the Tanzanian government related to corporate taxes on gold sales from the Tulawaka mining property and other various withholding taxes for the fiscal years 2004 to 2010. The Company subsequently sent the requested information to TRA and discussions are presently in progress in order to clarify this situation. Pursuant to the Joint Venture Agreement between the Company, Pangea Goldfields Inc. and Pangea Minerals Limited (the “Operator”), the Operator cannot distribute the cash flow from the Tulawaka mine before first paying taxes to the TRA. The Company has obtained a confirmation from the Operator that since the beginning of the production at the Tulawaka Mine in 2004, the Operator has paid the taxes due to the TRA.

No provisions have been recorded in the Company’s financial statements as at June 30, 2011 as management is in the opinion that amounts included in this communication are not founded and that the Company does not owe any taxes to the TRA in respect of these mining operations. Any amounts that may become payable related to this contingency could have a negative impact on the Company.

## 17. Explanation of transition to IFRS:

For this note, the term “Canadian GAAP” denotes Canadian Generally Accepted Accounting Principles before the adoption of IFRS.

As stated in note 2, the condensed consolidated interim financial statements of the Group have been prepared in accordance with IFRS.

IFRS accounting policies have been applied after establishing the interim financial statements for the three-month period and six-month period ending June 30, 2011, with information comparing to the interim financial statements for the three-month and six-month periods ending June 30, 2010.

The tables and notes below explain the impact that the transition from Canadian GAAP to IFRS has had on the Group’s financial situation, financial performance and cash flow.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

## 17. Explanation of transition to IFRS (continued):

Reconciliation of equity:

		June 30, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>Assets</b>				
Current assets:				
Cash and cash equivalents		\$ 10,137,528	\$ –	\$ 10,137,528
Temporary investments	(b)	4,583,320	(31,474)	4,551,846
Accounts receivable	(b)	1,292,920	31,474	1,324,394
Mining taxes receivable		376,144	–	376,144
Prepaid expenses		14,582	–	14,582
<b>Total current assets</b>		<b>16,404,494</b>	<b>–</b>	<b>16,404,494</b>
Non-current assets:				
Long-term investments		715,306	–	715,306
Mining properties	(a), (c)	10,179,932	(275,614)	9,904,318
Exploration and evaluation assets	(c)	18,986,536	(152,442)	18,834,094
Equipment	(c)	43,570	(2,916)	40,654
Intangible asset		179,020	–	179,020
Deferred tax assets		1,802,311	–	1,802,311
<b>Total non-current assets</b>		<b>31,906,675</b>	<b>(430,972)</b>	<b>31,475,703</b>
<b>Total assets</b>		<b>\$ 48,311,169</b>	<b>\$ (430,972)</b>	<b>\$ 47,880,197</b>
<b>Liabilities and Equity</b>				
Current liabilities:				
Trade accounts payable and accrued liabilities		\$ 736,589	\$ –	\$ 736,589
<b>Total current liabilities</b>		<b>736,589</b>	<b>–</b>	<b>736,589</b>
Non-current liabilities:				
Other long-term liabilities		258,834	–	258,834
Deferred tax liabilities	(a)	2,430,871	(1,866,601)	564,270
<b>Total non-current liabilities</b>		<b>2,689,705</b>	<b>(1,866,601)</b>	<b>823,104</b>
Equity:				
Share capital		62,146,981	–	62,146,981
Warrants		74,219	–	74,219
Contributed surplus		6,948,974	–	6,948,974
Accumulated other comprehensive income	(c)	–	(85,116)	(85,116)
Deficit	(c)	(25,205,578)	2,656	(25,202,922)
<b>Total equity attributable to the equity holders of the Company</b>		<b>43,964,596</b>	<b>(82,460)</b>	<b>43,882,136</b>
Non-controlling interests	(a)	920,279	1,518,089	2,438,368
<b>Total equity</b>		<b>44,884,875</b>	<b>1,435,629</b>	<b>46,320,504</b>
<b>Total liabilities and equity</b>		<b>\$ 48,311,169</b>	<b>\$ (430,972)</b>	<b>\$ 47,880,197</b>

# MDN INC.

## Notes to Condensed Consolidated Interim Financial Statements, Continued (Unaudited)

Periods ended June 30, 2011 and 2010

### 17. Explanation of transition to IFRS (continued):

Reconciliation of comprehensive income for the three-month period and six-month period ended June 30, 2010:

	Note	Three months ended June 30, 2010			Six months ended June 30, 2010		
		Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Revenue:							
Operating royalties from the Tulawaka mine		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Administrative expenses	(d)	1,084,017	(14,236)	1,069,781	2,576,092	(29,216)	2,546,876
(Loss) income before net finance income and income taxes		(1,084,017)	14,236	(1,069,781)	(2,576,092)	29,216	(2,546,876)
Net finance income:							
Finance income	(c)	(169,875)	13,906	(155,969)	(101,180)	29,518	(71,662)
Finance expense	(c), (d)	4,254	9,982	14,236	46,088	(2,958)	43,130
		(165,621)	23,888	(141,733)	(55,092)	26,560	(28,532)
(Loss) income before income taxes		(918,396)	(9,652)	(928,048)	(2,521,000)	2,656	(2,518,344)
Income taxes recovery:							
Current taxes		-	-	-	-	-	-
Deferred taxes		550,896	-	550,896	130,289	-	130,289
Net loss		(1,469,292)	(9,652)	(1,478,944)	(2,651,289)	2,656	(2,648,633)
Other comprehensive income for the period:							
Gain on foreign currency translation differences of foreign operations	(c)	-	451,191	451,191	-	187,943	187,943
Net comprehensive (loss) income for the period		\$ (1,469,292)	\$ 441,539	\$ (1,027,753)	\$ (2,651,289)	\$ 190,599	\$ (2,460,690)
Net (loss) income attributable to:							
Owners of the Company		\$ (1,457,009)	\$ (9,652)	\$ (1,466,661)	\$ (2,618,389)	\$ 2,656	\$ (2,615,733)
Non-controlling interests		(12,283)	-	(12,283)	(32,900)	-	(32,900)
Total comprehensive (loss) income attributable to:							
Owners of the Company		\$ (1,457,009)	\$ 441,539	\$ (1,015,470)	\$ (2,618,389)	\$ 190,599	\$ (2,427,790)
Non-controlling interests		(12,283)	-	(12,283)	(32,900)	-	(32,900)
Basic and fully diluted net loss per share							
		\$ (0.015)	\$ (0.000)	\$ (0.015)	\$ (0.027)	\$ (0.000)	\$ (0.027)

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 17. Explanation of transition to IFRS (continued):

### Material adjustments to the statement of cash flows for 2010

Interests received have been presented separately in the body of the *Statement of Cash Flows*, within operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

### Notes to the reconciliations

#### (a) Acquisition of CMI:

As explained in note 4, on February 16, 2010, the Company obtained the control of CMI. Under Canadian GAAP, CMI was not considered to be a business and this acquisition was not accounted for as a business combination, but rather as an acquisition of net assets. However, since the Company took control over CMI, this latter was considered a subsidiary whose assets and liabilities were consolidated. The accounting treatment is compliant with IFRS, except for the following two differences:

- Non-controlling interests were accounted for at the pro rata share of the net book value of CMI's net assets while under IFRS they are accounted for at their fair value at the date on which the Company obtained control of CMI. This difference resulted in an increase in non-controlling interest of \$1,518,089, the counterpart being an increase in mining properties for the same amount.
- Deferred tax liabilities were recorded under Canadian GAAP as a result of this transaction, while under IFRS a deferred tax liability (asset) is not recognized if it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit. Therefore, the deferred tax liabilities of \$1,866,601 recorded under Canadian GAAP were reversed under IFRS with a corresponding decrease in mining properties.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 17. Explanation of transition to IFRS (continued):

### Notes to the reconciliations (continued):

#### (b) Classification of other financial instruments:

Cash, cash equivalents, temporary investments and long-term investments do not meet the criteria for the fair value through profit and loss designation under IFRS, as they are not managed on a fair value basis but yield to maturity basis, and as they are not traded on an active market. Under Canadian GAAP, they met the classification of financial assets designated as held for trading.

As a result of the IFRS, cash, cash equivalents, temporary investments and long-term investments are classified as loans and receivables. With regard to cash and cash equivalents, this change in classification does not have a financial impact on the consolidated financial statements as the fair value of those instruments approximates cost; therefore, this is only a disclosure difference.

With regard to temporary investments and long-term investments, this change resulted in an immaterial impact. However, reclassification entries were recorded in the condensed consolidated interim statements of financial position and the condensed consolidated interim statements of comprehensive income.

Interests receivable under Canadian GAAP were presented in temporary investments in the amounts of \$31,474 as at June 30, 2010. Under IFRS, this amount was reclassified in accounts receivable.

The differences in fair value of items held for trading with ending balances of \$4,254 and \$29,518 for the three-month and six-month periods ending June 30, 2010, respectively, had been recorded in accordance with Canadian GAAP. In accordance with IFRS, these amounts have been reclassified against the net finance expense (income) in the condensed consolidated interim statement of comprehensive income.

#### (c) Change of functional currency of MDN Tanzania Ltd.:

The foreign currency adjustments related to an integrated foreign operation under Canadian GAAP. IFRS do not distinguish between integrated and self-sustaining foreign operations and the current rate method is required to be applied to all entities whose functional currency is different from the presentation currency, resulting in an adjustment on transition to IFRS.

# MDN INC.

Notes to Condensed Consolidated Interim Financial Statements, Continued  
(Unaudited)

Periods ended June 30, 2011 and 2010

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## 17. Explanation of transition to IFRS (continued):

### Notes to the reconciliations (continued):

#### (c) Change of functional currency of MDN Tanzania Ltd. (continued):

As at June 30, 2010, this change resulted in a currency translation account of \$85,116, recorded in accumulated other comprehensive income. Losses of \$451,190 and \$187,943 were recorded in other comprehensive income for the three-month period and six-month period ended June 30, 2010, respectively.

Also, losses (gains) on foreign exchange of \$9,652 and (\$2,656) for the three-month period and six-month period ending June 30, 2010, respectively, were recorded from net finance expense (income) to other comprehensive income. These are the only adjustments that have an impact on the deficit as at June 30, 2010.

The assets as at June 30, 2010 were adjusted as follows:

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	June 30, 2010
Mining properties	\$ 72,898
Exploration and evaluation assets	(152,442)
Equipment	(2,916)
	<hr/>
	\$ (82,460)

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#### (d) Reclassification in the statement of comprehensive income:

Interest received on bank accounts, bank charges, accretion of the other liability and foreign exchange losses were reclassified within the finance income and expense line items under IFRS, while they were presented under revenue, administrative expenses and other separate line items under Canadian GAAP.