



WINDARRA  
M I N E R A L S

Quarterly Report  
For the Three Months Ended December 31, 2010

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE PERIOD ENDED DECEMBER 31, 2011**

February 23, 2011

*This Management Discussion and Analysis (MD&A) is provided for the purpose of reviewing the first quarter of fiscal 2011 and comparing results to the previous period. The MD&A should be read in conjunction with the Company's unaudited financial statements and corresponding notes for the periods ending December 31, 2010 and 2009. The financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and all monetary amounts are expressed in Canadian dollars.*

**COMPANY OVERVIEW AND OVERALL PERFORMANCE**

**Financial**

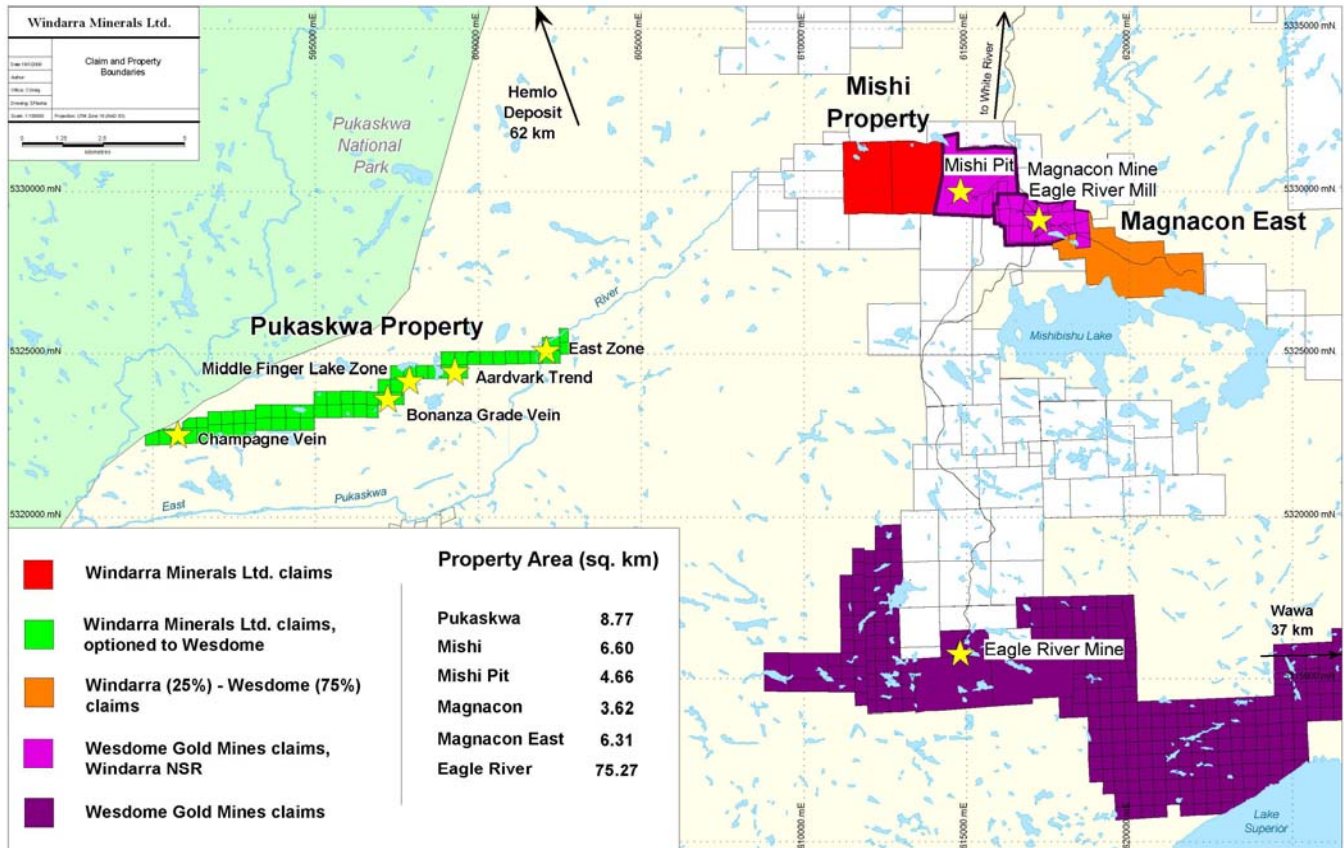
The Company closed a brokered private placement during the period for total gross proceeds of \$908,900, through the issuance of 3,044,500 flow-through shares at a price of \$0.20 and 2 million non-flow-through shares at a price of \$0.15.

Flow-through funds raised are being used for continued exploration on the Company's Mishi gold prospect properties.

The Company's loss before other items for the period ended December 31, 2010 was \$236,116 (2009 – \$45,187). This increase is due to an increase in property investigation costs and stock-based compensation over the first quarter of fiscal 2010.

## RESULTS OF OPERATIONS

During the period ended December 31, 2010, the Company incurred \$243,734 (year ended September 30, 2010 – 32,611) in expenditures on its Mishi property.



### Pukaskwa Claims, Ontario

The Pukaskwa property is located 50 kilometres west of Wawa, Ontario, less than 20 km northwest of Wesdome Gold Mines Ltd.'s ("Wesdome") Eagle River Mine, which has produced over 700,000 ounces of gold since 1995. The property also lies less than 20 km west-southwest of two highly prospective properties in which Windarra holds an interest. These are the Mishi leases (100% owned, see below) and the Magnacon East joint venture property (25% Windarra, 75% Wesdome), which lie on either side of Wesdome's Mishi-Magnacon complex. The Pukaskwa property consists of 55 contiguous unpatented mining claims which follow the east-northeast to west-southwest trending Mishibishu deformation zone for more than 12 kilometres. The deformation zone hosts many vein gold occurrences and showings, including the Mishi and Magnacon deposits, and it transects much of the length of the Mishibishu greenstone belt, an east-west trending belt of greenschist to amphibolite grade Archean volcanic and associated sedimentary rocks that are considered to be the western equivalent of the prolific Abitibi greenstone belt, west of the Kapuskasing structural zone.

Gold was identified within quartz veins that are hosted by Archean age rocks at the Pukaskwa property during exploration in the wake of the discovery of the Hemlo gold deposits in the early 1980's. The mines at Hemlo have produced over 20 million ounces of gold from a single deposit since discovery, and Hemlo is located only 80 kilometers north of the Pukaskwa property. Following significant exploration efforts in the 1980's and 1990's, when a host of gold occurrences were discovered, including the Champagne Vein and West Aardvark, little work was undertaken on the Pukaskwa property. In the fall of 2004, however, a new gold occurrence 0.5 kilometre southwest of the West Aardvark occurrence and 5 kilometres east of the Champagne vein was discovered. The new discovery, now known as the Bonanza-Grade zone, yielded values far in excess of previous discoveries on the property, and the new discovery renewed interest in the property.

Subsequent to the discovery of the Bonanza-Grade zone, Windarra's work, including a small drill program in 2007, led to a decision by Wesdome to option the Pukaskwa property in 2009. Wesdome undertook a 26 hole, 4100 meter drill program on the property in the winter of 2009/2010. The purpose of the drilling was to examine the size potential and continuity of the Middle Finger Lake Zone (MFLZ) and the Bonanza Showing. A total of 20 holes on 3 sections spaced 50m apart traced the MFLZ down-dip and down-plunge at 25m intervals to a depth of 250m. Although mineralization typical of the zone nearer to surface was intersected, the grades and widths proved sub-economic. Drilling results did not demonstrate reasonable continuity of the strong grades and widths identified by previous shallow drilling above depths of 50m. In addition, a total of 6 holes tested the Bonanza Showing down-dip and down-plunge of the high grade surface showing. The holes followed the projection of zone at 25m centres to a depth of 175m. The narrow quartz vein carrying coarse free gold at surface was not encountered in the drill holes. This year, Wesdome has been compiling historic work on the Champagne Vein, but has not announced any further exploration plans at this time, and no final decision on the Pukaskwa option has yet been taken. Wesdome can earn a 60% interest in the property by incurring mineral exploration expenditures of \$3.0 million prior to June 30, 2014.

### **Mishi Leases and Mishi Open Pit**

The Company owns a 100% interest in the two mining leases known as the Mishi Leases, as well as a royalty in respect to ore mined and milled from a third crown mining lease. Like the Pukaskwa property, the leases are located in the Sault Ste. Marie Mining Division, and in this case they are contiguous to the west with the lease on which Wesdome Gold Mines' Mishi Open Pit is located. The royalty interest provides for payment to the Company of \$1.00 per tonne for milled ore extracted from open pit mining and \$2.00 per tonne for milled ore mined from underground in excess of a cumulative total of 700,000 tonnes milled.

The Mishi deposit, which lies less than one km east of the boundary with the Mishi Leases, and only two kilometres west of Wesdome's Eagle River/Magnacon mill, has produced over 15,000 ounces of gold from over 135,000 tonnes of milled open pit ore at a recovered grade of 3.57 g/t Au. Because Wesdome's Mishi deposit lies only a short distance east of Windarra's Mishi Leases, and because the geology and mineralization bear strong similarities to that of the Mishi deposit, the "deposit model" employed by Windarra in exploring the leases is quite naturally based on the characteristics of Wesdome's Mishi deposit.

Wesdome recently announced a significant upgrade in the estimated resources for the Mishi deposit. This NI43-101 compliant estimate details Measured and Indicated Resources which total 5.7 million tonnes at 2.4 g/t Au, for a total of 438,000 ounces that are contained in eight easterly-plunging ore lenses (at a 1.0 g/t Au cut-off). Ninety percent of the resources are shallow and therefore open-pittable, with planned open pits reaching depths of 110 metres. Additional Inferred Resources total 1.2 million tonnes at 3.6 g/t Au for another 140,000 contained ounces, and according to Wesdome there is good potential to delineate further resources with additional drilling, as the deposit remains open both to depth and along strike.

Like the Mishi deposit, the Mishi Leases lie astride a flexure in the regional "Mishibishu deformation zone," which parallels a contact between mafic volcanic and sedimentary rocks. At the Mishi deposit, mineralization occurs mainly as disseminated pyrite in sericitic alteration zones, sometimes accompanied by smokey quartz veinlets. Mineralization of a similar style on the Mishi Leases has yielded significant results in a number of areas, both in diamond drillholes and in trenches, and would be best characterized geophysically by IP chargeability highs. As a consequence, the goal during the upcoming drill program is to test a number of the geophysical anomalies identified in the deeper-looking IP survey which was undertaken on the Mishi Leases this past fall, in particular where such anomalies are associated with soil geochemical anomalies or encouraging results from previous exploration efforts.

A drill program began on the property the second week of February 2011.

### **Magnacon Area, Ontario**

#### ***Magnacon East Block Claims, Ontario***

The Company holds a 25% interest in certain claims in the Magnacon East Property in the Sault Ste. Marie mining division, Ontario.

### **Magnacon Royalty Interest, Ontario**

The Company has a 1% net smelter returns royalty ("NSR") on production from certain mineral claims owned by Wesdome Gold Mines Ltd. ("Wesdome") in the Sault Ste. Marie mining division of Ontario.

### **Milling Rights**

The Company is entitled to have Wesdome mill up to 50,000 tonnes annually of its ore from any source at a cost equal to the production cost of such milling plus \$2.00 per tonne of ore milled.

### **Little Deer Lake Claims, Saskatchewan**

During the year ended September 30, 2008, the Company purchased a 20% interest in certain mineral claims in the La Ronge Mining Division, Saskatchewan from its former subsidiary Westward Explorations Ltd. as part of the sale of the Westward shares. These claims are carried in the accounts at a nominal value of \$1.

The Company is engaged in the acquisition of mineral properties and there is no assurance that an economic mineral deposit will ever be discovered and subsequently put into production. Most exploration projects do not result in the discovery of commercially mineable ore deposits. The Company will seek to counter these risks to the extent possible by selecting exploration areas on the basis of their recognized geological potential to host economic deposits.

### **Investment in Partnership**

In 2003 the Company along with two other parties, formed a general partnership for the purpose of acquiring an interest in an Alberta Limited Partnership. In July 2010, the Company sold its interest in the partnership for proceeds of \$249,096.

### **SUMMARY OF QUARTERLY RESULTS**

<b>QUARTER ENDING</b>	<b>Dec. 31 2011 \$</b>	<b>Sept. 30 2010 \$</b>	<b>June 30 2010 \$</b>	<b>Mar. 31 2010 \$</b>	<b>Dec. 31 2009 \$</b>	<b>Sept. 30 2009 \$</b>	<b>June 30 2009 \$</b>	<b>Mar. 31 2009 \$</b>
Income (loss) before income taxes	(236,116)	175,876	(49,596)	(73,220)	(45,187)	(66,988)	668,959	(69,635)
Per share	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)	0.00	(0.00)
Income (loss) for the quarter	(236,116)	175,876	(49,596)	(73,220)	(45,187)	(66,988)	668,959	(69,635)
Basic and diluted earnings (loss) per share	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.00)	0.02	(0.00)

The Company showed a loss for the quarter ended December 31, 2010 of \$236,116 compared to a loss of \$45,187 for the first quarter of fiscal 2010. The main difference was that the Company recorded a charge to stock-based compensation of \$177,000 in the first quarter 2011 with no corresponding charge in the first quarter 2010. Administrative expenses remained relatively stable with the exception of property investigation costs of \$13,749 in the first quarter of fiscal 2011.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The Company had working capital of \$1,196,515 at December 31, 2010 as compared to working capital of \$721,535 at September 30, 2010. The Company's working capital situation has continued to improve with the completion of a private placement in December 2010. Management is of the opinion that the Company has sufficient cash to sustain its current level of activity for the foreseeable future. However, if it decides to undertake new exploration projects, additional funds will have to be raised.

#### **TRANSACTIONS WITH RELATED PARTIES**

The Company entered into the following transactions with related parties during the period ended December 31, 2010:

- a) paid or accrued corporate and administration fees of \$8,875 to Susan Tessman, Corporate Secretary of the Company;
- b) paid or accrued management fees of \$17,250 to John Pallot, President of the Company;
- c) paid or accrued geological consulting fees of \$33,159, \$24,810 of which is included in mineral property and exploration costs to Charles Greig, a director of the Company; and,
- d) paid \$4,500 as directors' fees.

Included in accounts payable at December 31, 2010 is \$24,982 owing to officers and directors of the Company.

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

## CHANGE IN ACCOUNTING POLICIES

### International Financial Reporting Standards (“IFRS”)

In February 2008, the Canadian Accounting Standards Board (“AcSB”) announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada’s own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be October 1, 2011 and may require the restatement for comparative purposes of amounts reported for the year ended September 30, 2011. In order to assess the impact of the transition to IFRS on the Company’s financial statements, the Company has the following plan:

**Training** - The CFO and the Company’s financial consultant have attended several IFRS seminars given by the Institute of Chartered Accountants of B.C. and the Company’s auditors. The objective of the training was to become aware of the timing of IFRS, comparing Canadian GAAP to IFRS and IFRS as it applies specifically to the mining industry. The CFO expects to continue with training during fiscal 2011.

**Accounting policies** – A review of the IFRS conversion process has been performed which highlighted key differences between GAAP and IFRS. A further detailed review will be concluded in the fourth quarter of fiscal 2011 to conclude its actions and to assist in the conversion process and the preparation of IFRS financial statements. The following is a list of IFRS standards that may have a potential impact on the financial statements of the Company and are considered most relevant to the Company’s conversion process.

**First Time Adoption (IFRS 1)** – First-time adoption provides guidance to entities adopting IFRS for the first time. The key principle of IFRS 1 is full retrospective application of all IFRS in force at the closing balance sheet date in an entity’s first IFRS financial statements. However, there are a number of exemptions that reduce the burden of retrospective application that will have to be reviewed by the Company.

**Exploration for and Evaluation of Mineral Resources (IFRS 6, IAS 16, IAS 38)** - IFRS allows the costs of exploration for and evaluation (E&E) of mineral resources to either be expensed as incurred or capitalized, in accordance with the entity’s selected accounting policy. At the moment, the Company’s policy is to capitalize the exploration expenses, unless the Company has not obtained the legal rights of the property or has already written off the property. IFRS requires that E&E costs be classified as either tangible or intangible assets, a segregation not being done under Canadian GAAP.

**Impairment of Assets (IAS 36, IFRIC 10)** - Like IFRS, Canadian GAAP requires an impairment testing when there is an indicator of impairment, except that under IFRS, the Company must assess if there is an indicator each reporting date. Unlike IFRS, the estimates of future cash flows used in



assessing whether an impairment loss exists are not discounted under Canada GAAP. This might trigger more impairment testing under IFRS. Unlike IFRS, Canadian GAAP always recognizes impairment losses in the statement of earnings because the revaluations of long-lived assets are not permitted.

**Share-based Compensation (IFRS 2)** – Share based compensation is not expected to significantly impact the Company's financial statements. For stock options that vest over time, the Company recognizes stock-based compensation using the Black-Scholes valuation model and employing the graded vesting method.

**Information systems** – The accounting processes of the Company are simple as it is in the exploration stage and no major challenges are expected at this point to operate the accounting system under IFRS. Some spreadsheets will be adopted to support the changes made in accounting policies.

**Conclusion** - Based on the Company's review and management's assessment of IFRS, the Company does not anticipate the conversion to IFRS will have a significant impact on the Company's reported financial amounts and/or its business processes; however, the financial statement disclosure will be greatly expanded. The Company also expects to meet all reporting deadlines in its conversion to IFRS and will report any difficulties in meeting these deadlines.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, receivables, investments, investment in partnership, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### Fair Values

The fair value of cash is determined using level one of the fair value hierarchy. The fair values of receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. Using level one of the fair value hierarchy, investments are adjusted to quoted market value at each reporting period.

#### (a) *Financial Risk Management*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

(b) *Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

*Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's receivables consist primarily of sales tax receivables due from federal government agencies.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

*Interest Rate Risk*

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

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

**MANAGEMENT'S REPORT OVER INTERNAL CONTROL OVER FINANCIAL REPORTING**

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim

financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis.

In contrast to the certificate under National Instrument ("NI") 52-109 (Certification of Disclosure in Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined in NI 52-109.

#### OUTSTANDING SHARE DATA

As at December 31, 2010, the Company had 36,847,409 common shares outstanding. During the period, the Company issued 3,044,500 flow-through shares at a price of \$0.20 and 2 million non-flow-through shares at a price of \$0.15 as part of a private placement.

At December 31, 2010, the Company had the following stock options outstanding:

Date of Grant	Amount	Exercise Price	Expiry Date	Type
May 22, 2008	500,000	\$0.17	May 22, 2011	Director
May 18, 2010	300,000	\$0.15	May 18, 2013	Consultant
Dec 29, 2010	1,475,000	\$0.18	Dec. 29, 2015	Directors/Officers/Consultants
<b>TOTAL</b>	<b>2,275,000</b>			

During the period, 975,000 options exercisable at \$0.15 expired, and 1,475,000 options exercisable at \$0.18 for a period of five years were granted to various directors, officers and consultants.

The Company has 1,103,000 warrants outstanding, exercisable at \$0.20 until September 21, 2012.

#### ADDITIONAL INFORMATION

Additional information on Windarra Minerals Ltd. can be found by visiting the Company's website at [www.windarra.com](http://www.windarra.com) and by viewing regulatory filings on SEDAR at [www.sedar.com](http://www.sedar.com).

**ADDITIONAL INFORMATION FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE:****First Quarter Statement of Operations**

	<b>Three Months Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Amortization	\$ 58	\$ 83
Corporate and administration fees	13,375	8,625
Management and financial consulting fees	21,209	21,170
Office and miscellaneous	3,435	2,082
Property investigation costs	13,749	-
Professional fees	-	900
Public relations	2,798	3,220
Regulatory fees and transfer agent fees	2,126	1,278
Rent	7,020	6,499
Stock-based compensation	177,000	-
Travel and related costs	2,418	72
Loss before other items	<u>(243,188)</u>	<u>(43,929)</u>
<b>OTHER ITEMS</b>		
Interest income	1,344	555
Unrealized gain (loss) on investments	<u>5,728</u>	<u>(1,813)</u>
	<u>7,072</u>	<u>(1,258)</u>
<b>Loss and comprehensive loss for the period</b>	<u>\$ 236,116</u>	<u>\$ 45,187</u>

**SCHEDULE OF SHARE CAPITAL****As at the date of this Management Discussion & Analysis**

Common Shares outstanding	36,847,409
Options outstanding	2,275,000
Warrants	1,103,000
Fully diluted share capital	40,225,409

**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

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

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

"John Pallot"  
President and Chief Executive Officer

WINDARRA MINERALS LTD.  
BALANCE SHEETS

Unaudited  
Prepared by Management

	December 31 2010	September 30 2010
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 1,255,078	\$ 751,831
Receivables	43,854	8,389
Prepaid expenses	2,087	2,194
	<u>1,301,019</u>	<u>762,414</u>
<b>Equipment (Note 3)</b>	717	775
<b>Mineral properties and deferred exploration costs (Note 4)</b>	1,185,097	941,363
<b>Investment in partnership (Note 5)</b>	-	-
<b>Investments (Note 6)</b>	15,781	10,053
	<u>\$ 2,502,614</u>	<u>\$ 1,714,605</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current**

Accounts payable and accrued liabilities	\$ 104,504	\$ 40,879
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**Shareholders' Equity**

Capital stock (Note 7)	24,012,557	23,234,457
Contributed surplus (Note 7)	381,623	199,223
Deficit	(21,996,070)	(21,759,954)
	<u>2,398,110</u>	<u>1,673,726</u>
	<u>\$ 2,502,614</u>	<u>\$ 1,714,605</u>

**Nature of operations and going concern (Note 1)**

**On behalf of the Board:**

*"John Pallot"*

Director

*"Gary McDonald"*

Director

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

**WINDARRA MINERALS LTD.**  
**STATEMENTS OF OPERATIONS AND DEFICIT**  
**THREE MONTHS ENDED DECEMBER 31**

Unaudited

*Prepared by Management*

	2010	2009
<b>EXPENSES</b>		
Amortization	\$ 58	\$ 83
Corporate and administration fees	13,375	8,625
Management and financial fees	21,209	21,170
Office and miscellaneous	3,435	2,082
Property investigation costs	13,749	-
Professional fees	-	900
Public relations	2,798	3,220
Regulatory fees and transfer agent fees	2,126	1,278
Rent	7,020	6,499
Stock-based compensation	177,000	-
Travel and related costs	2,418	72
Loss before other items	(243,188)	(43,929)
<b>OTHER ITEMS</b>		
Interest income	1,344	555
Unrealized gain (loss) on investments	5,728	(1,813)
	7,072	(1,258)
Loss and comprehensive loss for the period	(236,116)	(45,187)
Deficit, beginning of period	(21,759,954)	(21,767,827)
<b>Deficit, end of period</b>	<b>\$ (21,996,070)</b>	<b>\$ (21,813,014)</b>
<b>Basic and diluted earnings per common share</b>	<b>\$ (0.01)</b>	<b>\$ (0.00)</b>
<b>Weighted average number of common shares outstanding during the period</b>	<b>31,193,473</b>	<b>30,699,909</b>

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

**WINDARRA MINERALS LTD.**  
**STATEMENTS OF CASH FLOWS**  
**THREE MONTHS ENDED DECEMBER 31**

Unaudited

*Prepared by Management*

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (236,116)	\$ (45,187)
Items not affecting cash:		
Amortization	58	83
Fair value of property investigation cost warrants	5,400	-
Stock-based compensation	177,000	-
Unrealized loss (gain) on investments	(5,728)	1,813
Changes in non-cash working capital items:		
Decrease (increase) in receivables	(35,465)	515
Increase in prepaid expenses and deposits	107	-
Increase (decrease) in accounts payable and accrued liabilities	8,393	(3,569)
Net cash used in operating activities	(86,351)	(46,345)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mineral properties and deferred exploration costs	(223,333)	-
Net cash provided by investing activities	(223,333)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued for cash	908,900	-
Share issue costs	(95,969)	-
Net cash provided by financing activities	812,931	-
<b>Change in cash during the period</b>	<b>503,247</b>	<b>(46,345)</b>
Cash, beginning of period	751,831	606,534
<b>Cash, end of period</b>	<b>\$ 1,255,078</b>	<b>\$ 560,189</b>

**Supplemental disclosure with respect to cash flows (Note 10)**

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



Unaudited

*Prepared by Management*

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

The Company is incorporated under the laws of British Columbia and its principal business activities include the acquisition and exploration of mineral properties.

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

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

These financial statements do not reflect adjustments that would be necessary if the going concern assumptions were not appropriate.

## **2. BASIS OF PRESENTATION**

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year or preceding period. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's audited financial statements as at and for the year ended September 30, 2010. In the opinion of the Company, its unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

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

Unaudited

*Prepared by Management*

## 2. BASIS OF PRESENTATION (cont'd)

### **Recently Adopted Accounting Policies**

Effective October 1, 2009, the Company adopted new accounting policy of the Canadian Institute of Chartered Accountants ("CICA"):

#### ***Financial instruments – disclosures***

CICA Handbook Section 3862, "Financial instruments – disclosures" was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

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

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

See Note 12 for relevant disclosures.

### **Recent Accounting Pronouncements**

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

In February 2008, the Canadian Accounting Standards Board ("AcSB") announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date for the Company will be October 1, 2011 and will require the restatement for comparative purposes of amounts reported for the year ended September 30, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements is under evaluation.

Unaudited

*Prepared by Management*

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Recent Accounting Pronouncements (cont'd)**

***Business Combinations***

In January 2009, the CICA issued Handbook Sections 1582 "Business Combinations", 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests" which replace CICA Handbook Sections 1581 "Business Combinations" and 1600 "Consolidated Financial Statements". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These sections will be applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning on October 1, 2011. Early adoption of these Sections is permitted and all three Sections must be adopted concurrently.

**3. EQUIPMENT**

	December 31, 2010			September 30, 2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 7,388	\$ 6,671	\$ 717	\$ 7,388	\$ 6,613	\$ 775

**WINDARRA MINERALS LTD.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2010**

Unaudited  
 Prepared by Management

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS**

<b>December 31, 2010</b>				
	Pukaskwa Claims, Ontario	Mishi Property, Ontario	Other Properties	Total
Balance, beginning of period	\$ 851,600	\$ 89,761	\$ 2	\$ 941,363
Additions during the period:				
Assay costs	-	35,031	-	35,031
Camp costs	-	15,838	-	15,838
Equipment rental	-	(332)	-	(332)
Geology	-	20,477	-	20,477
Lease rentals	-	65	-	65
Linecutting	-	64,070	-	64,070
Surveys	-	103,948	-	103,948
Travel and helicopter	-	4,637	-	4,637
	-	243,734	-	243,734
Balance, end of period	\$ 851,600	\$ 333,495	\$ 2	\$ 1,185,097

<b>September 30, 2010</b>				
	Pukaskwa Claims, Ontario	Mishi Property, Ontario	Other Properties	Total
Balance, beginning of year	\$ 851,600	\$ 57,150	\$ 2	\$ 908,752
Additions during the year:				
Equipment rental	-	4,751	-	4,751
Geology	-	5,581	-	5,581
Lease rentals	-	2,279	-	2,279
Line cutting	-	20,000	-	20,000
	-	32,611	-	32,611
Balance, end of year	\$ 851,600	\$ 89,761	\$ 2	\$ 941,363

Unaudited

*Prepared by Management*

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

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

**Magnacon Royalty Interest, Ontario**

The Company has a 1% net smelter returns royalty ("NSR") on production from certain mineral claims owned by Wesdome Gold Mines Ltd. ("Wesdome") in the Sault Ste. Marie mining division of Ontario.

**Magnacon East Block Claims, Ontario**

The Company holds a 25% interest in certain claims in the Sault Ste. Marie Mining Division, Ontario. The Company previously wrote down related mineral property and deferred exploration costs to a nominal value of \$1. The Company has not been required to contribute to field geology and surface drilling costs incurred during the year ended September 30, 2010 nor the period ended December 31, 2010.

**Milling Rights**

The Company is entitled to have Wesdome mill up to 50,000 tonnes annually of its ore from any source at a cost equal to the production cost of such milling plus \$2.00 per tonne of ore milled.

Unaudited

*Prepared by Management*

**4. MINERAL PROPERTIES AND DEFERRED EXPLORATION COSTS (cont'd)**

**Pukaskwa Claims, Ontario**

During the year ended September 30, 2009, the Company granted an option to earn-in up to a 60% undivided working interest in its Pukaskwa Claims. In return, the optionee made an initial cash payment of \$25,000 and has agreed to expend an aggregate of \$3,000,000 in exploration and development expenses on the claims over a five year period ending June 30, 2014. Once the optionee has earned the 60% interest, the optionee and the Company will be deemed to have formed a joint venture.

**Little Deer Lake Claims, Saskatchewan**

During the year ended September 30, 2008, the Company purchased a 20% interest in certain mineral claims in the La Ronge Mining Division, Saskatchewan from Westward Explorations Ltd. ("Westward"), a former subsidiary which has a common officer and director. These claims are carried in the accounts at a nominal value of \$1.

**Tulks South, Newfoundland**

During the year ended September 30, 2002, the Company, pursuant to an assignment agreement, was granted a 2%NSR on the share of production of Messina Minerals Inc. ("Messina"), a company related by way of common directors, from the Tulks South massive sulphide property in Newfoundland. Messina has the right to buy back the Company's royalty at any time prior to commercial production for \$2,000,000.

**Mishi Property, Ontario**

The Company owns a 100% interest in two mining leases in the Sault Ste. Marie Division in Ontario known as the Mishi leases as well as a royalty in respect of ore mined and milled from a third lease owned by Wesdome. The royalty interest provides for payment to the Company of \$1.00 per tonne for milled ore extracted from open pit mining and \$2.00 per tonne for milled ore mined from underground in excess of a cumulative total of 700,000 tonnes milled. The Company issued 400,000 common shares valued at \$48,000 as consideration for this acquisition.

Unaudited

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**5. INVESTMENT IN PARTNERSHIP**

During the year ended September 30, 2010, the Company disposed of its investment in 1999 Investment Co. Limited Partnership, an Alberta limited partnership, for proceeds of \$249,096.

No cash distributions were received by the Company from the partnership in the year ended September 30, 2010.

**6. INVESTMENTS**

Investments consist of shares in publicly traded companies valued at the market price as published in the TSX Venture Exchange daily market summary.

	<b>December 31 2010</b>	<b>September 30 2010</b>
Fair value	\$ 15,781	\$ 10,053
Cost	\$ 25,105	\$ 25,105

Included in investments at December 31, 2010 and September 30, 2010, are 105,042 common shares of Messina with a market value of \$11,555 (September 30, 2010 - \$8,403).

Unaudited  
 Prepared by Management

**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS**

	Number of Shares	Amount \$	Contributed Surplus \$
Authorized			
Unlimited common shares without par value			
Issued			
Balance at September 30, 2009	30,699,909	23,073,226	194,423
Issued for cash	1,103,000	165,450	-
Share issue costs	-	(4,219)	-
Fair value of options granted	-	-	4,800
Balance at September 30, 2010	31,802,909	23,234,457	199,223
Issued for cash	5,044,500	908,900	-
Share issue costs	-	(130,800)	-
Fair value of options granted	-	-	177,000
Balance at December 31, 2010	36,847,409	24,012,557	376,223

During the period ended December 31, 2010, the Company closed a brokered private placement consisting of 3,044,500 flow-through shares at a price of \$0.20 per share and 2,000,000 non-flow-through shares at a price of \$0.15 per share for total net proceeds of \$808,500.

During the year ended September 30, 2010, the Company issued 1,103,000 units at a price of \$0.15 per unit for total proceeds of \$165,450 pursuant to a private placement. Each unit consisted of one flow-through common share and one share purchase warrant exercisable into one common share at a price of \$0.20 for a period of two years.

**Warrants**

	Number of Warrants	Weighted Average Exercise Price
Balance, September 30, 2009	-	
Issued	1,103,000	\$ 0.20
Balance, September 30, and December 31, 2010	1,103,000	\$ 0.20

At December 31 and September 30, 2010, the Company had 1,103,000 common share purchase warrants outstanding, exercisable into one common share at a price of \$0.20 until September 21, 2012.



Unaudited

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7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (continued)

**Stock options**

The Company has a stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Stock options expire 90 days subsequent to termination.

During the period ended December 31, 2010, the Company issued 1,475,000 stock options to directors, officers and consultants exercisable at \$0.18 for a period of five years and 975,000 stock options at an exercise price of \$0.15 expired.

During the year ended September 30, 2010, the Company issued 300,000 stock options to a consultant exercisable at \$0.15 for a period of three years. 60,000 options vested during the period ended December 31, 2010 and fair value of \$5,400 was recognized as property investigation costs in the statement of operations.

Following is a summary of stock options outstanding at December 31, 2010:

Number of Shares	Exercise Price	Expiry Date
500,000	\$ 0.17	May 22, 2011
300,000	\$ 0.15	May 18, 2013
<u>1,475,000</u>	\$ 0.18	December 29, 2015
<u>2,275,000</u>		

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**7. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd)**

**Stock options (cont'd)**

Stock option transactions for the year are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 2009	1,475,000	\$ 0.16
Options issued	300,000	\$ 0.15
Balance, September 30, 2010	1,775,000	\$ 0.16
Options expired	(975,000)	\$ 0.15
Options issued	1,475,000	\$ 0.18
Balance, December 31, 2010	2,275,000	\$ 0.17
Number of options currently exercisable	2,095,000	\$ 0.18

**Stock-based compensation**

During the period ended December 31, 2010, the Company issued 1,475,000 stock options with a fair value of \$0.12 per option for a total value of \$177,000 to directors, officers and consultants which was expensed to stock-based compensation during the period. The options are exercisable at a price of \$0.18 per share for a period of five years.

During the year ended September 30, 2010, the Company issued 300,000 stock options to a consultant. The options are exercisable at a price of \$0.15 per share for a period of three years with 60,000 options vested on issuance, and 60,000 vesting each six months thereafter during the term of the agreement. During the period ended December 31, 2010, the second tranche of 60,000 options vested with a fair value of \$0.09 per option for a total value of \$5,400 which was expensed as property investigation costs. The agreement may be terminated by either party on one month's notice.

The fair value of stock options issued was estimated on the grant date using the Black-Sholes option-pricing model. The weighted average assumptions used in the calculation of fair value are as follows for the periods ended:

	December 31, 2010	September 30, 2010
Risk-free interest rate	1.82 - 2.45%	2.15%
Expected life of options	2.5 - 5 years	3 years
Annualized volatility	105%	110%
Dividend rate	0%	0%

Unaudited

*Prepared by Management*

## **8. RELATED PARTY TRANSACTIONS**

The Company entered into the following transactions with related parties during the period ended December 31, 2010:

- a) paid or accrued corporate and administration fees of \$8,875 to an officer of the Company (2009 - \$8,625);
- b) paid or accrued management fees of \$17,250 to an officer and director of the Company (2009 - \$17,250);
- c) paid or accrued geological consulting fees of \$33,159 (2009 - \$nil) to a director of the Company, \$24,810 (2009 - \$nil) of which is included in mineral property and exploration costs;
- d) paid directors' fees in the amount of \$4,500 (2009 - \$nil).

Included in accounts payable at December 31, 2010 is \$24,982 (September 30, 2010 - \$9,999) owing to officers and directors of the Company.

As at December 31, 2010 and September 30, 2010, the Company held 105,042 shares of Messina with a market value of \$11,555 (September 30, 2010 - \$8,403).

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

Unaudited

*Prepared by Management*

**9. SEGMENTED INFORMATION**

The Company primarily operates in Canada in one industry segment being the acquisition and exploration of mineral properties.

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

During the period ended December 31, 2010, the Company had the following significant non-cash transactions:

- a) incurred accounts payable for deferred exploration costs of \$20,401; and,
- b) incurred accounts payable for share issue costs of \$34,831.

During the year ended September 30, 2010, the Company had the following significant non-cash transactions:

- a) incurred accounts payable for deferred exploration costs of \$9,988; and,
- b) issued 300,000 stock options with a fair value of \$24,000, \$4,800 of which has been included in property investigation costs.

The Company did not pay any cash for interest expense or income taxes for the period ended December 31, 2010 nor for the year ended September 30, 2010.

Unaudited

*Prepared by Management*

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, receivables, investments, investment in partnership, and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

### **Fair Values**

The fair value of cash is determined using level one of the fair value hierarchy. The fair values of receivables and accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. Using level one of the fair value hierarchy, investments are adjusted to quoted market value at each reporting period.

#### *(a) Financial Risk Management*

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company considers the fluctuations of financial markets and seeks to minimize potential adverse effects on financial performance.

Unaudited

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**11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**

**Fair Values (cont'd)**

*(b) Financial Instrument Risk Exposure*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management process.

*Credit Risk*

Credit risk is the risk of a financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligation. The Company's receivables consist primarily of sales tax receivables due from federal government agencies.

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

*Interest Rate Risk*

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

*Price risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

## **12. CAPITAL MANAGEMENT**

The Company defines its capital that it manages as cash, term deposits and equity, consisting of issued common shares, stock options and warrants. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. In addition, the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. The Company does not have any externally imposed capital requirements.

## CORPORATE DATA

FEBRUARY 2011

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### DIRECTORS AND OFFICERS

John Pallot, President/Director  
Gary McDonald, C.F.O./Director  
Robert Fraser, Director  
Charles Greig, Director  
Susan Tessman, Corporate Secretary

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### CAPITALIZATION

Authorized:	Unlimited
Issued:	36,847,409
Options:	2,275,000
Warrants	1,103,000

### LISTINGS

TSX Venture Exchange  
Trading Symbol: WRA  
Cusip No.: 973151 10 3