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# **GALENA CAPITAL CORPORATION**

*(An Exploration Stage Company)*

INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
JUNE 30, 2009 AND 2008

*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

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**MANAGEMENT'S COMMENTS ON UNAUDITED  
INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying unaudited interim consolidated financial statements of Galena Capital Corporation for the six months ended June 30, 2009 and 2008, have been prepared by and are the responsibility of the Company's management.

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

	<b>Jun 30, 2009</b>	<b>Dec 31, 2008</b>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	411,233	819,601
GST recoverable	15,301	43,750
Other receivables and prepaids	83,388	60,447
Note receivable (Note 4)	598,945	840,420
	<u>1,108,867</u>	<u>1,764,218</u>
<b>PROPERTY, PLANT AND EQUIPMENT</b> (Note 5)	461,766	335,647
<b>MINERAL PROPERTY INTERESTS AND DEFERRED COSTS</b> (Note 6)	5,060,948	4,250,086
	<u>6,631,581</u>	<u>6,349,951</u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	396,914	319,164
<b>FUTURE INCOME TAX LIABILITY</b>	165,757	165,757
	<u>562,671</u>	<u>484,921</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 7)	13,752,704	13,401,888
<b>WARRANTS</b> (Note 7)	2,131,965	1,441,352
<b>CONTRIBUTED SURPLUS</b>	2,609,045	2,617,329
<b>DEFICIT</b>	<u>(12,424,804)</u>	<u>(11,595,539)</u>
	<u>6,068,910</u>	<u>5,865,030</u>
	<u>6,631,581</u>	<u>6,349,951</u>

**NATURE OF OPERATIONS AND GOING CONCERN** (Note 1)

APPROVED BY THE BOARD

\_\_\_\_\_  
*"Arni Johannson "*, Director

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*"John Seaman "*, Director

*The accompanying notes form an integral part of these unaudited interim consolidated financial statements*

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**INTERIM CONSOLIDATED STATEMENT OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$	\$
<b>EXPENSES</b>				
Advertising	991	40,215	7,586	68,794
Amortization	39,538	(6,362)	45,798	1,572
Conferences and events	8,000	24,179	8,872	53,046
Consulting and salaries	141,326	327,462	269,900	445,910
General exploration	74	88,914	7,343	201,710
Meals and entertainment	5,198	3,144	7,237	23,427
Office	27,430	32,338	56,383	66,876
Professional fees	52,367	55,263	111,103	206,185
Rent	16,407	29,478	41,088	47,134
Stock based compensation	216,164	111,371	216,164	111,371
Telephone	11,201	13,131	22,135	15,010
Transfer agent and filing fees	13,034	5,931	20,253	72,960
Travel	12,917	57,278	28,707	70,925
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(544,647)</u>	<u>(782,342)</u>	<u>(842,569)</u>	<u>(1,384,920)</u>
<b>OTHER ITEMS</b>				
Foreign exchange	(30,017)	44,802	12,881	9,613
Interest income	-	26,373	423	58,857
	<u>(30,017)</u>	<u>71,175</u>	<u>13,304</u>	<u>68,470</u>
<b>NET AND COMPREHENSIVE LOSS</b>	(574,664)	(711,167)	(829,265)	(1,316,450)
<b>DEFICIT – BEGINNING OF PERIOD</b>	<u>(11,850,140)</u>	<u>(1,639,154)</u>	<u>(11,595,539)</u>	<u>(1,033,871)</u>
<b>DEFICIT – END OF PERIOD</b>	<u>(12,424,804)</u>	<u>(2,350,321)</u>	<u>(12,424,804)</u>	<u>(2,350,321)</u>
<b>BASIC AND DILUTED NET AND COMPREHENSIVE LOSS PER SHARE</b>	<u>(0.02)</u>	<u>(0.03)</u>	<u>(0.03)</u>	<u>(0.05)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>34,754,740</u>	<u>27,403,379</u>	<u>31,099,367</u>	<u>24,848,733</u>

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**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	\$	\$	\$	\$
<b>CASH PROVIDED FROM (USED FOR):</b>				
<b>OPERATING ACTIVITIES</b>				
Loss for period	(574,664)	(711,167)	(829,265)	(1,316,450)
Items not affecting cash:				
Amortization	39,538	(6,362)	45,798	1,572
Stock based compensation	216,164	111,371	216,164	111,371
	<u>(318,962)</u>	<u>(606,158)</u>	<u>(567,303)</u>	<u>(1,203,507)</u>
Change in non-cash working capital items				
GST, other receivables and prepaids	(9,099)	30,859	5,508	(194,049)
Accounts payable and other	5,165	(400,307)	77,750	596,682
	<u>(322,896)</u>	<u>(975,606)</u>	<u>(484,045)</u>	<u>(800,874)</u>
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares and warrants	817,730	-	817,730	3,089,312
Share issue costs	(750)	-	(750)	(281,186)
	<u>816,980</u>	<u>-</u>	<u>816,980</u>	<u>2,808,126</u>
<b>INVESTING ACTIVITIES</b>				
Expenditures on mineral property interest and deferred exploration	(472,961)	(540,257)	(810,862)	(1,664,291)
Short term loan	176,717	-	241,475	402,720
Purchase of property, plant and equipment	(148,012)	(29,936)	(171,916)	(299,593)
	<u>(444,256)</u>	<u>(570,193)</u>	<u>(741,303)</u>	<u>(1,561,164)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE PERIOD</b>	49,828	(1,545,799)	(408,368)	446,088
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<u>361,405</u>	<u>5,926,938</u>	<u>819,601</u>	<u>3,935,051</u>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<u>411,233</u>	<u>4,381,139</u>	<u>411,233</u>	<u>4,381,139</u>
<b>CASH AND CASH EQUIVALENTS IS COMPRISED OF:</b>				
Cash	400,883	1,101,444	400,883	1,101,444
Short term money market investments	10,350	3,279,695	10,350	3,279,695
	<u>411,233</u>	<u>4,381,139</u>	<u>411,233</u>	<u>4,381,139</u>

**ADDITIONAL SUPPLEMENTARY CASH FLOW INFORMATION** (Note 10)

*The accompanying notes form an integral part of these unaudited interim consolidated financial statements*

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

	<b>Six months ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>SHARE CAPITAL</b>		
Balance, beginning of period	13,401,888	4,126,337
Net assets acquired in acquisition of Norma Mines Ltd.	-	222,350
Fair value of shares issued on acquisition of Norma Mines Ltd.	-	6,531,354
Private Placement	804,150	3,000,000
Corporate finance shares	-	97,000
Exercise of warrants and reallocation of contributed surplus	21,865	114,597
Warrant valuation on private placement	(474,449)	(270,000)
Share issue costs	(750)	(419,943)
Balance, end of period	13,752,704	13,401,695
<b>WARRANTS</b>		
Balance, beginning of period	1,441,352	1,155,150
Warrants re-valued on term extension and re-pricing	216,164	-
Warrants issued	474,449	270,000
Balance, end of period	2,131,965	1,425,150
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of period	2,617,329	345,673
Reallocation of contributed surplus on exercise of warrants	(8,284)	(25,284)
Contributed surplus as a result of agent warrants issued on private placement	-	41,757
Contributed surplus as a result of options granted	-	111,371
Balance, end of period	2,609,045	473,517
<b>DEFICIT</b>		
Balance, beginning of period	(11,595,539)	(1,033,871)
Net and comprehensive loss for the period	(829,265)	(1,316,450)
Balance, end of period	(12,424,804)	(2,350,321)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>6,068,910</b>	<b>12,950,041</b>

*The accompanying notes form an integral part of these unaudited interim consolidated financial statements*

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**INTERIM CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS AND DEFERRED COSTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

	MEXICO			PERU	Total \$
	Maureen \$	Mercedes \$	Judith \$	Tablachaca \$	
Balance, Dec 31, 2008	2,479,765	1,271,513	310,962	187,846	4,250,086
Expenditures					
Acquisition	-	2,461	63,736	-	66,197
Assays	2,405	-	21,755	-	24,160
Professional fees	-	-	3,143	-	3,143
Site access and preparation	309,025	-	23,120	49,000	381,145
Salaries and contractors	137,560	-	65,852	-	203,412
Travel	11,409	22	13,279	-	24,710
	460,399	2,483	190,885	49,000	702,767
Foreign value added tax	85,408	209	16,035	6,443	108,095
Balance, Jun 30, 2009	3,025,572	1,274,205	517,882	243,289	5,060,948

*The accompanying notes form an integral part of these unaudited interim consolidated financial statements*

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS AND DEFERRED COSTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**  
*(Expressed in Canadian Dollars)*

	MEXICO					PERU				Total \$
	Maureen \$	Mercedes \$	Judith \$	Maria \$	Melissa \$	Tablachaca \$	Chimu \$	Bolognesi \$	Trujillo \$	
Balance, Dec 31, 2007	196,533	-	-	-	-	-	-	-	-	196,533
Fair valuation adjustment of Norma Assets acquired	1,793,268	650,947	-	1,089,255	2,017,902	4,953	785,726	1,417,877	861,459	8,621,387
Expenditures										
Acquisition	1,070	56,988	65,103	16,230	69,012	128,066	104,411	-	60,715	501,595
Assays	20,795	69,388	4,276	42,725	82,736	-	-	-	-	219,920
Environmental	-	-	-	-	-	-	-	-	-	-
Office	29	19,740	234	13,351	6,960	-	-	-	-	40,314
Professional fees	3,303	14,006	-	13,352	7,277	-	-	-	-	37,938
Site Access	344,304	187,429	125,850	427,665	281,132	-	-	-	-	1,366,380
Salaries and contractors	16,289	171,439	67,695	328,891	236,501	-	-	-	-	820,815
Travel	38,529	29,863	11,869	69,360	29,286	-	-	-	-	178,907
	424,319	548,853	275,027	911,574	712,904	128,066	104,411	-	60,715	3,165,869
Foreign value added tax	65,645	71,713	35,935	119,106	93,148	54,827	-	-	-	440,374
Write-off of mineral properties including Future Income Taxes	-	-	-	(2,119,935)	(2,823,954)	-	(890,137)	(1,417,877)	(922,174)	(8,174,077)
Balance, Dec 31, 2008	2,479,765	1,271,513	310,962	-	-	187,846	-	-	-	4,250,086

*The accompanying notes form an integral part of these unaudited interim consolidated financial statements*

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

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

Galena Capital Corp. (the "Company" or "Galena") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on September 26, 2006. The Company is a natural resource company engaged in the acquisition and exploration of resource properties in Mexico and Peru. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently the Company considers itself to be an exploration stage company.

On August 29, 2007 Galena and Minas Vallarta Resources Ltd. ("MV Canada") entered into a letter agreement under which the shareholders of MV Canada would acquire Galena through a reverse takeover transaction ("RTO"). On November 27, 2007 the Company received all required approvals and the transaction was completed. Galena Capital Corporation was retained as the name for the ongoing entity and is the continuation of MV Canada. MV Canada was incorporated on May 14, 2007 pursuant to the provisions of the Business Corporations Act (British Columbia).

On January 15, 2008, the Company entered into a letter agreement with Norma Mines Ltd. ("Norma") whereby Galena agreed, subject to various conditions precedent, to acquire all of the issued and outstanding securities of Norma (the "Acquisition"). The Acquisition was an arm's length transaction within the meaning of the TSX Venture Exchange's policies and was completed on March 20, 2008. Galena issued 4,200,000 common shares to shareholders of Norma in exchange, on a one-for-one basis, for all the outstanding shares of Norma.

The amounts shown as mineral property interests and deferred costs represent expenses incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the mineral properties and deferred costs is entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to advance the properties beyond the exploration stage, and future profitability of the properties.

While these consolidated financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions and events cast significant doubt on the validity of this assumption. For the six month period ended June 30, 2009, the Company reported a loss of \$829,265 and as at that date had working capital of \$711,953 and an accumulated deficit of \$12,424,804. Included in the current assets is a note receivable in the amount of \$598,945 which became delinquent as of July 15, 2009. The Company did receive USD \$100,000 which was applied against the note receivable subsequent to the period, however, the Company's ability to continue as a going concern is dependent upon its ability to obtain additional funding from loans or equity financings or through other arrangements. To raise funds for operations, the Company is actively seeking private or institutional financing. However, there can be no assurance that these activities will be successful.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

As a direct result of the recent volatility in the markets, the Company has significantly reduced its overhead in order to conserve its treasury. The Company is currently focussing on projects which have potential for near-term production and/or have the potential for joint venture partners.

**2. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited interim consolidated financial statements follow the same accounting policies as the most recent annual audited financial statements. The financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles applicable for annual financial statements. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the December 31, 2008 audited consolidated financial statements.

**Adoption of accounting policy**

*Goodwill and Intangible Assets*

CICA Handbook Section 3064, *Goodwill and Intangible Assets*, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets.

**GALENA CAPITAL CORPORATION**  
*(An Exploration Stage Company)*  
**NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
*(Unaudited – prepared by management)*  
*(Expressed in Canadian Dollars)*

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

Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the pre-operating period. As a result of the withdrawal of EIC 27, companies will no longer be able to defer costs and revenues incurred prior to commercial production at new mine operations. The changes are effective for interim and annual financial statements beginning January 1, 2009.

**3. FUTURE ACCOUNTING CHANGES**

**International Financial Reporting Standards**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS) over an expected five-year transitional period. In February 2008, the AcSB announced that 2011 is the transition date for publicly listed companies to use IFRS, which will replace Canadian GAAP. The effective date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

**Recent Accounting Pronouncements**

**Business Combinations**

CICA Handbook Section 1582, *Business Combinations* will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, "Business Combinations" and replace the existing Section 1581, *Business Combinations*. The new Section 1582 will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests*.

Section 1601, *Consolidated Financial Statements* establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, *Consolidated Financial Statements*. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1602, *Non-Controlling Interests*.

Section 1602, *Non-controlling Interests* establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, *Business Combinations* and Section 1601, *Consolidated Financial Statements*.

The Company is assessing the impact of these new standards on its consolidated financial statements.

**4. NOTE RECEIVABLE**

The note receivable of CDN \$598,945 (USD \$515,000) comprises principal of CDN \$494,275 (USD \$425,000) and interest of CDN \$104,670 (USD \$90,000). The note was originally issued to a third party in the amount of USD \$600,000 and initially matured on December 19, 2008. The note earned 15% on the initial maturity date. The payment date was extended to July 15, 2009. The Company has received USD \$175,000 to June 30, 2009 and a further USD \$100,000 in August 2009. These amounts have all been applied against the principal. The loan is past due and is expected to be paid in full in the near term. Management communicates with the third party at least weekly to monitor the account and at this time does not believe the note to be impaired.

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**FOR THE SIX MONTHS ENDED JUNE 30, 2009**  
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**5. PROPERTY, PLANT AND EQUIPMENT**

	Cost \$	Accumulated Amortization \$	Jun 30, 2009 \$	Dec 31, 2008 \$
<b>CANADA</b>				
Furniture	2,522	888	1,634	1,816
Network equipment	11,126	5,499	5,627	6,620
Computer hardware	6,202	3,680	2,522	3,254
Computer software	2,593	2,529	64	128
	22,443	12,596	9,847	11,818
<b>MEXICO</b>				
Machinery	174,067	2,452	171,615	1,103
Transport equipment	242,181	91,424	150,757	174,996
Furniture and fixtures	15,638	2,707	12,931	13,644
Computers	17,960	8,604	9,356	10,993
Leaseholds	-	-	-	9,232
	449,846	105,187	344,659	209,968
<b>PERU</b>				
Machinery	103,059	24,233	78,826	80,970
Transport equipment	24,359	7,466	16,893	19,487
Furniture and fixtures	4,460	739	3,721	4,131
Computers	11,890	4,070	7,820	9,273
	143,768	36,508	107,260	113,861
<b>TOTAL</b>	616,057	154,291	461,766	335,647

**6. MINERAL PROPERTY INTERESTS AND DEFERRED COSTS**

**MEXICO**

**Maureen Property (formerly “La Suerte”)**

The Maureen Property (“Maureen”) is located 20 km SSE of the city of Tepic, Nayarit, Mexico. The property is accessible by road and is comprised of 3 non-contiguous claim blocks totalling 186 hectares:

- 1) La Suerte;
- 2) La Suerte Fraction 1; and
- 3) La Suerte Fraction 2.

The property is situated in an active volcanic area with structures showing evidence of hydrothermal alteration. Two of these mineralized structures, the La Suerte and the La Escondida, show characteristics of low sulfidation epithermal gold silver deposits. Many historical tunnel workings and sampling programs have targeted the Maureen structure. Gold and silver are the target commodities being investigated at Maureen.

The Company’s wholly-owned subsidiary, Minas Vallarta S.A. de C.V., owns 100% of the property and there are no further financial obligations other than the statutory semi-annual exploration rights payments.

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**6. MINERAL PROPERTY INTERESTS AND DEFERRED COSTS (continued)**

The Company has made progress at the Maureen Property. The Candelaria mine tunnel, perpendicular to the main known structure, has advanced 30 meters and is now 30 meters from intersect with the main known structure. The tunnel section is 2.5 x 2.5 meters. The final target is intercept diamond drill number seven, 54 meters below the surface.

The La Suerte drift is progressing along the La Suerte structure. The mineralized vein has been variable in width from 80 centimeters to two meters wide. The La Suerte adit was widened to 2.5 x 2.5 meters (from 1.5 x 1.0 meters) along the old tunnel workings. The La Suerte tunnel has now reached the old San Francisco Mine coordinates, 35 meters below the mine. The Company is drifting a crosscut and will be doing a countershaft to quantify resources between the La Suerte and San Francisco Mines.

A portable plant has been designed and is under construction. The plant will have a gravimetric process initially, due to the free gold content of the mine mineral. Testing has shown liberation that makes this process viable with acceptable gold recoveries. The process plant will consist of a ball mill, gravimetric processor, genset, and accessory equipment. All major components have been acquired. Testing of the plant will take place in the near term. Mineral from the mine is being transported to a stockpile at the future plant location four kilometres from the mine. Exploration work was being supervised by Luc Rioux, P. Geo., designated Qualified Person for the Company.

**Mercedes Property (formerly “Yecora”)**

The Mercedes Property (“Mercedes”) is located approximately 200 kilometres ESE of Hermosillo, state of Sonora, Mexico. The property consists of three claims totalling 360 hectares: La Mina del Oro, titulo, 16 hectares; Ampliacion Mina del Oro, titulo, 251 hectares; C.R., titulo, 93 hectares.

The Mercedes deposit is mostly comprised of a brecciated and sheared porphyritic intrusive (“QFP”) in contact with andesitic flows and tuffs. The mineralization can be classified as being of hydrothermal type, comprised of quartz stringers and veinlets and also of crystallized open space filling type. There seems to be a close relation between the quartz and the deposition of gold, especially within the silicified zones.

There also seems to be more gold within the oxidized zone than the sulphide zone where in both cases the main sulphides that are present are fine grained disseminated pyrite with minor amounts of arsenopyrite. The main control on the mineralization is structural, through faults (thrust faults, normal faults and reverse faults) and shear zones.

This fault marks the contact between the QFP and the andesites. 110 meters NE of that previously mentioned fault, there is another fault oriented N310° and dipping 75° to the SW. On the northwestern edge of the deposit the contact between the QFP and the andesites has been determined to be N030°.

The most northeastern portion of the ore-body is comprised of numerous intersections of faults showing variable orientations which have provoked an intense shearing pattern which enabled the hydrothermal fluids to circulate and thus carry the precious metals within the deposit.

On July 17, 2007 the Company’s wholly owned subsidiary, Norma Mines S.A. de C.V. (“Norma Mexico”), entered into an arrangement with the owner of the Mercedes property whereby Norma Mexico earns the exclusive exploration and exploitation rights on the property by paying USD \$20,000 (paid) prior to signing and USD \$30,000 (paid) upon signing the contract. As part of the contract, Norma Mexico will earn 70% of any profits arising from the property and the current owner will earn 30%. This ratio will also be utilized for allocating the funding of any extraordinary expenses, as determined by Norma Mexico, which are above and beyond any exploration and exploitation expenses incurred by Norma Mexico. After two years, Norma Mexico has the option to buy out the mineral concessions from the current owner for USD \$1,800,000 less the original USD \$50,000 already paid on signing. The company is also responsible for maintaining the properties in good standing. Until such time as the Company is able to raise additional funds, the Company is not in the financial position to buy out the mineral concessions.

No further exploration is planned for 2009.

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**6. MINERAL PROPERTY INTERESTS AND DEFERRED COSTS (continued)**

**Judith Property**

In January 2009, the Company's wholly owned subsidiary, Norma Mexico, entered into an arrangement with the owners of the Judith property whereby Norma Mexico earns the exclusive exploration and exploitation rights on the property by paying a total of USD \$100,000 (paid) at or before signing.

As part of the contract, Norma Mexico will earn 80% of any profits arising from the property and the current owners will earn 20%. This ratio will also be utilized for allocating the funding of any extraordinary expenses, as determined by Norma Mexico, which are above and beyond any exploration and exploitation expenses incurred by Norma Mexico. Norma Mexico must also spend USD \$1,000,000 in exploration expenses within two years of signing and has the option to purchase the current owners' mining concessions after five years for USD \$1,500,000 less the original USD \$100,000 already paid upon signing. The company is also responsible for maintaining the properties in good standing.

On July 6, 2009, Norma Mexico signed an Assignment, Assumption and Amending Agreement with QRS Capital Corp. ("QRS") and the current owners of the mining concessions to assign the right, title, interest and obligations for the Judith property to QRS. In consideration of the assignment QRS will pay \$50,000 to Norma Mexico and Norma Mexico will receive 10% of any net profits of production calculated in accordance with the above exploitation agreement.

**PERU**

**Tablachaca**

The Tablachaca river property is located in Ancash in the province of Pallasca. The average elevation on the property is approximately 1,500 meters above sea level. The property totals 1,105.1 hectares of mining concessions.

The property comprises six exploration claims: Golden 2008-1 of 499.8 hectares, Golden 2008-2 of 147.1 hectares, 2008-3 of 57.5 hectares, Golden 2008-4 of 76.4 hectares, Golden 2008-5 of 289.4 hectares and Golden 2008-6 of 34.9 hectares.

There are no further financial obligations of the Company other than to maintain the property in good standing.

On July 15, 2009, the Company entered into a letter agreement with QRS Capital Corp. ("QRS"), in respect of a proposed joint venture to be established following the closing of QRS' proposed Qualifying Transaction. Under the terms of the letter agreement, it is proposed that QRS, Galena and a wholly-owned Peruvian subsidiary of Galena will enter into a joint venture for the exploration and development of Galena's six mineral claims that comprise the Tablachaca Golden River Property, located in Ancash in the Province of Pallasca, Peru.

Galena's subsidiary has agreed to act as operator of the joint venture with respect to the exploration and development of the Property and QRS has agreed to fund all exploration and development costs until the commencement of commercial productions following which such costs will be shared. After the joint venture generates profit, it will first be applied to repay the costs advanced by QRS, following which, such profit will be shared on an equal basis. In consideration for the establishment of the joint venture, QRS has agreed to issue 250,000 of its common shares to Galena upon the closing of the definitive agreement and an additional 750,000 common shares upon the commencement of commercial production. In addition, QRS has agreed to pay Galena \$150,000 ten days after the closing of the Qualifying Transaction, such funds to be used by Galena as an advance of costs to conduct further exploration on the property. Upon the closing date, Galena has agreed to grant QRS a right of first refusal in respect of the sale or transfer of any Peruvian property interests held by Galena or any joint venture opportunities in Peru that Galena offers to the market.

The Company was focusing its attention and resources on projects with near term production in Mexico and therefore, exploration efforts on Tablachaca project were limited during the six month period ended June 30, 2009.

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**7. SHARE CAPITAL**

Authorized - unlimited common shares without par value	#	\$
Issued - common shares		
Outstanding shares of Galena	4,004,000	187,480
RTO: Issued on a one-for-one basis to shareholders of MV Canada	12,800,000	1,384,000
Concurrent financing		
Short form offering	2,105,263	2,000,000
Private placement	2,394,737	2,275,000
Corporate finance shares	75,000	71,250
Agent commission shares	163,431	155,259
Less: warrant value	-	(1,155,150)
Warrants exercised subsequent to RTO	4,448	445
Reallocation of contributed surplus relating to exercise of warrants	-	271
Less: Share issue costs	-	(792,218)
Balance December 31, 2007	21,546,879	4,126,337
Issued on a one-for-one basis to shareholders of Norma Canada	4,200,000	6,753,704
Private Placement	1,500,000	3,000,000
Corporate Finance Shares	50,000	97,000
Exercise of agent warrants	106,500	89,312
Reallocation of contributed surplus on exercise of agent warrants	-	25,285
Less: warrant value	-	(689,750)
Balance Dec 31, 2008	27,403,379	13,401,888
Private Placement	10,722,000	804,150
Exercise of warrants and reallocation of contributed surplus	135,802	21,865
Less: warrant value	-	(474,449)
Less: Share issue costs	-	(750)
Balance June 30, 2009	<u>38,261,181</u>	<u>13,752,704</u>

**Financing**

On April 29, 2009 the Company closed a non-brokered private placement. A total of 10,722,000 units were issued at a price of \$0.075 per unit for gross proceeds to the Company of \$804,150. Each unit consists of one common share and one transferable common share purchase warrant. Each warrant entitles the holder to purchase one additional common share in the capital of the Company at a price of \$0.15 per share at any time within five years following the date of the closing of the private placement.

**Escrowed shares**

Under the requirements of the TSX Venture Exchange, the 2,000,000 seed shares of Galena were being held pursuant to an escrow agreement dated November 26, 2006. Upon completion of the RTO transaction, these escrowed shares, along with an additional 5,449,322 of the private placement shares issued on July 31, 2007 were transferred to an escrow agreement dated November 22, 2007.

The first release occurred on November 27, 2007 for 10% of the escrowed shares and an additional 15% will be released every six months thereafter commencing six months following the initial release on November 27, 2007. At June 30, 2009 there were 4,117,196 escrowed shares.

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**7. SHARE CAPITAL (continued)**

**Stock options**

The Company has established a rolling stock option plan (the “Plan”) in which the maximum number of common shares which can be reserved for issuance under the Plan are not to exceed 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company’s closing share price on the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange.

A summary of the changes in the number of stock options outstanding and exercisable for the six months ended June 30, 2009 is as follows:

	#	Weighted Average Exercise Price \$
Balance, beginning of period	2,336,000	0.99
Cancelled	<u>(250,000)</u>	1.80
Balance, end of period	<u>2,086,000</u>	0.90

A summary of the Company’s exercisable and outstanding options at June 30, 2009 is presented as follows:

Options Exercisable #	Options Outstanding #	Exercise Price \$	Expiry Date
160,000	160,000	0.10	May 14, 2012
1,365,000	1,365,000	0.95	November 22, 2012
<u>561,000</u>	<u>561,000</u>	1.00	November 28, 2012
<u>2,086,000</u>	<u>2,086,000</u>		

**Warrants**

A summary of the number of common shares reserved pursuant to the Company’s outstanding warrants and agent warrants and the changes for the six month period ended June 30, 2009 is presented below:

	#
Balance, beginning of period	11,385,215
Issued	10,722,000
Expired	-
Exercised	<u>(135,802)</u>
Balance, end of period	<u>21,971,413</u>

On June 3, 2009 TSX approved the price amendment and term extension to the Company’s warrants originally issued on November 22, 2007 and on March 20, 2008 as follows:

- i) 2,199,249 of the November 22, 2007 warrants originally priced at \$1.65 were re-priced to \$0.40. The original expiration date of November 22, 2009 was extended to April 15, 2012.
- ii) 750,000 of the March 20, 2008 warrants originally priced at \$2.50 were re-priced to \$0.40. The original expiration date of March 20, 2010 was extended to April 15, 2012.

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**7. SHARE CAPITAL (continued)**

Common shares reserved pursuant to warrants and agent warrants outstanding at June 30, 2009 is presented below:

#	Exercise Price \$	Expiry Date
7,800,000	0.15	November 22, 2009
392,514	1.65	November 22, 2009
107,650	2.50	March 20, 2010
2,199,249	0.40	April 15, 2012
750,000	0.40	April 15, 2012
10,722,000	0.15	May 5, 2014
<u>21,971,413</u>		

**8. RELATED PARTY TRANSACTIONS**

During the period ended June 30, 2009 the Company was charged for various services and related out-of-pocket expenses paid on behalf of the Company by directors and officers, or by companies which are under their control.

Related party transactions which are not disclosed elsewhere in the financial statements are as follows:

- i) \$74,775 (2008 - \$37,172) was expensed by the Company for consulting services of the CEO. Of this amount \$43,224 (2008-\$2,262) remains in accounts payable as at June 30, 2009.
- ii) \$6,900 (2008 - \$15,372) was paid to an officer of the Company for corporate secretarial services
- iii) \$15,710 (2008 - \$20,356) was paid to a company controlled by an officer of the Company for professional services relating to CFO and accounting services.
- iv) \$92,003 (2008 – \$106,292) was paid to a company controlled by a director and officer of the Company for reimbursement of various administrative and overhead costs. These reimbursed expenses did not include any mark-up and consisted of the following: \$22,200 (2008 - \$27,057) for office rent, \$54,950 (2008 – \$13,875) related to shared office consultants, \$5,380 (2008 - \$3,422) related to telephone expenses and the balance of \$9,473 (2008 - \$61,938) related to general office, marketing consultants and administration expenses.
- v) \$15,000 (2008 – \$16,500) was paid to a director of Minas Vallarta Ltd.

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

**9. SEGMENTED INFORMATION**

The Company is currently involved in the mineral exploration activities in Mexico and Peru. The Company is in the exploration stage, and accordingly, has no reportable segment or operating revenues for the period.

The Company's total assets at June 30, 2009 are segmented geographically as follows:

	Canada \$	Mexico \$	Peru \$	Total Jun 30, 2009 \$
Current Assets	851,382	207,717	49,768	1,108,867
Property, Plant and Equipment	9,847	344,659	107,260	461,766
Mineral Property and Deferred Costs	<u>-</u>	<u>4,817,659</u>	<u>243,289</u>	<u>5,060,948</u>
	<u>861,229</u>	<u>5,370,035</u>	<u>400,317</u>	<u>6,631,581</u>

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**9. SEGMENTED INFORMATION (continued)**

The Company's total assets at December 31, 2008 are segmented geographically as follows:

	<b>Canada</b> \$	<b>Mexico</b> \$	<b>Peru</b> \$	<b>Total</b> <b>Dec 31,</b> <b>2008</b> \$
Current Assets	1,603,552	130,268	30,398	1,764,218
Property, Plant and Equipment	11,818	209,967	113,862	335,647
Mineral Property and Deferred Costs	-	4,062,240	187,846	4,250,086
	<u>1,615,370</u>	<u>4,402,475</u>	<u>332,106</u>	<u>6,349,951</u>

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash activities were conducted by the Company during the period ended June 30, 2009 and 2008 as follows:

	<b>Jun 30,</b> <b>2009</b> \$	<b>Jun 30,</b> <b>2008</b> \$
<b>Financing activities</b>		
Share issuance costs	-	(138,757)
Shares issued for payment of agent's fees	-	138,757
	<u>-</u>	<u>-</u>

**11. MANAGEMENT OF CAPITAL RISK**

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The capital structure of the Company includes the components of shareholders' equity as well as cash and cash equivalents. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets.

To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents.

The Company has no externally imposed debt requirements as of the balance sheet date.

**12. MANAGEMENT OF FINANCIAL RISK**

The Company's financial instruments are exposed to certain financial risks, including credit risk, foreign exchange risk, liquidity risk and interest rate risk.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and cash equivalents are held through large Canadian financial institutions. Cash equivalents are comprised of financial instruments guaranteed by the bank. The Company has a note receivable calculated at a fair value of \$598,945 outstanding as at June 30, 2009 with a third party. The third party has missed dates for repayment, and therefore, the Company is exposed to credit risk. Please refer to Note 4 for further details on the note receivable.

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**12. MANAGEMENT OF FINANCIAL RISK (continued)**

This amount is past due as of July 15, 2009 as the third party failed to meet their payment obligation. The Company did receive an additional USD \$100,000 subsequent to the period end. Management is in contact with the third party at least weekly and the Company believes it will receive the funds in the near term. Should circumstances change, management will make the decision to write-down all or portion of the receivable. Should the Company not receive the note in its entirety, Management believes the Company would need to raise additional funds to cover overhead costs over the next 12 months.

(b) Foreign Exchange Risk

The Company's operations are in Mexico and Peru; therefore foreign exchange risk exposures from transactions denominated in United States Dollars, Mexican Pesos and/or Peruvian Soles. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

The recent economic turmoil has resulted in significant volatility in foreign exchange rates, including those in which the Company conducts its operations. The sensitivity of the Company's net and comprehensive loss due to changes in the exchange rate between its operating currencies and the Canadian dollar are summarized in the table below:

	5% decrease in \$CDN	5% increase in \$CDN
Approximate decrease (increase) in net and comprehensive loss for the six months ended June 30, 2009	<u>47,950</u>	<u>(47,950)</u>

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has implemented a budgeting process which is reviewed regularly to help determine the funding requirements of the Company's exploration and overhead requirements. The Company's objective is to ensure that there are sufficient committed financial resources to meet its short-term business requirements for the next 12 months. The Company has no credit facilities as of June 30, 2009.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The risk that the Company will realize a significant loss as a result of a decline in the fair market value of cash equivalents is limited due to the relatively short maturity of the investments.

**13. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform to the financial statement presentation adopted in 2009.