Northfield Metals Inc.

Financial Statements
December 31, 2011 and 2010

Northfield Metals Inc.
Statements of Financial Position

(expressed in Canadian dollars)

	Notes	As at December 31, 2011 $	2010 $ (note 3)	As at January 1, 2010 $ (note 3)
Assets				
Current				
Cash		1,165	46,909	40,811
Receivables		26,634	7,932	9,510
Marketable securities	5	115,370	155,449	56,160
Prepaid expenses		20,000	-	-
		163,168	210,289	106,480
Equipment		-	-	15,000
		163,168	210,289	121,480
Liabilities				
Current				
Accounts payable and accrued liabilities	6, 13	1,348,806	1,067,916	819,941
Due to Champion Minerals Inc.	7	25,304	9,304	-
Due to Eloro Resources Ltd.	8	43,482	43,482	23,482
		1,417,592	1,120,703	843,423
Shareholders' equity				
Share capital	9	1,666,399	1,666,399	1,666,399
Contributed surplus		18,000	18,000	18,000
Deficit		(2,938,822)	(2,594,812)	(2,406,341)
		(1,254,424)	(910,413)	(721,942)
		163,168	210,289	121,481

Approved by the Board:

Thomas Larsen
Director

Miles Nagamatsu
Director

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

Northfield Metals Inc.
Statements of Loss and Comprehensive Loss

(expressed in Canadian dollars)

	Notes	Years ended December 31, 2011 $	2010 $ (note 3)
Expenses			
Professional fees		20,503	13,375
Consulting fees		240,000	240,000
General and adminstrative		11,831	12,993
		272,334	266,368
Loss before the undernoted item		(272,334)	(266,368)
Writedown of equipment		-	(15,000)
Increase (decrease) in fair value of marketable		(71,676)	82,294
Gain on settlement of debts	6	-	10,603
Loss and comprehensive loss		(344,010)	(188,471)
Loss per common share-basic and diluted		(0.016)	(0.009)
Weighted average number of common shares-basic and diluted		21,566,604	21,566,604

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

Northfield Metals Inc.
Statements of Changes in Equity
(expressed in Canadian dollars)

	Share capital $	Contributed surplus $	Deficit $	Total $
Balance, December 31, 2010	1,666,399	18,000	(2,594,812)	(910,413)
Loss	-	-	(344,010)	(344,010)
Balance, December 31, 2011	1,666,399	18,000	(2,938,822)	(1,254,423)
Balance, December 31, 2009	1,666,399	18,000	(2,406,341)	(721,942)
Loss	-	-	(188,471)	(188,471)
Balance, December 31, 2010	1,666,399	18,000	(2,594,812)	(910,413)

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

Northfield Metals Inc.
Statements of Cash Flows
(expressed in Canadian dollars)

	Years ended December 31,	
	2011	**2010**
	$	**$**
		(note 3)
Cash provided by (used in)		
Operating activities		
Loss	(344,010)	(188,471)
Item not affecting cash		
Writedown of equipment	-	15,000
Decrease (increase) in fair value of marketable	71,676	(82,294)
Gain on settlement of debts	-	(10,603)
Changes in non-cash working capital		
Receivables	(18,703)	1,578
Prepaid expenses	(20,000)	-
Accounts payable and accrued liabilities	276,343	258,579
	(34,694)	(6,211)
Financing activities		
Advances from Champion Minerals Inc.	16,000	9,304
Advances from Eloro Resources Ltd.	-	20,000
	16,000	29,304
Investing activities		
Purchase of marketable securities	(27,051)	(16,995)
Net decrease in cash	(45,745)	6,098
Cash, beginning of period	46,909	40,811
Cash, end of period	1,165	46,909

1. Nature of operations

Northfield Metals Inc. (the "Company") is a public company engaged in the acquisition, exploration and development of mineral resource properties. The Company is incorporated under the laws of Ontario and its registered office is located at 20 Adelaide Street East, Suite 301, Toronto, Ontario, M5C 2T6.

2. Going concern

The Company is in the exploration stage and has no revenue. As at December 31, 2011, the Company had a working capital deficit of $1,254,424, which included cash of $1,165, which is not sufficient to enable the Company to fund its operations and the acquisition, exploration and development of mineral resource properties. Accordingly, there is significant doubt as to the Company's ability to continue as a going concern. The Company has suspended the acquisition of mineral resource properties, reduced its operating expenditures and deferred the payment of management's consulting fees. The continued operations of the Company is dependent upon the support of its creditors and the Company's ability to secure equity financing to meet its existing obligations and finance the acquisition, exploration and development of mineral resource properties. The Company is actively seeking to raise the necessary equity financing, however, there can be no assurance that additional equity financing will be available.

These financial statements have been prepared on a going concern basis, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These 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 inappropriate, and these adjustments could be material.

3. Basis of presentation and adoption of International Financial Reporting Standards ("IFRS")

Statement of compliance

The financial statements are prepared in accordance with IFRS using accounting policies consistent with IFRS, including the application of IFRS 1, *First-time Adoption of IFRS*.

The financial statements were authorized for issue by the Board of Directors on April 30, 2012.

Basis of measurement

These financial statements have been prepared on the historical cost basis, except for marketable securities, which are measured at fair value.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates

The preparation of financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts reported in these financial statements and related note disclosures. Actual results could differ materially from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant assumptions and estimation uncertainties include:

- the provision for deferred income taxes based on estimated tax bases using substantively enacted tax rates expected to apply to taxable income during the years in which the differences are expected to be recovered or settled.

First-time Adoption of IFRS

In prior year, the Company's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Under IFRS 1, IFRS standards are applied retrospectively at the transition date subject to certain exceptions and exemptions.

Optional exemptions

The Company applied the following optional exemptions to full retrospective application of IFRS and made the following adjustments to transition from Canadian GAAP to IFRS:

Business combinations

IFRS 1 allows for IFRS 3, *Business Combinations*, to be applied retrospectively or prospectively. The Company elected to adopt IFRS 3 prospectively to business combinations subsequent to the date of transition. Accordingly, all business combinations after January 1, 2010 will be accounted for in accordance with IFRS 3.

Share-based payment transactions

IFRS 1 allows that full retrospective application may not apply to certain share-based instruments depending on the grant date and vesting terms. The Company elected to not apply IFRS 2, *Share-based Payment,* to share-based payments granted after November 7, 2002 that vested before the date of transition to IFRS. Accordingly, the Company has applied IFRS 2 only to unvested stock options outstanding as at January 1, 2010.

Reconciliations

The adoption of IFRS resulted in no changes to the statements of financial position as at January 1, 2010 and December 31, 2010 and the statements of loss and comprehensive loss and cash flows for the year ended December 31, 2010 previously presented under Canadian GAAP compared to the financial statements prepared under IFRS, and accordingly, no reconciliations are presented.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

Financial instruments

Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company has classified marketable securities as fair value through profit or loss.

Held-to-maturity financial assets
If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Company from classifying investment securities as held to maturity for the current and the following two financial years.

The Company has not classified any financial asset as held-to-maturity.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has classified cash and receivables as loans and receivables.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Company has not classified any financial asset as available-for-sale.

Non-derivative financial liabilities
The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company has classified accounts payable, due to Champion Minerals Inc. and due to Eloro Resources Ltd. as other liabilities.

Impairment of non-derivative financial assets
A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Financial assets carried at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the financial asset is reduced by the amount of the impairment loss and the impairment loss is recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

An impairment loss in respect of a financial asset classified as available-for-sale is calculated as the difference between the acquisition cost and the current fair value, less any impairment loss recognized previously in profit or loss. The impairment loss is recognized by reclassifying the loss from equity to profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss, except in the case of equity investments where the decrease in impairment loss is recognized in other comprehensive income.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Share-based payments

The Company offers a stock option plan for its directors, officers, employees and consultants. The fair value of stock options for each vesting period is determined using the Black-Scholes option pricing model and is recorded over the vesting period as an increase to stock-based compensation and contributed surplus. Upon the exercise of stock options, the proceeds received by the Company and the related contributed surplus are recorded as an increase to share capital.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted earnings per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted.

New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for periods beginning on or after January 1, 2013.

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments - Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 10, Consolidation ("IFRS 10")

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement ("IFRS 13")
IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards
In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10-13.

Effect of new standards
None of these new standards is expected to have a significant effect on the financial statements of the Company, except IFRS 9, which could change the classification and measurement of financial assets. The Company has not determined the extent of the impact of this new standard and does not plan to adopt this new standard early.

5. Marketable securities

Marketable securities include the following investments in related parties:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Cost	Fair value	Cost	Fair value	Cost	Fair value
	$	$	$	$	$	$
Eloro Resources Ltd. (“Eloro”)	66,429	37,670	34,832	22,480	34,832	30,910
Champion Minerals Inc. (“Champion”)	27,461	77,145	27,461	130,980	10,466	23,075
Bear Lake Gold Ltd. (“Bear Lake”)	5,375	525	5,375	1,989	5,375	2,175
	99,265	115,370	67,668	155,449	50,673	56,160

Two directors of the Company are directors of Eloro, two directors of the Company are directors of Champion and one director of the Company is a director of Bear Lake.

6. Accounts payable and accrued liabilities

During the year ended December 31, 2010, legal recourse to recover certain accounts payable became statute barred and therefore, the Company recorded a gain on settlement of debts of $10,603.

7. Due to Champion Minerals Inc. (“Champion”)

The amount due to Champion is unsecured, non-interest bearing and payable on demand. Two directors of the Company are directors of Champion.

8. Due to Eloro Resources Ltd. (“Eloro”)

The amount due to Eloro is unsecured, non-interest bearing and payable on demand. Two directors of the Company are directors of Eloro.

9. Share capital

Authorized
An unlimited number of Class A preferred shares 5% voting, redeemable, convertible, non-cumulative dividend, which are redeemable at $0.10 per share and convertible on the basis of one common share for each Class A preferred share.

An unlimited number of common shares.

Issued

	Number of common shares	Amount $
Balance, December 31, 2009, 2010 and 2011	21,566,604	1,666,399

Share consolidation
On July 28, 2011, the shareholders of the Company approved the consolidation of the issued common shares on the basis of 1 new share for up to 4 old common shares, with the actual consolidation ratio to be determined by the Board of Directors. As at April 30 2012, no share consolidation had been effected.

Stock options
The Company may grant options to its directors, officers, employees and consultants for up to 10% of the number of common shares outstanding. Options granted vest immediately and the maximum term of each option is 5 years. The exercise price shall not be less than the closing price of the common shares on a stock exchange in Canada on the last trading day immediately preceding the date of the grant, less any discount permissible under the rules of the principal stock exchange on which the common shares are listed for trading. In the event that the common shares are not listed for trading on any stock exchange, the exercise price shall be the fair market value as determined by the Board of Directors. As at December 31, 2011 and December 31, 2010 and January 1, 2010, there were 2,156,660 stock options available to be issued under the stock option plan and no stock options were outstanding.

10. Capital management

Capital of the Company consists of share capital, contributed surplus and deficit. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can acquire, explore and develop mineral resource properties for the benefit of its shareholders. The Company manages its capital structure and makes adjustments based on the funds available to the Company in light of changes in economic conditions. The Board of Directors has not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain the future development of the Company. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that consider various factors, including successful capital deployment and general industry conditions. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

As the Company is an exploration stage company and has no revenues, its principal source of capital is from the issue of common shares or advances from related parties. In order to achieve its objectives, the Company intends to raise additional funds as required.

The Company is not subject to externally imposed capital requirements and there were no changes to the Company's approach to capital management during the year.

11. Financial instruments and risk management

Fair value
Fair value represents the amount at which a financial instrument could be exchanged between willing parties.

The carrying value of cash, accounts payable and accrued liabilities, due to Eloro and Champion approximates fair value due to the short-term nature of these financial instruments.

Fair value hierarchy
The Company measures the fair value of its financial assets and financial liabilities based on the classification of the fair values in a hierarchy comprising three levels, which reflects the significance of the inputs used in making the measurements, described as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
Level 3: inputs for the asset or liability that are not based on observable market data.

Marketable securities are classified as Level 1 financial assets for all years.

Financial risk management
The Company has exposure to credit risk, liquidity risk and market risk with respect to its financial instruments.

Credit risk
Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Company's cash balances. The Company's limits its exposure to credit risk on its cash balances by holding its cash balances in deposits with high credit quality Canadian chartered bank.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial liabilities that are settled in cash or other financial assets. The Company's approach to managing liquidity risk is to ensure, as far as possible, that it will have sufficient liquidity to meet is liabilities as they come due. Substantially all of the Company's accounts payable and accrued liabilities have been outstanding over 90 days and the amounts due to Eloro and Champion are payable on demand. The Company has limited its liquidity risk by suspending the acquisition of mineral resource properties, reducing its operating expenditures, deferring the payment of management's consulting fees and arranging for advances from related parties.

Market risk
Market risk is the risk that changes in market prices, such as equity prices, foreign exchange rates, and interest rates will affect the Company's income or the value of its financial instruments.

Equity price risk
Equity price risk arises from the Company's marketable securities. The Company's approach to managing equity price risk is to optimize the return from it marketable securities within acceptable parameters for equity price risk. The Company estimates that if the fair value of its marketable securities as at December 31, 2011 had changed by 25%, with all other variables held constant, the net loss would have decreased or increased by $28,842.

Currency risk
Currency risk arises from the Company's financial instruments and purchases that are denominated in a currency other than the Canadian dollar, the Company's functional currency. As all of the Company's purchases are in Canadian dollars, the Company limits it exposure to currency risk by maintaining its cash balance in Canadian dollars.

Interest rate risk
The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments.

12. Income taxes
The Company's effective income tax rate differs from the amount that would be computed by applying the combined federal and provincial statutory rate of 28.25% (2010 - 30.99%) to the net loss for the year. The reasons for the difference are as follows:

Provision for income taxes

	2011 **$**	**2010** **$**
Expected income tax recovery based on statutory rate	(97,000)	(58,000)
Increase (decrease) resulting from:		
Gain on settlement of debts	–	(3,000)
Effect on change in rates (other)	12,000	(11,000)
Unrecorded tax benefit of losses	85,000	83,000
Other	–	(11,000)
	–	–

Deferred income tax balances
The Company's deferred income tax assets are as follows:

	2011 $	2010 $
Non-capital loss carryforward	372,000	477,000
Capital loss carryforward	2,800,000	2,801,000
Canadian exploration and evaluation	114,000	111,000
Foreign exploration and evaluation	355,000	358,000
Other	(2,000)	(21,000)
	3,639,000	3,726,000
Benefit of future tax assets not recorded	(3,639,000)	(3,726,000)
	–	–

Due to losses incurred in the current year and expected future operating results, management determined that it is unlikely that the deferred income tax assets will be realized. Accordingly, the future income tax assets have not been recorded.

Losses carried forward
At December 31, 2011, the Company had non-capital loss carryforwards which expire as follows:

	$
2015	68,000
2026	390,000
2028	304,000
2029	455,000
2030	269,000
	1,486,000

As at December 31, 2011, the Company had resource deductions of $1,875,000 which may be carried forward indefinitely to reduce taxable income in future years and capital losses of approximately $20,000,000 which may be carried forward indefinitely to be applied against capital gains in future years.

13. Related party transactions

	Years ended December 31,		Outstanding as at December 31,		Outstanding as at January 1,
	2011 $	2010 $	2011 $	2010 $	2010
Consulting fees for key management personnel payable pursuant to consulting contracts to three companies controlled by three officers, two of whom are also directors	240,000	240,000	1,227,600	956,400	694,800