LIONS GATE METALS

# Lions Gate Metals Inc.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
## (UNAUDITED)

**For the three month period ended March 31, 2011**

NOTICE TO READER

The accompanying unaudited condensed interim consolidated financial statements of Lions Gate Metals Inc. for the three months ended March 31, 2011 and 2010 have been prepared by and are the responsibility of the Company's management. These statements have not been reviewed by the Company's external auditors.

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**Expressed in Canadian Dollars**

| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | **$ 4,471,484** | $ 367,713 | $ 569,470 |
| Available-for-sale investments (Note 5) | **172,165** | 145,400 | 464,895 |
| Amounts receivable | **249,001** | 121,800 | 115,643 |
| Loan receivable (Note 6) | **1** | 1 | 29,926 |
| Prepaid expenses | **65,472** | 161,211 | 88,165 |
| **Total current assets** | **4,958,123** | 796,125 | 1,268,099 |
| **Non-current assets** | | | |
| Reclamation deposits (Note 7) | **44,098** | 44,002 | 12,000 |
| Exploration and evaluation assets (Note 8) | **6,533,374** | 5,231,629 | 2,528,764 |
| **Total non-current assets** | **6,577,472** | 5,275,631 | 2,540,764 |
| **Total assets** | **$11,535,595** | $ 6,071,756 | $3,808,863 |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | **$ 506,172** | $ 198,392 | $ 113,954 |
| Due to related parties (Note 12) | **65,329** | 7,560 | 143,548 |
| Other liabilities (Note 9) | **157,895** | - | - |
| **Total current liabilities** | **729,396** | 205,952 | 257,502 |
| **Total liabilities** | **729,396** | 205,952 | 257,502 |
| **Shareholders' equity** | | | |
| Share capital (Note 10) | **$20,187,418** | $ 15,819,452 | $12,096,545 |
| Share subscriptions receivable | **(570,000)** | - | - |
| Share purchase warrants (Note 10) | **3,166,114** | 1,902,699 | 1,687,299 |
| Contributed surplus (Note 10) | **2,076,441** | 1,630,073 | 1,617,893 |
| Accumulated other comprehensive loss/income | **120,923** | 1,851 | 68,171 |
| Accumulated deficit | **(14,174,697)** | (13,488,271) | (11,918,547) |
| **Total shareholders' equity** | **$10,806,199** | $ 5,865,804 | $ 3,551,361 |
| **Total liabilities and shareholders' equity** | **$11,535,595** | $ 6,071,756 | $ 3,808,863 |

**Expressed in Canadian Dollars**

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| **Interest and other income** | **$ 96** | $ - |
| **Expenses** | | |
| Accounting and audit | **8,638** | 8,208 |
| Advertising and promotion | **14,633** | 31,844 |
| Bank charges and interest | **1,097** | 255 |
| Conferences and trade shows | **10,987** | 2,390 |
| Consulting and management fees (Note 12) | **56,975** | 125,070 |
| Director fees | **-** | 25,250 |
| Filing and transfer agent fees | **13,762** | 43,190 |
| General exploration | **2,750** | - |
| Insurance | **5,753** | 5,795 |
| Investor relations | **5,000** | - |
| Legal | **40,380** | 101,484 |
| Office, rent and telephone (Note 12) | **29,641** | 32,457 |
| Salaries and benefits (Note 12) | **42,919** | - |
| Stock based compensation | **398,335** | 126,561 |
| Travel and accommodation | **31,087** | 28,538 |
| **Total expenses** | **661,957** | 531,042 |
| **Loss before undernoted items** | **(661,861)** | (531,042) |
| **Other Income (expense)** | | |
| Interest expense | **(2,700)** | (635) |
| Write down of mineral property interests | **(2,050)** | - |
| Recovery of loan | **98,420** | - |
| Loss on sale of securities | **(115,847)** | - |
| Foreign exchange | **(2,388)** | (1,114) |
| **Loss for the period** | **$ (686,426)** | $ (532,791) |
| **Other comprehensive income** | | |
| Fair value gains/(losses) on available-for-sale investments | **$ 119,072** | $(262,040) |
| **Total other comprehensive income** | **$ 119,072** | $ (262,040) |
| **Total comprehensive loss for the period** | **$ (567,354)** | $ (794,831) |
| **Loss per common share, basic and diluted (Note 14)** | **$ (0.03)** | $ (0.07) |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# Lions Gate Metals Inc.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

**Expressed in Canadian Dollars**

**For the three months ended March 31, 2011**

| | Share capital | Share Subscriptions Receivable | Share purchase warrants | Contributed surplus | Accumulated other comprehensive loss | Deficit | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2010** | **$12,096,545** | **$ -** | **$1,687,299** | **$ 1,617,893** | **$68,171** | **$(11,918,547)** | **$3,551,361** |
| Loss for the period | - | - | - | - | - | (532,791) | (532,791) |
| Stock options issued | - | - | - | 126,561 | - | - | 126,561 |
| Options exercised | 213,400 | - | - | - | - | - | 213,400 |
| Exercised options reversal | 123,422 | | | (123,422) | | | - |
| Change in fair value of investments | - | - | - | - | (262,040) | - | (262,040) |
| **Balance at March 31, 2010** | **$12,433,367** | **$ -** | **$1,687,299** | **$1,621,032** | **$ (193,869)** | **$(12,451,338)** | **$3,096,491** |
| Loss for the period | - | - | - | - | - | (1,036,933) | (1,036,933) |
| Private placements | 1,114,600 | - | - | - | - | - | 1,114,600 |
| Mineral property interest issuances | 2,414,000 | - | - | - | - | - | 2,414,000 |
| Share issue costs | (142,515) | - | - | - | - | - | (142,515) |
| Private placement - warrants | - | - | 215,400 | - | - | - | 215,400 |
| Stock options issued | - | - | - | 9,041 | - | - | 9,041 |
| Write down of investments | - | - | - | - | (147,424) | - | (147,424) |
| (Loss) Gain on sale of investments | - | - | - | - | (72,833) | - | (72,833) |
| Change in fair value of investments | - | - | - | - | 415,977 | - | 415,977 |
| **Balance at December 31, 2010** | **$15,819,452** | **$ -** | **$1,902,699** | **$ 1,630,073** | **$ 1,851** | **$(13,488,271)** | **$5,865,804** |
| Loss for the period | - | - | - | - | - | (686,426) | (686,426) |
| Private placement | 5,031,200 | - | - | - | - | - | 5,031,200 |
| Flow-through share issuance | 1,000,000 | - | - | - | - | - | 1,000,000 |
| Flow-through liability allocation | (157,895) | - | - | - | - | - | (157,895) |
| Stock options issued | - | - | - | 446,368 | - | - | 446,368 |
| Warrants issued | (1,263,415) | - | 1,263,415 | - | - | - | - |
| Mineral property interest issuances | 41,000 | - | - | - | - | - | 41,000 |
| Share issue costs | (282,924) | - | - | - | - | - | (282,924) |
| Share subscriptions outstanding | - | (570,000) | - | - | - | - | (570,000) |
| (Loss) Gain on sale of investments | - | - | - | - | (115,847) | - | (115,847) |
| Change in fair value of investments | - | - | - | - | 234,919 | - | 234,919 |
| **Balance at March 31, 2011** | **$ 20,187,418** | **$ (570,000)** | **$3,166,114** | **$ 2,076,441** | **$ 120,923** | **$ (14,174,697)** | **$ 10,806,199** |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

**Expressed in Canadian Dollars**

| | **March 31, 2011** | **March 31, 2010** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss for the period | **$ (686,426)** | $ (532,791) |
| Adjustments to reconcile loss to net cash used in operating activities: | | |
| Foreign exchange loss | **2,388** | 1,114 |
| Stock based compensation | **398,335** | 126,561 |
| Loss (Gain) on sale of investments | **115,847** | - |
| Writedown of mineral property interests | **2,050** | - |
| Net change in non-cash working capital balances | **(101,118)** | (255,295) |
| **Total cash inflows (outflows) from operating activities** | **$ (268,924)** | $ (660,411) |
| **Cash flows from investing activities** | | |
| Acquisition of exploration and evaluation assets | **(930,461)** | (59,597) |
| Purchase of reclamation bond | **-** | (32,000) |
| Repayment of advance | **-** | 29,925 |
| Recovery of loan | **98,420** | - |
| Proceeds from sale of investments | **105,275** | - |
| Acquisition of investments for cash | **(128,815)** | - |
| **Total cash (outflows) from investing activities** | **(855,581)** | (61,672) |
| **Cash flows from financing activities** | | |
| Proceeds from common share issuance | **4,461,200** | - |
| Proceeds from flow-through share issuance | **1,000,000** | - |
| Proceeds from the exercise of options | **-** | 213,400 |
| Payments of share issuance costs | **(282,924)** | - |
| Director loan | **50,000** | - |
| **Total cash inflows from financing activities** | **5,228,276** | 213,400 |
| **Total increase (decrease) in cash during the period** | **4,103,771** | (508,683) |
| **Cash and cash equivalents at beginning of period** | **367,713** | 569,470 |
| **Cash and cash equivalents at end of period** | **$ 4,471,484** | $ 60,787 |

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

# 1. NATURE OF OPERATIONS

Lions Gate Metals (the "Company") was incorporated under the Canada Business Corporations Act on March 28, 1980, and has continued as a company under the Business Corporations Act of British Columbia. The common shares of the Company are listed for trading on the TSX Venture Exchange ("TSXV") under the symbol "LGM", as a Tier 1 mining issuer. The Company is in the process of exploring its mineral property interests and has not yet determined whether these property interests contain reserves that are economically recoverable.

The Company has not generated revenue from operations. The Company incurred a net loss of $686,426 during the three months ended March 31, 2011 and, as of that date the Company's deficit was $14,174,697. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting period. Accordingly, the Company's consolidated financial statements are presented on a going concern basis, which assume that the Company will continue to realize its assets and discharge its liabilities in the normal course of business.

To date, the Company has not earned significant revenues and is considered to be in the exploration stage. The recoverability of the costs incurred for mineral property interests and their related deferred exploration expenditures is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties, and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

The address of the Company's corporate office and principal place of business is #880 – 609 Granville Street, Vancouver, British Columbia, Canada.

# 2. BASIS OF PREPARATION

a) **Statement of Compliance**

The consolidated financial statements of the Company for the year-ending December 31, 2011 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). These condensed consolidated interim financial statements for the three month period ended March 31, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

As these condensed consolidated interim financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with pre-changeover Canadian GAAP have been included in these financial statements for the comparative annual period. However, these condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2010 annual financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company that is provided in Note 18.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on June 27, 2011.

b) **Basis of Measurement**

The condensed consolidated interim financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

# 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are expected to be adopted for the year-ending December 31, 2011 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The IASB continues to amend and add to current IFRS standards and interpretations with several projects underway. Accordingly, the accounting policies adopted by the Company for the Company's first IFRS annual consolidated financial statements will be determined as at December 31, 2011. In the event that accounting policies adopted at December 31, 2011 or expected to be adopted at December 31, 2011 differ materially from the accounting policies used in the preparation of these unaudited interim consolidated financial statements, these unaudited interim consolidated financial statements will be restated to retrospectively account for the application of those policies adopted at December 31, 2011 or expected to be adopted at December 31, 2011 in the period accounting policies are determined or a prior period when the expectation of accounting policies to be adopted changes.

a) **Basis of Consolidation**

The consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiary, Northern Canadian Metals Inc., which subsidiary was incorporated by the Company on December 13, 2010. All intercompany transactions are eliminated on consolidation.

b) **Foreign Currency Transactions**

Foreign currency accounts are translated into Canadian dollars, the Company's functional currency, as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive loss consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

c) **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

d) **Mineral Exploration and Evaluation Expenditures**

**Pre-exploration Costs**

Pre-exploration costs are expensed in the period in which they are incurred.

**Exploration and Evaluation Expenditures**

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, and payments made to contractors. The Company also capitalizes stock-based compensation relating to project employees located on-site. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

e) **Reclamation Deposits**

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits. Reclamation deposits are classified as loans and receivables.

f) **Impairment of Non-Financial Assets**

The Company assesses at each date of the statement of financial position the carrying amounts of non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized.

g) **Financial Instruments**

**Financial Assets**

Financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as loans and receivables are measured at amortized cost less impairment. The Company has classified its cash and cash equivalents, amounts receivable, and reclamation deposits as loans and receivables.

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company has no financial assets classified as FVTPL.

Financial assets classified as held-to-maturity are measured at amortized cost. The Company has no financial assets classified as held-to-maturity.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has classified its investments and loans receivable as available-for-sale financial assets.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

**Impairment on Financial Assets**

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

**Financial Liabilities**

Financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or classified as other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income or loss. The Company has no financial liabilities classified as FVTPL.

**Classification**

A summary of the Company's classification of financial instruments is as follows:

| **Financial Instrument** | **Classification** |
|---|---|
| Cash and cash equivalents | Loans and receivables |
| Amounts Receivable | Loans and receivables |
| Investments | Available-for-sale |
| Loans receivable | Available-for-sale |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Reclamation deposits | Loans and receivables |

h) **Provisions**

**Rehabilitation Provision**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur. The Company has not recorded any rehabilitation provisions as at March 31, 2011.

**Other Provisions**

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date. The Company has not recorded any other provisions as at March 31, 2011.

i) **Income Taxes**

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

j) **Share Capital**

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Flow-through Shares**

The Company will from time to time issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognised as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through share proceeds in Note 10.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

**Earnings / Loss Per Share**

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

k) **Share-based Payments**

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The fair value of stock options is determined by the Black-Scholes option pricing model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's common shares and an expected life of the options. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

l) **Revenue Recognition**

The Company recognizes interest income as earned, dividends when declared, and investment gains and losses when realized. Interest income includes amortization of any premium or discount recognized at date of purchase. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Unrealized gains and losses on available-for-sale investments are recorded in other comprehensive income (loss) and recognized in consolidate operations when realized.

Transaction costs are included in the acquisition cost of individual investments and recognized as part of the realized gains or losses when they are sold or written down. When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and current fair value is recorded in the Company's consolidated statement of operations.

m) **Comprehensive Income (Loss)**

Comprehensive income (loss) consists of income (loss) for the period and other comprehensive income (loss). Amounts are recorded in other comprehensive income (loss) until the criteria for recognition in the Company's consolidated statements of operations are met.

n) **Standards, Amendments and Interpretations Not Yet Effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning after January 1, 2010, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

***Accounting standards effective January 1, 2012***

*Financial instruments disclosure*

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures* that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

*Income taxes*

In December 2010, the IASB issued an amendment to IAS 12 – *Income taxes* that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. The Company does not anticipate this amendment to have a significant impact on its condensed consolidated financial statements.

***Accounting standards anticipated to be effective January 1, 2013***

*Joint ventures*

The IASB issued IFRS 11 – *Joint Arrangements* on May 12, 2011. IFRS 11 eliminates the Company's choice to proportionately consolidate jointly controlled entities and required such entities to be accounted for using the equity method and proposes to establish a principles-based approach to the accounting for joint arrangements which focuses on the nature, extent and financial effects of the activities that an entity carries out through joint arrangements and its contractual rights and obligations to assets and liabilities, respectively, of the joint arrangements. The Company is currently evaluating the impact IFRS 11 is expected to have on its consolidated financial statements.

*Consolidation*

On September 29, 2010, the IASB posted a staff draft of a forthcoming IFRS on consolidation. The staff draft reflects tentative decisions made to date by the IASB with respect to the IASB's project to replace current standards on consolidation, IAS 27 - *Consolidated and Separate Financial Statements* and SIC-12, with a single standard on consolidation. The IASB plans on publishing the final standard on consolidation during the first half of 2011, with an anticipated effective date of January 1, 2013. The Company is currently evaluating the impact the final standard is expected to have on its consolidated financial statements.

*Financial instruments*

IFRS 9, *Financial Instruments: Classification and Measurement*, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 9.

*Fair-value measurement*

IFRS 13, *Fair Value Measurement*, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, sets out in a single IFRS a framework for measuring fair value and new required disclosures about fair value measurements. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2013, and has not yet considered the potential impact of the adoption of IFRS 13.

o) **Adoption of International Financial Reporting Standards**

The Company's financial statements for the year-ending December 31, 2011 are the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). For reconciliations of the Company's financial statements between pre-changeover Canadian GAAP and IFRS, please see Note 18.

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

**OPTIONAL EXEMPTIONS**

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

**Share-based Payment Transactions**

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

**Leases**

The Company has elected to apply the requirements of IFRIC 4 to all arrangements existing at the transition date, based on the facts and circumstances at that date.

**Borrowing Costs**

The Company has elected to apply the transitional provisions of IAS 23 Borrowing Costs which permits prospective capitalization of borrowing costs on qualifying assets from the Transition Date.

**MANDATORY EXCEPTIONS**

**Derecognition of Financial Assets and Liabilities**

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

**Estimates**

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

# 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Lions Gate Metals Inc. makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affec ts both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the condensed interim financial statements within the next financial year are discussed below:

### i) Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

### ii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

### iii) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

**Expressed in Canadian Dollars**

**iv) Share-based Payment Transactions**

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 11.

## 5. AVAILABLE-FOR-SALE INVESTMENTS

| | Mar 31, 2011 | Dec 31, 2010 | Jan 1, 2010 |
|---|---|---|---|
| Balance, beginning of period | $145,400 | $464,895 | $443,650 |
| Additions | 128,815 | - | 416,183 |
| Dispositions | (221,122) | (28,048) | (2,063,173) |
| (Loss) Gain on sale of investments | (115,847) | (72,833) | 1,224,022 |
| Write down for permanent impairment | - | (147,424) | - |
| Fair value adjustment | 234,919 | (71,190) | 444,213 |
| Balance, end of period | **$172,165** | **$145,400** | **$464,895** |

Available-for-sale investments consists of an investment in common shares of public companies, and therefore there is no fixed maturity date or coupon rate. The fair value of the listed available-for-sale investments has been determined directly by reference to published price quotations in an active market.

| | March 31, 2011 | | | December 31, 2010 | | | January 1, 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| Available-for-sale investments | # of shares | Original Cost $ | Fair Value $ | # of shares | Original Cost $ | Fair Value $ | # of shares | Original Cost $ | Fair Value $ |
| Copper One Inc. | 20,000 | 14,584 | 9,500 | 20,000 | 14,584 | 9,400 | 20,000 | 14,584 | 9,300 |
| Crescent Resources Corp. | 88,000 | 62,368 | 33,440 | 400,000 | 283,490 | 136,000 | 2,169,500 | 401,600 | 455,595 |
| Atlantis Gold Mines Corp. | 400,000 | 100,000 | 100,000 | - | - | - | - | - | - |
| Catalyst Copper Corp. | 167,000 | 28,815 | 29,225 | - | - | - | - | - | - |
| | | 205,767 | 172,165 | | 298,074 | 145,400 | | 416,184 | 464,895 |

## 6. LOAN RECEIVABLE

In November, 2008, the Company loaned $400,000 U.S. (the "Principal Sum") to a third party borrower. As security, the borrower provided a promissory note which acknowledged itself indebted to the Company and promised to pay on or before May 15, 2009 the Principal Sum, together with interest thereon at the rate of fifteen percent, payable at maturity. On May 20, 2009, the Company received $100,000 U.S. and agreed to extend the payment terms to July 15, 2009. The third party borrower did not make payment on or before July 15, 2009 and the $300,000 U.S. plus $60,000 U.S. in interest remained outstanding. The Company communicated with the third party weekly, and during the year ended December 31, 2009, determined to write the loan down to $1 due to concerns with respect to collectability.

During the year ended December 31, 2010, the repayment terms included in the promissory note were amended. The balance of the Principal Sum and accrued interest was agreed to be repaid to the Company in six equal installments of $60,000 U.S. commencing March 5, 2010, and concluding with a final payment on August 27, 2010. The Company received no repayments during the year ended December 31, 2010.

On February 24, 2011, the Company received $100,000 U.S. from the borrower and has recorded this as a recovery in its consolidated statement of operations. If necessary, the Company may commence legal action to recover any balance owing in respect of the loan.

## 7. RECLAMATION DEPOSITS

The Company is required to make reclamation deposits in respect of its expected rehabilitation obligations. The reclamation bonds represent collateral for possible reclamation activities necessary on mineral properties in connection with the permits required for exploration activities by the Company. The reclamation deposits are held in GICs.

**Expressed in Canadian Dollars**

## 8. EXPLORATION AND EVALUATION ASSETS

**Mineral Property Interests**

| | Balance Dec. 31, 2010 | Current Quarter Costs Incurred | Write-Down for Valuation | Balance March 31, 2011 |
|---|---|---|---|---|
| Poplar mineral property interest<br>Omineca Mining Division of BC<br>100% interest | $ 787,205 | $ - | $ - | $ 787,205 |
| Kelly Creek mineral property interest<br>Omineca Mining Division of BC<br>100% interest | 1 | - | - | 1 |
| Hudson Bay Mountain mineral property interest<br>Omineca Mining Division of BC<br>100% interest | 1,160,245 | - | - | 1,160,245 |
| Copperline mineral property interest<br>60% interest | 1,630,760 | - | - | 1,630,760 |
| ROK – Coyote mineral property interest<br>75% interest | - | 234,000 | - | 234,000 |
| **Total** | **$ 3,578,211** | **$ 234,000** | **$ -** | **$ 3,812,211** |

**Deferred Exploration Expenditures**

| | Balance Dec. 31, 2010 | Current Quarter Costs Incurred | Write-Down for Valuation | Balance March 31, 2011 |
|---|---|---|---|---|
| **Poplar** | | | | |
| Airborne survey | $ 334,129 | - | - | $ 334,129 |
| Assays | 32,891 | 1,464 | - | 34,355 |
| Camp costs | 228,999 | 221,984 | - | 450,983 |
| Consulting | 416,184 | 83,569 | - | 499,753 |
| Drilling | 297,579 | 524,087 | - | 821,666 |
| Environmental | 94,545 | 10,537 | - | 105,082 |
| Field expenditures and personnel | 291,257 | 121,380 | - | 412,637 |
| Geophysical/I.P. magnetic survey | 99,435 | 91,567 | - | 191,002 |
| Line cutting | 34,201 | - | - | 34,201 |
| Maps and reports | 813 | 1,418 | - | 2,231 |
| Miscellaneous | 23,912 | 2,254 | - | 26,166 |
| Telecommunications | 5,460 | 545 | - | 6,005 |
| Travel and accommodation | 70,382 | 8,940 | - | 79,322 |
| Mining exploration tax credits claimed | (286,369) | - | - | (286,369) |
| | 1,643,418 | 1,067,745 | - | 2,711,163 |
| **Hudson Bay Mountain** | | | | |
| Consulting | 10,000 | - | - | 10,000 |
| **ROK – Coyote** | | | | |
| Consulting & Mapping | - | 2,050 | (2,050) | - |
| | 1,653,418 | 1,070,245 | (2,050) | 2,721,163 |
| **Total** | **$ 5,231,629** | **$ 1,304,245** | **$ (2,050)** | **$ 6,533,374** |

**Expressed in Canadian Dollars**

**Mineral Property Interests**

| | Balance Jan. 1, 2010 | 2010 Costs Incurred | Write-Down for Valuation | Balance Dec. 31, 2010 |
|---|---|---|---|---|
| Poplar mineral property interest<br>Omineca Mining Division of BC<br>100% interest | $ 661,214 | $ 125,991 | $ - | $ 787,205 |
| Kelly Creek mineral property interest<br>Omineca Mining Division of BC<br>100% interest | 1 | 16,000 | (16,000) | 1 |
| Hudson Bay Mountain mineral property interest<br>Omineca Mining Division of BC<br>100% interest | 125,000 | 1,086,959 | (51,714) | 1,160,245 |
| Copperline mineral property interest<br>60% interest | - | 1,630,760 | - | 1,630,760 |
| **Total** | **$ 786,215** | **$2,859,710** | **$ (67,714)** | **$ 3,578,211** |

**Deferred Exploration Expenditures**

| | Balance Jan. 1, 2010 | 2010 Costs Incurred | Write-Down for Valuation | Balance Dec. 31, 2010 |
|---|---|---|---|---|
| **Poplar** | | | | |
| Airborne survey | $ 322,406 | $ 11,723 | $ - | $ 334,129 |
| Assays | 29,301 | 3,590 | - | 32,891 |
| Camp costs | 191,826 | 37,173 | - | 228,999 |
| Consulting | 307,322 | 108,862 | - | 416,184 |
| Drilling | 297,579 | - | - | 297,579 |
| Environmental | 85,232 | 9,313 | - | 94,545 |
| Field expenditures and personnel | 291,057 | 200 | - | 291,257 |
| Geophysical/I.P. magnetic survey | 95,335 | 4,100 | - | 99,435 |
| Line cutting | 34,201 | - | - | 34,201 |
| Maps and reports | 423 | 390 | - | 813 |
| Miscellaneous | 20,626 | 3,286 | - | 23,912 |
| Telecommunications | 2,103 | 3,357 | - | 5,460 |
| Travel and accommodation | 65,138 | 5,244 | - | 70,382 |
| Mining exploration tax credits claimed | - | (286,369) | - | (286,369) |
| | **$ 1,742,549** | **$ (99,131)** | **$ -** | **$ 1,643,418** |
| **Hudson Bay Mountain** | | | | |
| Consulting | - | 12,094 | (2,094) | 10,000 |
| Field expenditures and personnel | - | 945 | (945) | - |
| | 1,742,549 | (86,092) | (3,039) | 1,653,418 |
| **Total** | **$ 2,528,764** | **$ 2,773,618** | **$ (70,753)** | **$ 5,231,629** |

The impairment assessment of exploration and evaluation assets resulted in write-downs of the Company's properties of $2,050 in Q1 (December 31, 2010 - $3,039). Mineral property write-downs were $nil in Q1 (December 31, 2010 - $67,714).

Title to mineral property interests involve 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 characteristics of many mineral property interests. The Company has investigated title to all of its mineral property interests and, to the best of its knowledge, title to all of them are in good standing.

Management reviewed the valuation of the mineral property interests and in previous years took the decision to write down acquisition costs to the cash outlays for its interests due to the lack of funds available at the time to further progress the interests. All of the mineral property interest costs and deferred exploration expenditures incurred with respect to the Poplar, Hudson Bay Mountain and Copperline mineral property interests will continue to be capitalized in accordance with the Company's disclosed basis of accounting. It is management's full intention to keep all of its current mineral property interests in good standing.

**Poplar**

By an agreement dated April 20, 2004, the Company was granted an option to acquire a 50% interest in 26 mineral claims, known as the Poplar mineral property interest, situated in the Omineca Mining Division of B.C. Consideration paid to exercise the option totaled $147,777, share issuances of 40,000 common shares and aggregate exploration expenditures in excess of $275,000.

In December 2007, the Company finalized terms with Hathor Exploration Limited to grant the Company an option to acquire the remaining 50% interest in the Poplar mineral property interest by issuing 240,000 common shares in stages and by making annual payments of $75,000 in cash or shares, with reference to the initial payment which was made in December, 2005. The Company continues to make its obligated annual $75,000 payments and has previously issued the 240,000 common shares, with the final 190,000 shares being issued by the Company in December 2007 to exercise the option.

The optionor of the mineral property interests retains a 2% net smelter return royalty ("NSR").

During the year ended December 31, 2005, the Company paid $11,000 for a reclamation bond pursuant to regulatory requirements against reclamation obligations relating to exploration work on the Poplar mineral property interest. To date, the Company has purchased an additional $33,098 in reclamation bonds for a total of $44,098.

During the year ended December 31, 2008, the Company staked 44,963 additional hectares in the area adjacent to the Poplar mineral property interest. These mineral claim holdings are 100% owned by the Company and all mineral claims are current and in good standing.

On April 15, 2009 the Company entered into an option agreement with an unrelated third party to earn the exclusive right and option to acquire 100% legal and beneficial interest in sixteen mineral claims south of Poplar Lake. The Company will earn its 100% interest in the property by issuing 10,000 of its common shares upon transfer of the claims to the Company, 20,000 common shares on the first anniversary of the transfer of claims to the Company, 30,000 common shares on the second anniversary of the transfer of claims to the Company and 40,000 common shares on the third anniversary of the transfer of claims to the Company. Additionally, should the claims be found to contain economically recoverable metal values, the Company may offer a total maximum payable of $1,000,000 less any NSR amounts previously paid. On April 30, 2009 the Company issued 10,000 of its common shares in respect of this agreement and valued these shares at $9,500 and on July 29, 2010, the Company issued 20,000 shares and valued these shares at $11,200.

On May 25, 2009 the Company entered into an option agreement with an unrelated third party to earn the exclusive right and option to acquire 100% legal and beneficial interest on three mineral claims south of Poplar Lake. The Company will earn its 100% interest in the property interest by issuing 2,500 of its common shares upon transfer of the claims to the Company, 5,000 common shares on the first anniversary of the transfer of claims to the Company, 7,500 common shares on the second anniversary of the transfer of claims to the Company and 15,000 common shares on the third anniversary of the transfer of claims to the Company. Additionally, should the claims be found to contain economically recoverable metal values, the Company may offer a total maximum payable of $100,000 in the form of a 1% NSR or a one-time only buy-out by the Company of $100,000 less any NSR amounts previously paid. On May 25, 2009 the Company issued 2,500 of its common shares in respect of this agreement and valued the shares at $2,000, and on July 29, 2010, the Company issued 5,000 shares and valued these shares at $2,800.

On August 20, 2009 the Company announced that The Office of the Wet'suwet'en, representing the interests of five Clans and thirteen Houses, and the senior executive of the Company have concluded a Memorandum of

Understanding (“MoU”). The MoU recognized that both parties to the MoU are committed to a respectful, consultative relationship with regard to the Company’s mineral exploration activities on Wet’suwet’en territories.

On signing the MoU, the Company paid the Office of the Wet’suwet’en $10,000 and is obligated to make annual $10,000 payments until such time as the MoU is terminated by either party. The Company’s 2010 spring exploration program on its Poplar property interest was abandoned due to unresolved internal issues of political representation and jurisdiction between the Wet’suwet’en Heredity Chiefs and a particular House group with the Wet’suwet’en Nation. This issue was raised on April 6, 2010 by a number of individuals who attended the site of the Company’s planned exploration activities. Further discussion with the Unis’tot’en have occurred, and the Company subsequently paid $10,000 to the Unis’tot’en and is currently funding a traditional use study of the Poplar area of geographical interest. Subsequent to the year ended December 31, 2010, the Company commenced a drilling program of approximately 5,500 metres, which was completed on April 13, 2011. Several First Nations personnel were employed on this program. Discussions with affected First Nations groups are ongoing with respect to a Company proposal to conduct a further exploration program in the third quarter of 2011.

**Kelly Creek**

By an agreement dated July 26, 2004, the Company was granted an option to acquire an undivided 100% interest in what are now 6 mineral claims, known as the Kelly Creek mineral property interest, situated in the Omineca Mining Division of B.C. Terms of the agreement were the payment of $20,000 and the issuance of 100,000 common shares of the Company to be issued in various stages, with the final 40,000 common shares being issued in July, 2007. The optionor retains a 2% NSR, in respect of these mineral claims, with the Company being granted the right to purchase 1% of this royalty for consideration of $1,000,000.

The Kelly Creek mineral property interest is 100% owned by the Company and all related mineral claims are current and in good standing.

**Hudson Bay Mountain**

The Company acquired a 100% interest in certain mineral claims known as the Hudson Bay Mountain mineral property interest located near Smithers, British Columbia by issuing 460,000 common shares in May 2005 and by making annual payments of $25,000, with reference to the initial payment which was made in May 2005. The Company has negotiated with the vendor and the previous annual $25,000 payment obligation has been waived by the vendor in connection with the 2010 agreement disclosed below. The vendor retains a 2% NSR in respect of these mineral claims.

During the quarter ended March 31, 2011, tenure fees of $Nil (March 31, 2010 - $Nil) were paid to keep these mineral property interests in good standing, and the 2009 annual payment obligation of $25,000 pursuant to the agreement was made in April 2009.

The Hudson Bay Mountain mineral property interest is 100% owned by the Company and all mineral claims are current and in good standing. During the year ended December 31, 2009, the Company renewed 22 claims on the Hudson Bay Mountain mineral property interest totaling 8,236 hectares, and 11 claims totaling 1,398 hectares were not renewed.

On July 29, 2010, the Company announced that it had entered into an agreement to acquire additional claims, known as the Mason claims, surrounding its existing mineral property interest on Hudson Bay Mountain. The Mason claims are located on Hudson Bay Mountain, a short distance west of Smithers, B.C. The addition of these claims increases the Company’s claims on Hudson Bay Mountain to 82 tenures totaling over 26,000 hectares. Pursuant to a sale and purchase agreement entered into between the Company and the vendor of the Mason claims, the Company acquired a 100% interest in the property interest by (i) issuing to the vendor 1,300,000 common shares of the Company, and valued the shares at $780,000; (ii) paying a total of $250,000 cash ($150,000 at the closing of the acquisition and $100,000 on September 13, 2010); and (iii) granting the vendor a 2% net smelter returns royalty on the Mason claims.

**Copperline**

On July 29, 2010 the Company entered into an agreement to acquire a 60% interest in the Copperline mineral property interest in British Columbia. The Copperline property surrounds Skutsil Knob at the south end of the Driftwood Range, 25 km northwest of Takla Lake, and about 120 km northeast of Smithers, B.C. Pursuant to the sale and purchase agreement, the Company has acquired a 60% undivided beneficial and recorded interest in the Copperline mineral property interest in consideration for the issuance to the vendor of a total of 2,700,000 common shares (issued) in the share capital of the Company, and valued the shares at $1,620,000.

The remaining 40% interest in the mineral property interest is held by Max Minerals Ltd. (TSXV: MJM) and following the acquisition of the 60% interest, the Company has assumed the vendors' rights and obligations pursuant to an existing joint venture with Max Minerals Ltd.

A portion of the claims comprising the Copperline property interest is subject to a 1.5% net smelter returns royalty held by Cominco Ltd. Kleinebar Resources Ltd. ("Kleinebar") also holds a 0.5% net smelter returns royalty on the part of the property interest subject to the Cominco royalty, and a 1.25% net smelter returns royalty on the balance of the property interest. The Kleinebar royalty can be purchased at any time for $500,000.

**ROK-Coyote**

On January 21, 2010, the Company entered into a letter of intent ("LOI"), as amended, with Firesteel Resources Inc. ("Firesteel") for an option to acquire a 75% interest in the ROK-Coyote mineral property interest (the "Property") situated in the Stikine Arch region of north-western B.C. comprising 19 contiguous claims covering 6,891 hectares. Pursuant to the terms of the LOI, the Company is to be granted an option (the "Option") to acquire a seventy-five percent (75%) interest in the Property in consideration for the issuance of an aggregate of $496,000 in cash, and an aggregate exploration expenditures commitment of $2,329,000 over a period of four years (the "Option Period"). During the Option Period, the Company will be the operator on the Property. A $22,000 cash finder's fee will be payable on TSXV acceptance of a formal option agreement.

As at March 31, 2011, included in exploration and evaluation assets is a cash payment of $50,000 made by the Company to Firesteel which shall be credited against the cash payment and exploration expenditure commitment obligations pursuant to the Option. Any common shares issued pursuant to the Option shall be subject to a pooling arrangement providing for the release of 25% of such shares on acceptance and 25% every three months thereafter. The Company shall also have a first right to repurchase or arrange for the purchase of any of its shares to be issued to Firesteel. Firesteel retains the right to acquire a five percent (5%) interest in the Property for $200,000 at any time following the date which is three years after the Option is accepted for filing by the TSXV and is prior to a production decision being made by the Company concerning the Property. In the event Firesteel elects to exercise this right, the Company's rights pursuant to the Option would be reduced to a 70% interest in the Property. Firesteel will also be granted a 2% net smelter return royalty ("Royalty") on the Property, subject to the Company's right to purchase ½ of such royalty (1%) for $1,000,000 at any time within 240 days of commencement of commercial production. The Property consists of two blocks earned or under option by Firesteel from previous claim holders, each with 2% royalty obligations; one block in an area of common interest with a 0.5% royalty obligation; and a fourth block with no previous royalty obligation.

In 2011, the Company entered into a formal option agreement as contemplated by the LOI, which agreement was subsequently accepted for filing by the TSXV. In connection with this acceptance, the Company satisfied its initial obligations by paying Firesteel $121,000, and issuing 50,000 of its common shares to Firesteel.

**Expressed in Canadian Dollars**

## 9. OTHER LIABILITIES

Other liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through shares issuances.

**Flow-through Shares**

| | Issued on June 18, 2010 | Issued on March 10, 2011 | Total |
|---|---|---|---|
| **Balance at January 1, 2010** | **$ -** | **$ -** | **$ -** |
| Liability incurred on flow-through shares issued | - | - | - |
| Settlement of flow-through share liability on incurring expenditures | - | - | - |
| **Balance at December 31, 2010** | **$ -** | **$ -** | **$ -** |
| Liability incurred on flow-through shares issued | - | 157,895 | 157,895 |
| Settlement of flow-through share liability on incurring expenditures | - | - | - |
| **Balance at March 31, 2011** | **$ -** | **$ 157,895** | **$ 157,895** |

On June 18, 2010, the Company completed a brokered private placement, consisting of the issue and sale of 1,200,000 flow-through units at a price of $0.90 per flow-through unit and 937,500 common share units at a price of $0.80 per unit, for aggregate gross proceeds of $1,830,000. Each flow-through unit consisted of one flow-through common share and one-half of one transferable share purchase warrant, with each whole warrant entitling the holder to acquire one non-flow-through common share of the Company for $1.00 at any time within two years after the date the FT Units are issued. As the market value was equal to the price of the flow-through units, no liability was incurred on issuance of the flow-through shares.

As at March 2011, the Company had fulfilled its expenditure commitment to incur exploration expenditures in relation to flow-through share financing in 2010.

On March 10, 2011, the Company completed a two-tranche brokered private placement, consisting of the issue and sale of 1,052,632 flow-through shares at a price of $0.95 per flow-through share and 6,289,000 common share units at a price of $0.80 per unit, for aggregate gross proceeds of $6,031,200. Each common share unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of $1.20 per share for a period of two years after the closing of the offering. The flow-through liability of $157,895 was calculated using the residual method.

To date, the Company's flow-through share commitments are as follows:

| | |
|---|---|
| **Balance at January 1, 2010** | **$ -** |
| Proceeds from June 18, 2010 issuance | 1,080,000 |
| Qualifying expenditures | (92,796) |
| **Balance at December 31, 2010** | **$ 987,204** |
| Proceeds from March 10, 2011 issuance | 1,000,000 |
| Qualifying expenditures | (1,020,037) |
| **Balance at March 31, 2011** | **$ 967,167** |

**Expressed in Canadian Dollars**

## 10. SHARE CAPITAL AND RESERVES

a) **Common Shares**

The Company is authorized to issue an unlimited number of common shares, issuable in series.

The holders of common shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in common share capital from January 1, 2010 to March 31, 2011:

| | Number of Shares | Issue Price | Amount |
|---|---|---|---|
| **Balance at January 1, 2010** | **10,500,194** | | **$ 12,096,545** |
| Shares issued via private placement | 312,500 | $ 0.80 | 250,000 |
| Flow-through share issuance | 1,200,000 | $ 0.90 | 1,080,000 |
| Fair value of share purchase warrants | - | - | (215,400) |
| Issue of shares on exercise of options | 194,000 | $ 1.10 | 213,400 |
| Reclassification from contributed surplus on exercise of stock options | - | - | 123,422 |
| Shares issued pursuant to mineral property interest agreements | 25,000 | $ 0.56 | 14,000 |
| Shares issued pursuant to mineral property interest agreements | 4,000,000 | $0.60 | 2,400,000 |
| Less share issue costs | - | | (142,515) |
| **Balance at December 31, 2010** | **16,231,694** | | **15,819,452** |
| Shares issued via private placement | 6,289,000 | $ 0.80 | 5,031,200 |
| Flow-through share issuance | 1,052,632 | $ 0.95 | 1,000,000 |
| Flow-through liability allocation | - | - | (157,895) |
| Fair value of share purchase warrants | - | - | (1,263,415) |
| Shares issued pursuant to mineral property interest agreements | 50,000 | $ 0.82 | 41,000 |
| Less share issue costs | - | - | (282,924) |
| **Balance at March 31, 2011** | **23,623,326** | | **$ 20,187,418** |

b) **Contributed Surplus**

The following is a summary of changes in contributed surplus from January 1, 2010 to March 31, 2011:

| | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|
| Opening Balance | $ 1,630,073 | $ 1,617,893 | $1,460,506 |
| Share Options (Note 11) | 446,368 | 12,180 | 157,387 |
| **Contributed Surplus** | **$ 2,076,441** | **$ 1,630,073** | **$1,617,893** |

**Expressed in Canadian Dollars**

c) **Share Purchase Warrants**

The following is a summary of changes in warrants from January 1, 2010 to March 31, 2011:

| | Number of Warrants | Amount |
|---|---|---|
| **Balance at January 1, 2010** | **5,593,702** | **$ 1,687,299** |
| Issue of warrants | 756,249 | 215,400 |
| Exercised warrants | - | - |
| **Balance December 31, 2010** | **6,349,951** | **$ 1,902,699** |
| Issue of warrants | **3,419,818** | **1,263,415** |
| Exercised warrants | - | - |
| **Balance as at March 31, 2011** | **9,769,769** | **$ 3,166,114** |

As at March 31, 2011, the Company had outstanding warrants as follows:

| Number of warrants | Exercise price | Expiry |
|---|---|---|
| 4,393,702 | $ 0.72 | 06/25/2012 |
| 1,200,000 | $ 0.72 | 05/23/2012 |
| 600,000 | $ 1.00 | 06/30/2012 |
| 156,249 | $ 1.00 | 07/13/2015 |
| 2,207,000 | $ 1.20 | 03/04/2013 |
| 937,500 | $ 1.20 | 03/10/2013 |
| 275,318 | $0.82 | 09/04/2012 |

On March 10, 2011, the Company completed a two-tranche brokered private placement, consisting of the issue and sale of 1,052,632 flow-through shares at a price of $0.95 per flow-through share and 6,289,000 common share units at a price of $0.80 per unit, for aggregate gross proceeds of $6,031,200. Each common share unit consisted of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one additional common share of the Company at a price of $1.20 per share for a period of two years after the closing of the offering. The Company paid commission of $230,228 and issued 275,318 broker compensation warrants exercisable at $0.82 per share expiring September 4, 2012 valued at $117,623.

d) **Nature and Purpose of Equity and Reserves**

The reserves recorded in equity on the Company's balance sheet include 'Contributed Surplus', 'Accumulated Other Comprehensive Loss/Income' and 'Accumulated Deficit'.

'Contributed Surplus' is used to recognize the value of stock option grants and share warrants prior to exercise.

'Accumulated Other Comprehensive Loss/Income' includes an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from period to period.

**Expressed in Canadian Dollars**

# 11. SHARE-BASED PAYMENTS

a) **Option Plan Details**

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. A maximum of 10% of the issued and outstanding common shares of the Company may be reserved for issuance pursuant to the exercise of stock options. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant, less any discount permitted by the TSXV at terms of up to five years. The majority of stock options vest immediately on the date of grant unless otherwise required by the TSXV, however, a four month hold period applies to all shares issued under each stock option, commencing on the date of grant.

Other terms and conditions are as follows: no more than 5% of the issued shares may be granted to any one individual in any 12 month period; no more than 2% of the issued shares may be granted to a consultant, or an employee performing investor relations activities, in any 12 month period; disinterested shareholder approval must be obtained for (i) any reduction in the exercise price of an outstanding option, if the holder is an insider, (ii) any grant of stock options to insiders, within a 12 month period, exceeding 5% of the Company's issued shares; and stock options will be reclassified in the event of any consolidation, subdivision, conversion or exchange of the Company's common shares. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

The following is a summary of changes in options from January 1, 2010 to March 31, 2011:

| | | | | During the Period | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grant Date | Expiry Date | Exercise Price | Opening Balance | Granted | Exercised | Expired/ Forfeited | Closing Balance | Vested and Exercisable | Unvested |
| 06/26/2006 | 06/26/2011 | $ 1.10 | 261,000 | - | (150,000) | - | 111,000 | 111,000 | - |
| 09/15/2006 | 09/14/2011 | $ 1.10 | 39,000 | - | - | - | 39,000 | 39,000 | - |
| 06/23/2008 | 06/23/2013 | $1.12 | 470,000 | - | - | (245,000) | 225,000 | 225,000 | - |
| 07/23/2008 | 07/23/2013 | $1.40 | 30,000 | - | - | (20,000) | 10,000 | 10,000 | - |
| 04/01/2009 | 04/02/2014 | $0.72 | 125,000 | - | - | (50,000) | 75,000 | 75,000 | - |
| 09/18/2009 | 09/18/2014 | $1.07 | 90,000 | - | - | (65,000) | 25,000 | 25,000 | - |
| 01/12/2010 | 01/15/2015 | $1.10 | - | 44,000 | (44,000) | - | - | - | - |
| 01/15/2010 | 01/15/2015 | $ 1.10 | - | 150,000 | - | - | 150,000 | 150,000 | - |
| 07/19/2010 | 10/29/2010 | $ 0.80 | - | 50,000 | - | (50,000) | - | - | - |
| 01/01/2011 | 12/31/2015 | $0.80 | | 125,000 | | (125,000) | - | - | - |
| 01/04/2011 | 01/03/2016 | $0.80 | | 804,000 | - | - | 804,000 | 804,000 | - |
| | | | 1,015,000 | 1,173,000 | (194,000) | (555,000) | 1,439,000 | 1,439,000 | - |
| Weighted Average Exercise Price | | | $ 1.07 | $ 0.85 | $ 1.10 | $ 0.99 | $ 0.92 | $ 0.92 | $ - |

Expressed in Canadian Dollars

b) **Fair Value of Options Issued During the Period**

The weighted average fair value at grant date of options granted during the period ended March 31, 2011 was $0.37 per option (year-ended December 31, 2010: $0.33).

**Options Issued to Employees**

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

**Options Issued to Non-Employees**

Options issued to non-employees, are measured based on the fair value of the goods or services received, at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model.

The model inputs for options granted during the quarter ended March 31, 2011 included:

| Grant Date | Expiry Date | Share Price at Grant Date | Exercise Price | Risk-Free Interest Rate | Expected Life | Volatility Factor | Dividend Yield |
|---|---|---|---|---|---|---|---|
| 01/01/2011 | 12/31/2015 | $ 0.80 | $ 0.80 | 1.640% | 3 years | 95.52% | -% |
| 01/04/2011 | 01/03/2016 | $ 0.80 | $ 0.80 | 1.640% | 3 years | 95.22% | -% |

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

No options were exercised during the period ended March 31, 2011. The weighted average share price at the date of exercise of options during the year-ended December 31, 2010 was $1.08).

c) **Expenses Arising from Share-based Payment Transactions**

Total expenses arising from share-based payment transactions recognized during the period as part of employee benefit expense were $398,335 (3 months ended March 31, 2010: $126,561).

d) **Amounts Capitalized Arising from Share-based Payment Transactions**

Total expenses arising from share-based payment transactions that were capitalized during the period as part of exploration and evaluation activities were $48,032 (3 months ended March 31, 2010: $NIL).

e) **Weighted Average Remaining Life**

The weighted average remaining life of the outstanding options is 3.67 years (3 months ended March 31, 2010: 3.41 years).

Expressed in Canadian Dollars

## 12. RELATED PARTY TRANSACTIONS

During the quarter ended March 31, 2011, the Company entered into related-party transactions with the following individuals:

| | |
|---|---|
| Arni Johannson | CEO & Chairman |
| Michael Sweatman | CFO |
| Blair McIntyre | President |

In addition, the Company entered into related-party transactions with the following corporations:

| | |
|---|---|
| Canadian Nexus Ventures Ltd. ("CNV") | Corporation controlled by CEO |
| MDS Management Ltd. ("MDS") | CFO exercises significant influence over corporation |

All related party transactions were within the normal course of business and have been recorded at amounts agreed to by the transacting parties. The following is a summary of the Company's related party transactions during the period:

a) **Consulting Fees**

The Company paid or accrued consulting fees totaling $43,700 plus HST (three months-ended March 31, 2010: $102,536) to directors, officers, and companies subject to their influence. The consulting fees consisted of $13,700 to MDS, $15,000 to the President, and $15,000 to the CFO.

As at March 31, 2011, $15,000 (three months-ended March 31, 2010: $39,375) of these amounts are disclosed on the Company's consolidated balance sheet as due to related parties. These related party balances are unsecured, non-interest bearing, and are due on demand.

b) **Administrative Expenses**

The Company paid or accrued administrative expenses totaling $22,182 (three months-ended March 31, 2010: $61,246), which are disclosed as office, rent and telephone in the Company's consolidated statement of operations, to related companies. These costs were reimbursements for various administrative and overhead expenses which consisted of the following: $11,100 for office rent (March 31, 2010 - $11,100), $4,500 related to shared office consultants (March 31, 2010 - $20,985), $2,342 related to telephone expenses (March 31, 2010 - $2,400) and the balance of $4,240 (March 31, 2010 - $8,261) related to general office and administration expenses. Of the administrative expenses, $21,451 was reimbursed to CNV, while the remaining $731 was paid to MDS.

c) **Director Loan**

During the period ended March 31, 2011, the Company received a loan from the CEO for $50,000. The loan bears interest at prime plus two percent, is unsecured, non-interest bearing and is due on demand. As at March 31, 2011, the $50,000 principal (three months-ended March 31, 2010: $nil) and $329 of interest (three months-ended March 31, 2010: $nil) is disclosed on the Company's consolidated balance sheet as due to related parties. This loan was repaid on May 12, 2011.

d) **Key Management Compensation**

Key management personnel compensation comprised:

| | March 31, 2011 | March 31, 2010 |
|---|---|---|
| Short term employee benefits and director fees | $ 111,938 | $ 92,750 |
| Share-based payments | 282,911 | 126,561 |
| | **$ 394,849** | **$ 219,311** |

**Expressed in Canadian Dollars**

e) **Substantial Shareholder**

John Icke, a director of the Company, is also the President and CEO of Resinco Capital Partners ("Resinco"). Resinco is a greater than 10% shareholder of the Company. During Q1, Resinco was reimbursed $13,602 at cost for joint expenses incurred in relation to the Company's European roadshow.

## 13. SEGMENTED REPORTING

The Company is organized into business units based on mineral properties and has three reportable operating segments, being that of acquisition and exploration and evaluation activities for the following properties:

| | Poplar Property | Hud Bay Property | Copperline Property | All Other Segments | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2010 | **$ 2,403,763** | **$ 125,000** | **$ -** | **$ 1** | **$ 2,528,764** |
| Exploration costs | (99,132) | 12,289 | - | 16,750 | (70,093) |
| Acquisitions | 125,992 | 1,035,245 | 1,630,760 | - | 2,791,997 |
| Write-offs | - | (2,289) | - | (16,750) | (19,039) |
| Balance at December 31, 2010 | **$ 2,430,623** | **$ 1,170,245** | **$ 1,630,760** | **$ 1** | **$ 5,231,629** |
| Exploration costs | 1,019,713 | - | - | 2,050 | 1,021,763 |
| Acquisitions | - | - | - | 234,000 | 234,000 |
| Write-offs | - | - | - | (2,050) | (2,050) |
| Balance at March 31, 2011 | **$ 3,450,336** | **$ 1,170,245** | **$ 1,630,760** | **$ 234,001** | **$ 6,485,342** |

As at March 31, 2011, accounts payable and accrued liabilities of $351,119 (March 31, 2010 - $13,479) are owed on the Poplar property, while $nil (March 31, 2010 - $nil) are owed on the Hudson Bay Property, the Copperline Property, and all other segments. All expenses related to the projects are capitalized, as detailed above.

## 14. LOSS PER SHARE

| **Weighted Average Number of Common Shares:** | **March 31, 2011** | **March 31, 2010** |
|---|---|---|
| Basic | 18,379,155 | 10,633,327 |
| Dilutive Effect of Stock Options and Warrants | - | - |
| Diluted | 18,379,155 | 10,633,327 |

| **Loss per share:** | **March 31, 2011** | **March 31, 2010** |
|---|---|---|
| Comprehensive loss for period | $ (567,354) | $ (794,831) |
| Basic and Diluted Weighted Average Number of Common Shares | 18,379,155 | 10,633,327 |
| Loss Per Share | **$ (0.03)** | **$ (0.07)** |

**Expressed in Canadian Dollars**

# 15. EVENTS AFTER THE REPORTING DATE

**Stock Option Issuance**

On April 12, 2011 the Company granted 135,000 incentive stock options to directors, officers and employees of the Company pursuant to the Company's Stock Option Plan. The options are exercisable for a period of five years at a price of $0.90 per share.

On April 28, 2011 the Company granted 250,000 incentive stock options to directors and consultants of the Company pursuant to the Company's Stock Option Plan. The options are exercisable for a period of five years at a price of $0.80 per share.

**Appointment of Investor Relations Firm**

On June 8, 2011 the Company signed an investor relations agreement with Advanture Capital Partners Inc. ("Advanture Capital") for the provision of investor relations and communications services. The Company has agreed to pay Advanture Capital a monthly fee of $7,500 for a term of twelve months and has issued options to purchase 100,000 shares of the Company at a price of $0.80 per share. The options will vest in stages over twelve months.

# 16. FINANCIAL INSTRUMENTS

International Financial Reporting Standards 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial instruments include: cash and cash equivalents, amounts receivable, investments, loans receivable, reclamation deposits, accounts payable and accrued liabilities. The carrying value of cash and cash equivalents, amounts receivable, reclamation deposits, accounts payable and accrued liabilities approximates their fair values.

**Categories of Financial Instruments**

| | Category | March 31, 2011 | December 31, 2010 | January 1, 2010 |
|---|---|---|---|---|
| Cash and cash equivalents | Loans and receivables | $ 4,471,484 | $ 367,713 | $ 569,470 |
| Amounts receivable | Loans and receivables | 249,001 | 121,800 | 115,643 |
| Investments | Available-for-sale | 172,165 | 145,400 | 464,895 |
| Loans receivable | Available-for-sale | 1 | 1 | 29,926 |
| Reclamation deposits | Loans and receivables | 44,098 | 44,002 | 12,000 |
| Accounts payable and accrued liabilities | Other financial liabilities | $ 506,172 | $ 198,392 | $ 113,954 |

**Risks Arising from Financial Instruments**

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 arises from cash and cash equivalents held with banks and financial institutions, as well as credit exposure on outstanding receivables. The maximum exposure to credit risk is equal to the carrying value of the financial assets.

The Company's excess cash and cash equivalents are held through large Canadian financial institutions and are invested in either short-term GICs or savings accounts. Management believes the risk of loss is remote.

(b) Foreign exchange risk

The Company holds cash and cash equivalents that are denominated in U.S. dollars and which are marked to market at each reporting period. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

(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 foreseeable future. The Company believes that the current cash reserves will be sufficient to meet its obligations as they become due. The Company has no credit facilities as of March 31, 2011.

(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.

## 17. CAPITAL MANAGEMENT

The Company manages its cash and cash equivalents, short-term investments, marketable securities, common shares, stock options and share purchase warrants as capital. As the Company is in the exploration and evaluation stage, its principal source of funds for its operations is from the issuance of common shares. The issuance of common shares requires approval of the Board of Directors. It is the Company's objective to safeguard its ability to continue as a going concern, so that it can continue to explore and develop its properties for the benefit of its stakeholders. The Company uses stock options primarily to retain and provide future incentives to key employees and members of the management team. The granting of stock options is primarily determined by the Board of Directors.

## 18. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

### RECONCILIATIONS OF PRE-CHANGEOVER CANADIAN GAAP EQUITY, COMPREHENSIVE INCOME AND CASH FLOWS TO IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changeover of the statements of financial position, statements of comprehensive income, and statements of cash flows is shown below.

**Expressed in Canadian Dollars**

### RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 569,470 | $ - | $ 569,470 |
| Available-for-sale investments | 464,895 | - | 464,895 |
| Amounts receivable | 115,643 | - | 115,643 |
| Loan receivable | 29,926 | - | 29,926 |
| Prepaid expenses | 88,165 | - | 88,165 |
| **Total current assets** | **1,268,099** | **-** | **1,268,099** |
| **Non-current assets** | | | |
| Reclamation bonds | 12,000 | - | 12,000 |
| Exploration and evaluation assets | 1,742,549 | - | 1,742,549 |
| Mineral property interests | 786,215 | - | 786,215 |
| **Total non-current assets** | **2,540,764** | **-** | **2,540,764** |
| **Total assets** | **$ 3,808,863** | **$ -** | **$ 3,808,863** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 113,954 | $ - | $ 113,954 |
| Due to related parties | 143,548 | - | 143,548 |
| **Total current liabilities** | **257,502** | **-** | **257,502** |
| **Total liabilities** | **257,502** | **-** | **257,502** |
| **Shareholders' equity** | | | |
| Share capital | 12,096,545 | - | 12,096,545 |
| Share purchase warrants | 1,687,299 | - | 1,687,299 |
| Contributed surplus | 1,617,893 | - | 1,617,893 |
| Accumulated other comprehensive income | 68,171 | - | 68,171 |
| Accumulated deficit | (11,918,547) | - | (11,918,547) |
| **Total shareholders' equity** | **3,551,361** | **-** | **3,551,361** |
| **Total liabilities and shareholders’ equity** | **$ 3,808,863** | **$ -** | **$ 3,808,863** |

**Expressed in Canadian Dollars**

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 2010**

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 60,787 | $ - | $ 60,787 |
| Available-for-sale investments | 202,855 | - | 202,855 |
| Amounts receivable | 134,200 | - | 134,200 |
| Loan receivable | 1 | - | 1 |
| Prepaid expenses | 170,856 | - | 170,856 |
| **Total current assets** | **569,699** | **-** | **569,699** |
| **Non-current assets** | | | |
| Reclamation bonds | $ 44,000 | - | $ 44,000 |
| Exploration and evaluation assets | 1,802,055 | - | 1,802,055 |
| Mineral property interests | 786,306 | - | 786,306 |
| **Total non-current assets** | **2,632,361** | **-** | **2,632,361** |
| **Total assets** | **$ 3,201,060** | **$ -** | **$ 3,201,060** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 65,194 | $ - | $ 65,194 |
| Due to related parties | 39,375 | - | 39,375 |
| **Total current liabilities** | **104,569** | **-** | **104,569** |
| **Total liabilities** | **104,569** | **-** | **104,569** |
| **Shareholders' equity** | | | |
| Share capital | 12,433,367 | - | 12,433,367 |
| Share purchase warrants | 1,687,299 | - | 1,687,299 |
| Contributed surplus | 1,621,032 | - | 1,621,032 |
| Accumulated other comprehensive income | (193,869) | - | (193,869) |
| Accumulated deficit | (12,451,338) | - | (12,451,338) |
| **Total shareholders' equity** | **3,096,491** | **-** | **3,096,491** |
| **Total liabilities and shareholders’ equity** | **$ 3,201,060** | **$ -** | **$ 3,201,060** |

**Expressed in Canadian Dollars**

**RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010**

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 367,713 | $ - | $ 367,713 |
| Available-for-sale investments | 145,400 | - | 145,400 |
| Amounts receivable | 121,800 | - | 121,800 |
| Loan receivable | 1 | - | 1 |
| Prepaid expenses | 161,211 | - | 161,211 |
| **Total current assets** | **796,125** | **-** | **796,125** |
| **Non-current assets** | | | |
| Reclamation bonds | $44,002 | - | 44,002 |
| Exploration and evaluation assets | 1,653,418 | - | 1,653,418 |
| Mineral property interests | 3,578,211 | - | 3,578,211 |
| **Total non-current assets** | **5,275,631** | **-** | **3,275,631** |
| **Total assets** | **$ 6,071,756** | **$ -** | **$ 6,071,756** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 198,392 | $ - | $ 198,392 |
| Due to related parties | 7,560 | - | 7,560 |
| **Total current liabilities** | **205,952** | **-** | **205,952** |
| **Total liabilities** | **205,952** | **-** | **205,952** |
| **Shareholders' equity** | | | |
| Share capital | 15,819,452 | - | 15,819,452 |
| Share purchase warrants | 1,902,699 | - | 1,902,699 |
| Contributed surplus | 1,630,073 | - | 1,630,073 |
| Accumulated other comprehensive income | 1,851 | - | 1,851 |
| Accumulated deficit | (13,488,271) | - | (13,488,271) |
| **Total shareholders' equity** | **5,865,804** | **-** | **5,865,804** |
| **Total liabilities and shareholders' equity** | **$ 6,071,756** | **$ -** | **$ 6,071,756** |

**Expressed in Canadian Dollars**

### RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS/INCOME FOR THE THREE MONTHS ENDED MARCH 31, 2010

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Interest and other income | $ - | $ - | $ - |
| Accounting and audit | 8,208 | - | 8,208 |
| Advertising and promotion | 31,844 | - | 31,844 |
| Bank charges and interest | 255 | - | 255 |
| Conferences and trade shows | 2,390 | - | 2,390 |
| Consulting and management fees | 125,070 | - | 125,070 |
| Director fees | 25,250 | - | 25,250 |
| Filing and transfer agent fees | 43,290 | - | 43,290 |
| Insurance | 5,795 | - | 5,795 |
| Investor relations | - | - | - |
| Legal | 101,484 | - | 101,484 |
| Office, rent and telephone | 32,457 | - | 32,457 |
| Stock based compensation | 126,561 | - | 126,561 |
| Travel and accommodation | 28,538 | - | 28,538 |
| | 531,042 | - | 531,042 |
| **Net loss before undernoted items** | (531,042) | - | (531,042) |
| **Other Income (expense)** | | | |
| Interest expense | (635) | - | (635) |
| Foreign exchange | (1,114) | - | (1,114) |
| **Loss for the period** | **(532,791)** | - | **(532,791)** |
| **Other comprehensive income, net of tax** | | | |
| Fair value gains / (losses) on available-for-sale investments | **(202,460)** | | **(202,460)** |
| **Total other comprehensive income, net of tax** | **$ (202,460)** | **$ -** | **$ (202,460)** |
| **Total comprehensive income (loss) for the period attributable to owners of the parent** | **$ (735,251)** | **$ -** | **$ (735,251)** |
| **Loss per common share, basic and diluted** | **$ (0.07)** | **$ -** | **$ (0.07)** |

**Expressed in Canadian Dollars**

**RECONCILIATION OF THE CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS/INCOME FOR THE YEAR ENDED DECEMBER 31, 2010**

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Interest and other income | $ 3,305 | $ - | $ 3,305 |
| Accounting and audit | 44,070 | - | 44,070 |
| Advertising and promotion | 74,541 | - | 74,541 |
| Bank charges, interest and foreign exchange | 11,353 | - | 11,353 |
| Conferences and trade shows | 2,480 | - | 2,480 |
| Consulting | 614,295 | - | 614,295 |
| Director fees | 25,250 | - | 25,250 |
| Filing and transfer agent fees | 22,075 | - | 22,075 |
| General exploration | 1,500 | - | 1,500 |
| Insurance | 23,733 | - | 23,733 |
| Legal | 156,094 | - | 156,094 |
| Office, rent and telephone | 115,442 | - | 115,442 |
| Stock based compensation | 135,602 | - | 135,602 |
| Travel and accommodation | 55,594 | - | 55,594 |
| | (1,282,019) | - | (1,282,019) |
| **Net loss before undernoted items** | (1,277,714) | - | (1,277,714) |
| **Other Income (expense)** | | | |
| (Loss) Gain on sale of investments | (72,833) | - | (72,833) |
| Write down of investments for permanent impairment | (147,424) | - | (147,424) |
| Write down of mineral property interests | (70,753) | - | (70,753) |
| **Loss for the year** | $ (1,569,724) | $ - | $ (1,569,724) |
| **Other comprehensive income (loss), net of tax** | | | |
| Fair value gains / (losses) on available-for-sale investments | 149,067 | - | 149,067 |
| (Loss) Gain reclassified on sale of investments | (72,833) | - | (72,833) |
| Write down of investments for impairment | (147,424) | - | (147,424) |
| Change in fair value of loans receivable | 4,697 | - | 4,697 |
| Interest reclassified on realization | 173 | - | 173 |
| **Total other comprehensive income (loss), net of tax** | **(66,320)** | $ - | **$(66,320)** |

**Expressed in Canadian Dollars**

| | | | |
|---|---|---|---|
| **Total comprehensive income (loss) for the period attributable to owners of the parent** | **$(1,636,044)** | $ - | **$ (1,636,044)** |
| **Loss per common share, basic and diluted** | **$ (0.13)** | **$ -** | **$ (0.13)** |

### RECONCILIATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Cash used for operating activities | $ (1,303,249) | $ - | $ (1,303,249) |
| Cash used for investing activities | (299,393) | - | (299,393) |
| Cash provided by financing activities | 1,400,885 | - | 1,400,885 |
| Decrease in cash and cash equivalents during the year | (201,757) | - | (201,757) |
| Cash and cash equivalents, beginning of year | 569,470 | - | 569,470 |
| Cash and cash equivalents, end of year | $ 367,713 | $ - | $ 367,713 |

### RECONCILIATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED MARCH 31, 2010

| | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|
| Cash used for operating activities | $ (660,411) | $ - | $ (660,411) |
| Cash used for investing activities | (61,672) | - | (61,672) |
| Cash provided by financing activities | 213,400 | - | 213,400 |
| Decrease in cash and cash equivalents during the period | (508,683) | - | (508,683) |
| Cash and cash equivalents, beginning of period | 569,470 | - | 569,470 |
| Cash and cash equivalents, end of period | $ 60,787 | $ - | $ 60,787 |