ARROWSTAR RESOURCES LTD.
(formerly Gulfside Minerals Ltd.)

FINANCIAL STATEMENTS

DECEMBER 31, 2011

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Arrowstar Resources Ltd.
(formerly Gulfside Minerals Ltd.)

We have audited the accompanying financial statements of Arrowstar Resources Ltd. (formerly Gulfside Minerals Ltd.), which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of income (loss) and comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Arrowstar Resources Ltd. (formerly Gulfside Minerals Ltd.) as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada — Chartered Accountants

April 25, 2012

1200 - 609 Granville Street, P.O. Box 10372, Pacific Centre, Vancouver, B.C., Canada V7Y 1G6
Telephone (604) 687-0947 Fax (604) 687-6172

ARROWSTAR RESOURCES LTD.
(formerly Gulfside Minerals Ltd.)
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010 (Note 3)	January 1, 2010 (Note 3)
ASSETS			
Current			
Cash (Note 4)	$ 1,654,511	$ 133,335	$ 214,117
Marketable securities (Note 5)	22,000	-	-
Receivables (Note 6)	22,948	7,068	5,925
Prepaid expenses	9,500	-	-
	1,708,959	140,403	220,042
Equipment (Note 7)	1,415	2,022	1,849
Exploration and evaluation advances	-	-	22,848
Exploration and evaluation assets (Note 8)	706,691	-	4,722,863
	$ 2,417,065	$ 142,425	$ 4,967,602
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)			
Current			
Accounts payable and accrued liabilities (Note 9)	$ 213,959	$ 282,832	$ 275,190
Note payable (Note 10)	-	74,595	77,425
	213,959	357,427	352,615
Shareholders' equity (deficiency)			
Share capital (Note 12)	18,188,654	16,769,445	16,769,445
Share compensation reserve (Note 12)	2,621,958	2,433,478	2,433,478
Deficit	(18,607,506)	(19,417,925)	(14,587,936)
	2,203,106	(215,002)	4,614,987
	$ 2,417,065	$ 142,425	$ 4,697,602

Nature of operations and going concern (Note 1)
Subsequent events (Note 19)

On behalf of the Board:

"Robert Card" Director *"Andrew Jarvis"* Director

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

ARROWSTAR RESOURCES LTD.
(formerly Gulfside Minerals Ltd.)
STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2011	2010
EXPENSES		
Administration fees	$ 51,000	$ 86,000
Consulting fees	190,854	143,407
Depreciation	607	532
Foreign exchange loss (gain)	4,303	(3,486)
Interest	-	1,699
Investor relations	45,436	67,115
Office	17,107	10,926
Professional fees	134,871	93,561
Property investigation	9,738	900
Rent	10,665	11,381
Regulatory fees	27,068	20,615
Share-based compensation (Note 12)	188,480	-
Travel	72,937	30,460
Loss before other items	(753,066)	(463,110)
OTHER ITEMS		
Interest income	4,158	-
Gain on settlement of debt	5,264	-
Recovery on exploration and evaluation costs (Note 8)	25,000	-
Gain on farm-out arrangement (Note 8)	41,042	-
Litigation costs (Note 13)	(4,729)	(5,094)
Recovery from property settlement (Note 13)	1,515,750	534,555
Unrealized loss on marketable securities (Note 5)	(23,000)	-
Write-off of exploration and evaluation assets (Note 8)	-	(4,896,340)
	1,563,485	(4,366,879)
Net income (loss) and comprehensive income (loss) for the year	$ 810,419	$ (4,829,989)
Earnings (loss) per common share		
-Basic and diluted	$ 0.02	$ (0.12)
Weighted average number of common shares outstanding		
-Basic and diluted	48,330,383	39,081,367

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

ARROWSTAR RESOURCES LTD.
(formerly Gulfside Minerals Ltd.)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31
(Expressed in Canadian Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	$ 810,419	$ (4,829,989)
Items not affecting cash:		
Depreciation	607	532
Gain on farm-out arrangement	(41,042)	-
Gain on settlement of debt	(5,264)	-
Recovery on exploration and evaluation costs	(25,000)	-
Share-based compensation	188,480	-
Unrealized loss on marketable securities	23,000	-
Unrealized foreign exchange loss (gain) on note payable	1,872	(2,830)
Write-off of exploration and evaluation assets	-	4,896,340
Changes in non-cash working capital items:		
Increase in receivables	(15,880)	(1,143)
Increase in prepaid expenses	(9,500)	-
Increase (decrease) in accounts payable and accrued liabilities	(73,926)	119,789
Net cash provided by (used in) operating activities	853,766	182,699
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from the issuance of shares	1,424,000	-
Share issue costs	(123,291)	-
Note payable	(76,467)	-
Net cash provided by financing activities	1,224,242	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation	(606,832)	(262,776)
Exploration and evaluation advances	-	(705)
Proceeds from the sale of exploration and evaluation data	25,000	-
Recovery on exploration and evaluation assets	25,000	-
Net cash used in investing activities	(556,832)	(263,481)
Change in cash during the year	1,521,176	(80,782)
Cash, beginning of year	133,335	214,117
Cash, end of year	$ 1,654,511	$ 133,335
Cash paid during the year for:		
Income taxes	$ -	$ -
Interest	-	-

Supplemental disclosure with respect to cash flows (Note 14)

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

ARROWSTAR RESOURCES LTD.
(formerly Gulfside Minerals Ltd.)
STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Common Shares				
	Number of Shares	Amount	Share compensation reserves	Deficit	Total
Balances as at January 1, 2010	39,081,369	$ 16,769,445	$ 2,433,478	$ (14,587,936)	$ 4,614,987
Loss and comprehensive loss	-	-	-	(4,829,989)	(4,829,989)
Balances as at December 31, 2010	39,081,369	16,769,445	2,433,478	(19,417,925)	(215,002)
Shares issued for cash	20,240,000	1,424,000	-	-	1,424,000
Share issue costs	-	(123,291)	-	-	(123,291)
Grant of stock options	-	-	188,480	-	188,480
Shares issued for exploration and evaluation assets	1,300,000	118,500	-	-	118,500
Net income	-	-	-	810,419	810,419
Balances as at December 31, 2011	60,621,369	$ 18,188,654	$ 2,621,958	$ (18,607,506)	2,203,106

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Arrowstar Resources Ltd. (formerly Gulfside Minerals Ltd.) (the "Company") was incorporated on October 14, 1987 under the laws of British Columbia. The Company's head office and registered records office address is Suite 212 – 475 Howe Street, Vancouver, BC, V6C 2B3. The Company is listed on the TSX Venture exchange under the symbol AWS. To date, the Company has not earned operating revenue.

The Company is in the process of acquiring its exploration and evaluation assets and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and thus be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in these financial statements.

As at December 31, 2011, the Company has working capital of $1,495,000 (2010 – $(217,024); January 1, 2010 - $(132,573)) and intends to raise funds through share issuances and support from creditors and related parties. If such funds are not available, the Company may cease operations. The Company estimates that it has sufficient working capital to continue operations for the next year.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The Canadian Accounting Standards Board announced that January 1, 2011 is the changeover date for publicly listed companies to use International Financial Reporting Standards ("IFRS") replacing Pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP")

These financial statements have been prepared and presented in Canadian dollars in accordance with International Accounting Standard 1: Presentation of Financial Statements ("IAS 1") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

The preparation of these financial statements resulted in changes to the accounting policies as compared to the prior annual financial statements prepared under Canadian GAAP. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 3.

The financial statements were authorized for issue by the Board of Directors on April 25, 2012.

Basis of presentation

These financial statements have been prepared on a historical cost basis, except for financial instruments classified as available-for-sale which are stated at their fair-value. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Foreign currency transactions

The Company's reporting currency and the functional currency of all of its operations is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates prevailing at the statement of financial position date. Exchange gains or losses arising on foreign currency translation are reflected in profit or loss for the year.

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded over the estimated useful lives of the assets on the declining balance basis at a rate of 30%.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Impairment

At the end of each reporting period the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the year. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate and its recoverable amount, but to an amount that 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 reversal of an impairment loss is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets

Exploration and evaluation assets include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized by property as an intangible asset. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within equipment.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Financial assets

All 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 FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and marketable securities are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company's receivables are classified as loans and receivables. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in profit or loss. At December 31, 2011, the Company has not classified any financial assets as available for sale.

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.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. At December 31, 2011, the Company has not classified any financial liabilities as FVTPL.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and note payable are classified as other financial liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial liabilities (cont'd…)

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Provisions

Rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for rehabilitation obligation is recognized at its fair value in the year in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to profit or loss.

The Company had no rehabilitation obligations as at December 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 had no other provisions as at December 31, 2011.

Share capital

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

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Significant accounting estimates and judgments

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial position and the reported amount of revenues and expenses during the reporting year. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Significant accounts that require estimates as the basis for determining the stated amounts include the fair value of financial instruments, deferred income taxes, evaluating the fair value of exploration and evaluation assets, useful lives of equipment, and stock-based compensation.

Share-based compensation

The stock option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to capital stock and the fair value of the options is reclassified from share compensation reserve to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based compensation to non-employees, who are no providing similar services to employees, are measured at a the grant date by using the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services received cannot be reliably measured, and are recorded at the date the goods or services are received.

Income taxes

Current tax is the expected tax payable or receivable on the local taxable income or loss for the year, using local tax rates enacted or substantively enacted at the financial position reporting date, and includes any adjustments to tax payable or receivable in respect of previous years.

Deferred income taxes are recorded using the balance sheet liability method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the financial position reporting date. Deferred tax is not recognized for temporary differences which arise on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting, nor taxable profit or loss.

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

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Flow-through Shares

Flow-through shares are securities issued to investors whereby the deductions for tax purposes related to resource exploration and evaluation expenditures may be claimed by investors instead of the entity. On issuance, any premium recorded on the flow-through share, being the difference in price over a common share with no tax attributes, is recognized as a liability.

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. As eligible expenditures are incurred, the deferred income tax liability associated with the renounced tax deductions is recognized through profit and loss with a pro-rata portion of the deferred premium liability.

Earnings (loss) per share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

New 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, 2011, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

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 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 financial statements.

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 that IFRS 11 is expected to have on its financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards, amendments and interpretations not yet effective (cont'd…)

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.

Consolidation
IFRS 10, Consolidated Financial Statements establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

i. Requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
ii. Defines the principle of control, and establishes control as the basis for consolidation
iii. Sets out how to apply the principle of control to identify whether an investor controls and investee and therefore must consolidate the investee
iv. Sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidated – Special Purpose Entities.

Other entities
IFRS 12, Disclosure of Involvement with Other Entities requires the disclosure of information that enables users of the financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance, and cash flows.

Investments in Associates and Joint Ventures
IFRS 28, Investments in Associates and Joint Ventures prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, and investee (associate or joint venture).

3. TRANSITION TO IFRS

As stated in Note 2, these financial statements are for the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies in note 2 have been applied in preparing the financial statements for the years ended December 31, 2011 and 2010, and the opening IFRS statement of financial position on January 1, 2010, the "Transition Date".

In preparing the financial statements, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with Pre-changeover GAAP. An explanation of how the transition from Pre-changeover GAAP to IFRS has affected the Company's financial position is set out below.

The guidance for the first time adoption of IFRS is set out in IFRS 1 which provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date;
- to apply the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as at the Transition Date. The Company re-measured all provisions, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. This was done using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion, and amortization under IFRS up to the Transition Date; and
- to apply the requirements of IAS 23, Borrowing Costs, as of the Transition Date.

The Company has determined that no adjustments from the transition from Canadian GAAP to IFRS were required for the year ended December 31, 2010 and as at January 1, 2010. Accordingly, no reconciling statements have been disclosed.

4. CASH

The Company's cash consists of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash held with banks	$ 1,643,166	$ 131,787	$ 213,895
Cash held in foreign currencies	11,345	1,548	222
Total	$ 1,654,511	$ 133,335	$ 214,117

5. MARKETABLE SECURITIES

On November 8, 2011, the Company received 100,000 shares in Ocean Park Ventures Corp. as part of a property option agreement. The shares were valued at $45,000 on receipt and have been re-valued at December 31, 2011 to their fair market value of $22,000.

6. RECEIVABLES

		December 31, 2011		December 31, 2010		January 1, 2010
HST receivable	$	21,829	$	7,068	$	5,925
Other receivables		1,119		-		-
	$	22,948	$	7,068	$	5,925

The Company does not have any significant balances that are past due. All accounts receivable are current, and the Company does not have any allowance for doubtful accounts. Due to their short-term maturities, the fair value of accounts receivable approximates their carrying value.

7. EQUIPMENT

The equipment account is broken down as follows:

Office equipment		Cost		Depreciation		Net Book Value
As at January 1, 2010	$	3,210	$	(1,361)	$	1,849
Additions		705		(532)		173
Disposals		-		-		-
As at December 31, 2010	$	3,915	$	(1,893)	$	2,022
Additions		-		(607)		(607)
Disposals		-		-		-
As at December 31, 2011	$	3,915	$	(2,500)	$	1,415

8. EXPLORATION AND EVALUATION ASSETS

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

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

2011	Northern Treasure BC, Canada	Bryer BC, Canada	Golden Fleece BC, Canada	Argonaut BC, Canada	Port Snettisham AK, USA	Rannie Lake NL, Canada	Roberts Lake QC, Canada	Total
Acquisition costs								
Balance, December 31, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Additions:								
Cash	10,000	5,000	2,500	2,500	120,000	115,000	140,000	395,000
Other	5,438	672	-	-	34,423	24,849	37,793	103,175
Shares	18,000	10,500	-	-	-	-	90,000	118,500
	33,438	16,172	2,500	2,500	154,423	139,849	267,793	616,675
Total acquisition costs	33,438	16,172	2,500	2,500	154,423	139,849	267,793	616,675
Exploration costs								
Balance, December 31, 2010	-	-	-	-	-	-	-	-
Additions:								
Assays	1,544	1,844	1,465	-	-	-	-	4,853
Geological reports	-	-	-	-	-	31,625	-	31,625
Geophysical	47,971	-	1,952	-	-	-	-	49,923
Field	12,032	-	20,541	-	-	-	-	32,573
Total exploration costs	61,547	1,844	23,958	-	-	31,625	-	118,974
Recovery	-	-	(26,458)	(2,500)	-	-	-	(28,958)
Balance, December 31, 2011	$ 94,985	$ 18,016	$ -	$ -	$ 154,423	$ 171,474	$ 267,793	$ 706,691

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

2010	Onjuul Mongolia	Black Hole Mongolia	Buleen Hundii Mongolia	Brown Valley Mongolia	Total
Acquisition costs					
Balance, January 1, 2010	$ 2,716,780	$ 1,261,558	$ -	$ -	$ 3,978,338
Additions:					
Cash	-	-	10,092	10,092	20,184
Other	312	1,862	990	923	4,087
	312	1,862	11,082	11,015	24,271
Total acquisition costs	2,717,092	1,263,420	11,082	11,015	4,002,609
Exploration costs					
Balance, January 1, 2010	102,670	641,855	-	-	744,525
Additions:					
Field supervision and reports	5,493	23,269	-	-	28,762
Field Work	21,257	99,187	-	-	120,444
Total exploration costs	129,420	764,311	-	-	893,731
Written-off during the year	(2,846,512)	(2,027,731)	(11,082)	(11,015)	(4,896,340)
Balance, December 31, 2010	$ -	$ -	$ -	$ -	$ -

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Northern Treasure – British Columbia

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada. In order to acquire the interest in the project, the Company must complete the following:

Cash payments aggregating $30,000 payable as follows:
- $10,000 (paid) on execution of the agreement;
- $10,000 payable on January 12, 2013; and
- $10,000 payable on January 12, 2014.

Incur $225,000 in exploration expenditures on the property as follows:
- $50,000 (incurred) within the first year of the agreement;
- $75,000 within the second year of the agreement; and
- $100,000 within the third year of the agreement.

Issue of 800,000 common shares of the Company as follows:
- 200,000 (issued at a value of $18,000) upon TSX Venture Exchange approval;
- 200,000 upon the completion of the minimum work commitments; and
- 400,000 upon the property being put into commercial production.

The vendor retains a 1% net smelter return royalty ("NSR") which the company may purchase for $1,000,000.

Bryer Group – British Columbia

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the Atlin Mining Division in British Columbia, Canada. In order to acquire the interest in the project, the Company must complete the following:

Cash payments aggregating $15,000 payable as follows:
- $5,000 (paid) on execution of the agreement; and
- $10,000 payable on March 12, 2013.

Incur $225,000 in exploration expenditures on the property as follows:
- $50,000 within the first year of the agreement;
- $75,000 within the second year of the agreement; and
- $100,000 within the third year of the agreement.

Issue of 700,000 common shares of the Company as follows:
- 100,000 (issued at a value of $10,500) upon TSX Venture Exchange approval;
- 200,000 upon the completion of the minimum work commitments; and
- 400,000 upon the property being put into commercial production.

The vendor retains a 1% NSR.

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Argonaut and Golden Fleece - British Columbia

During fiscal 2011, the Company acquired a 100% interest in certain claims located in the Atlin Mining Division of British Columbia.

The vendor retains a 1% NSR.

100% interest in the Argonaut and Golden Fleece properties were farmed-out for proceeds of $25,000 (received) and 300,000 common shares of Ocean Park, to be issued as follows:

- 100,000 on signing (received at a value of $45,000)
- 50,000 within year one of the agreement for Argonaut
- 50,000 within year one of the agreement for Golden Fleece
- 50,000 within year two of the agreement for Argonaut
- 50,000 within year two of the agreement for Golden Fleece

Port Snettisham – Alaska USA

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in the State of Alaska, USA. In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating $270,000 payable as follows:

- $25,000 (paid) on execution of the agreement;
- $95,000 (paid) within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Incur exploration expenditures aggregating $3,300,000 and make additional cash payments aggregating $3,650,000 in order to maintain the option and earn an interest in the property as follows:

Year of term and expenditure date	Minimum property expenditures	Cash payments	Total deemed interest earned (%)
On or before October 31, 2012	$ 100,000	$ -	0
On or before October 31, 2013	200,000	-	0
On or before October 31, 2014	1,000,000	-	51
On or before October 31, 2016	-	500,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of $1,500,000.

Rannie Lake – Newfoundland

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Newfoundland, Canada. In order to acquire the interest in the project, the Company must complete the following:

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Rannie Lake – Newfoundland (cont'd…)

Make cash payments aggregating $265,000 payable as follows:

- $25,000 (paid) on execution of the agreement;
- $90,000 (paid) payable within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Incur exploration expenditures aggregating $2,700,000 and additional cash payments aggregating $3,400,000 in order to maintain the option and earn an interest in the property as follows;

Year of term and expenditure date	Minimum property expenditures	Cash payments	Total deemed interest earned (%)
On or before October 31, 2012	$ 100,000	$ -	0
On or before October 31, 2013	200,000	-	0
On or before October 31, 2014	400,000	-	51
On or before October 31, 2016	-	250,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

The vendor retains a 2.5% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.5% by paying the sum of $1,500,000.

Roberts Lake – Quebec

During fiscal 2011, the Company entered into an option agreement to acquire 100% of certain claims located in Quebec, Canada. In order to acquire the interest in the project, the Company must complete the following:

Make cash payments aggregating $290,000 payable as follows:

- $25,000(paid) in trust on execution of the agreement;
- $115,000 (paid) within seven days of TSX approval; and
- $150,000 on August 18, 2014.

Issue 1,000,000 (issued at a value of $90,000) common shares of the Company within seven days of TSX approval.

Incur exploration expenditures aggregating $2,900,000 and additional cash payments aggregating $3,400,000 in order to maintain the option and earn an interest in the property as follows:

Year of term and expenditure date	Minimum property expenditures (CDN$)	Cash payments (CDN$)	Total deemed interest earned (%)
On or before October 31, 2012	$ 150,000	$ -	0
On or before October 31, 2013	250,000	-	0
On or before October 31, 2014	500,000	-	51
On or before October 31, 2016	-	250,000	51
On or before October 31, 2018	2,000,000	-	75
On or before October 31, 2018	-	3,000,000	100

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Roberts Lake – Quebec (cont'd…)

The vendor retains a 2% NSR and at any time prior to the earlier of October 31, 2018 and on the first anniversary date upon which commercial production commences on the property, the Company may elect to reduce the NSR to 1.0% by paying the sum of $1,500,000.

Mongolia – Onjuul

During fiscal 2009, the Company entered into a Share Purchase Agreement ("SPA"), subsequently amended, to acquire a 100% interest in two coal licenses located in the Onjuul coal basin, of Mongolia. Pursuant to the amended agreement, to acquire its interest the Company was required to make cash payments aggregating US$1,500,000 and issue 3,500,000 common shares (as amended and subject to regulatory approval).

A finder fee of $647,750 was to be paid in stages, of which $132,130 was paid during fiscal 2009 through the issuance of 125,838 units (issued - fair valued at $132,130). Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share for a period of one year.

During the year ended December 31, 2010, all related property and deferred exploration costs in the amount of $2,846,512 has been written off due to uncertainty in advancing the Onjuul property.

Mongolia - Black Hole

During fiscal 2009, the Company entered into a SPA, subsequently amended, to acquire a 100% interest in a coal license located in the Onjuul coal basin, of Mongolia. Pursuant to the amended agreement, to acquire its interest the Company was required to make cash payments aggregating US$4,600,000 and issue 4,500,000 common shares (as amended and subject to regulatory approval)

A finder fee of $497,000 was to be paid in stages, of which $61,149 was paid during fiscal 2009 through the issuance of 58,237 units (issued - fair valued at $61,149). Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $1.25 per share for a period of one year.

During the year ended December 31, 2010, all related property and deferred exploration costs in the amount of $2,027,731 has been written off due to uncertainty in advancing the Black Hole project.

Mongolia – Buleen Hundii

During fiscal 2010, the Company entered into an Earn in Agreement to acquire 100% of a Mongolian company that holds an exploration license in the Onjuul coal basin of Mongolia. To acquire its interest the Company is required to pay US$750,000 (paid $10,000) and issue 2,500,000 common shares over time when certain conditions are met. This transaction is subject to TSX-V approval.

During the year ended December 31, 2010, all related costs in the amount of $11,082 have been written off due to uncertainty in advancing the Buleen Hundii project.

8. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Mongolia – Brown Valley

During fiscal 2010, the Company entered into an Earn in Agreement to acquire 100% of a Mongolian company that holds an exploration license in the Onjuul coal basin of Mongolia. To acquire its interest the Company is required to pay US$500,000 (paid $10,000) and issue 2,000,000 common shares over time when certain conditions are met. This transaction is subject to TSX-V approval.

During the year ended December 31, 2010, all related property costs in the amount of $11,015 have been written off due to uncertainty in advancing the Brown Valley project.

During the year ended December 31, 2011, the Company received $25,000 in exchange for mining data related to its former Mongolian properties.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Due within the year	December 31, 2011	December 31, 2010	January 1, 2010
Interest payable	$ -	$ 7,460	$ 7,877
Trade payables	173,959	243,372	235,313
Accrued liabilities	40,000	32,000	32,000
	$ 213,959	$ 282,832	$ 275,190

10. NOTE PAYABLE

During fiscal 2011, the Company repaid a note payable that was created pursuant to an agreement dated March 17, 2009, where the Company was advanced a loan in the amount of US$75,000. Per the terms of the agreement a loan bonus of 10% of the principal (US$7,500) was paid. The note did not bear interest.

11. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

a) paid or accrued administration fees of $51,000 (2010 - $86,000) to a company controlled by a director.

b) paid or accrued consulting fees of $28,000 (2010 - $33,000) to a company controlled by an officer.

Included in accounts payable is $Nil (December 31, 2010 - $61,525; January 1, 2010 - $1,595) owed to companies controlled by an officer and a director.

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

11. RELATED PARTY TRANSACTIONS (cont'd…)

Key management personnel compensation (including senior officers and directors of the Company):

	2011	2010
Short-term benefits	$ 79,000	$ 119,000
Share-based compensation	114,927	-
Total remuneration	$ 193,927	$ 119,000

12. SHARE CAPITAL AND SHARE COMPENSATION RESERVE

Authorized – Unlimited common shares without par value

During fiscal 2011 the Company:

- issued 1,300,000 shares valued at $118,500 pursuant to an exploration and evaluation asset agreement (Note 8).
- completed a non-brokered private placement and issued 3,100,000 flow through units and 5,140,000 non-flow-through units a price of $0.10 per unit, for gross proceeds of $824,000. Each flow through unit consisted of one common share and one half share purchase warrant exercisable at a price of $0.15 per share expiring on April 13, 2012. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on April 13, 2012.
- completed a non-brokered private placement and issued 2,200,000 flow through units and 9,800,000 non-flow-through units a price of $0.05 per unit, for gross proceeds of $600,000. Each flow through unit consisted of one common share and one whole share purchase warrant exercisable at a price of $0.15 per share expiring on September 30, 2013. Each non-flow through unit consisted of one common share and one whole share purchase warrant, exercisable at a price of $0.15 per share expiring on September 30, 2013.

Stock options

The Company has a stock option plan in place under which it is authorized to grant options to directors, senior officers, employees, management company employees, and consultants to acquire up to 10% of the issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of five years. Vesting is determined by the Board of Directors.

12. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

As at December 31, 2011, the Company had stock options outstanding enabling the holder to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date	Weighted Average Life Remaining
140,000	$ 1.09	July 12, 2012	0.53
265,000	1.52	August 28, 2012	0.66
56,667	1.35	September 21, 2012	0.73
115,000	0.57	November 16, 2014	2.88
2,000,000	0.10	February 17, 2016	4.13
2,576,667			3.45

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
As at December 31, 2009	3,887,000	$ 0.61
Options granted	-	-
Options cancelled	(837,000)	1.06
As at December 31, 2010	3,050,000	$ 0.49
Options granted	2,200,000	0.10
Options cancelled/expired	(2,673,333)	0.31
As at December 31, 2011	2,576,667	$ 0.35
Number of options currently exercisable	2,576,667	$ 0.35

During the year ended December 31, 2011, the Company granted 2,200,000 (2010 – nil) stock options with a fair value of $202,222 (2010 - $nil) or $0.09 (2010 - $nil) per option, calculated using the Black-Scholes option pricing model. With the exception of 200,000 options granted to investor relation consultants which vest 25% three months after grant and a further 25% every three months thereafter, the stock options all vested at the time of granting. During the year ended December 31, 2011, $188,480 (2010 - $nil) was recorded as share-based compensation with an offset to share compensation reserves.

12. SHARE CAPITAL AND SHARE COMPENSATION RESERVE (cont'd…)

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the year:

	2011	2010
Risk-free interest rate	2.77%	-
Expected life of options	5	-
Annualized volatility	119%	-
Dividend rate	-	-

Warrants

As at December 31, 2011, the Company had share purchase warrants outstanding enabling the holders to acquire common shares as follows:

Number of Shares	Exercise Price	Expiry Date
6,690,000	$0.15	April 13, 2012 (expired)
12,000,000	0.15	September 30, 2013
18,690,000		

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
As at December 31, 2009	7,731,218	$ 1.02
Warrants issued	-	-
Warrants expired	(4,874,075)	0.90
As at December 31, 2010	2,857,143	$ 0.15
Warrants issued	18,690,000	0.15
Warrants expired	(2,857,143)	0.15
As at December 31, 2011	18,690,000	$ 0.15
Number of warrants currently exercisable	18,690,000	$ 0.15

The options and warrants were not "in the money" during fiscal 2011 and therefore, had no effect on diluted earnings per share for the year ended December 31, 2011.

13. RECOVERY FROM PROPERTY SETTLEMENT

During fiscal 2007, the Company acquired an option, subsequently amended, for the acquisition of up to a 49% interest in a company that held a coal license located in Mongolia, referred to as the Erdenetsogt project.

During fiscal 2008, the Company initiated civil proceedings against the vendor of the Erdenetsogt property, alleging that the vendor did not comply with the terms of the purchase agreement by selling 100% of the company holding title to the property to another party (the "Acquiring Party"). Additionally, the Company initiated arbitration proceedings against the Acquiring Party alleging violation of the Company's agreement to acquire a 49% interest in the company holding title to the property.

During fiscal 2009, the Company won its civil proceedings and received shares representing 5% of ECM LLC ("ECM") the Mongolian company which owns the exploration License to the Erdenetsogt coal project ("Erdenetsogt"). The Company filed a writ, in Mongolia, seeking to rescind the transfer of shares of ECM to the Acquiring Party. The Company contended as the holder of a 5% interest in ECM it held the right of first refusal on any offer of sale, and that the vendor breached this right. Under the writ, the Company was seeking to have 95% of ECM currently held by the Acquiring Party returned to Mongolia and offered to the Company.

During fiscal 2010, the Company signed a SPA with Mangreat Group Ltd. ("Mangreat"), the majority owner of ECM providing for the sale of the Company's 5% interest in ECM. Under the terms of the settlement, the Company received US$500,000 in fiscal 2010 and received US$1,500,000 in fiscal 2011. The Company transferred its 5% interest in ECM and has terminated its litigation in Mongolia. If the property is sold or joint ventured to a third party for a value greater than US$40,000,000 the Company will receive an additional US$1,000,000. Under the SPA the parties have also agreed to abandon all litigation over the property and the license.

The Company incurred costs during fiscal 2011 of $4,729 (2010 - $5,094) in connection with the litigation and all such costs have been expensed.

14. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The significant non-cash transactions during the year ended December 31, 2011 consists of the following:

- the issuance of 1,200,000 common shares at a value of $118,500 pursuant to exploration and evaluation asset acquisitions;
- receipt of 100,000 shares of Ocean Park Ventures Corp. at a value of $45,000; and
- the accrual of $10,317 of exploration and evaluation assets in accounts payable and accrued liabilities.

The significant non-cash transactions during the year ended December 31, 2010 consisted of the reclassification of $22,848 from exploration and evaluation advances to exploration and evaluation assets.

15. DEFERRED INCOME TAX

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Net income (loss) before income taxes	$ 810,419	$ (4,829,989)
Expected income tax (recovery) expense	$ 214,761	$ (1,376,547)
Items not deductible for income tax purposes	50,442	(279)
Share issue costs	(32,672)	-
Changes in tax rates	(15,011)	169,084
Change in unrecognized deferred tax assets	(254,000)	1,106,000
Other	36,480	101,742
Deferred income tax recovery	$ -	$ -

The nature and tax effect of the temporary differences and tax loss carry-forwards giving rise to deferred tax assets and liabilities at December 31, 2011 and 2010 are summarized as follows:

	December 31, 2011	December 31, 2010
Deferred tax assets		
Capital losses	$ 144,000	$ 144,000
Equipment	1,000	1,000
Exploration and evaluation assets	1,262,00	1,686,000
Non-capital loss carry-forwards	1,254,000	1,082,000
Share issue costs	46,000	48,000
Unrecognized tax assets	$ 2,707,000	$ 2,961,000

The Company has non-capital losses of approximately $5,014,000 available to offset against taxable income in future years, which if unutilized will expire through to 2031. Subject to certain restrictions, the Company also has resource exploration expenditures of approximately $5,756,000 available to offset taxable income in future years. Potential tax benefits which may arise as a result of these losses, resource deductions and other tax assets have not been recognized in these financial statements as their collectability is not probable.

During the year ended December 31, 2011, the Company has renounced $417,769 of exploration expenditures of which $298,795 remains unspent at year end.

16. SEGMENTED INFORMATION

As at December 31, 2011, the Company has operating segments in both Canada and USA:

		2011		2010
Equipment				
Canada	$	1,415	$	2,022
USA		-		-
		1,415		2,022
Exploration and evaluation assets				
Canada	$	552,268	$	-
USA		154,423		-
		706,691		-

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The fair value of cash and marketable securities are measured at Level 1 of the fair value hierarchy. The carrying value of receivables, accounts payable and accrued liabilities and note payable approximate their fair value because of the short-term nature of these instruments.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote and has deposited cash in high credit quality financial institutions, as well as in a lawyers trust accounts in Mongolia.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As of December 31, 2011 the Company had cash balance of $1,654,511 (2010 - $133,335; January 1, 2010 - $214,117) to settle current liabilities of $213,959 (2010 - $357,427; January 1, 2010 - $352,615). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

Market risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. Amounts exposed to market risk include marketable securities of $22,000 (2010 - $nil).

Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term investments issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign currency risk
The Company is exposed to foreign currency risk on fluctuations related to assets and liabilities that are denominated in US Dollars. Amounts exposed to foreign currency risk include cash of US$10,266 as of December 31, 2011(2010 - $129,486; January 1, 2010 - $222).

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

18. CAPITAL MANAGEMENT

The Company defines capital that it manages as shareholders' equity, consisting of issued common shares, stock options and warrants.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. The Company is not subject to externally imposed capital restrictions.

19. SUBSEQUENT EVENTS

Subsequent to December 31, 2011, the Company:

- granted 3,485,000 share purchase options exercisable at a price of $0.10 for five years;
- completed a non-brokered private placement for gross proceeds of $450,000 by issuing 6,000,000 units. A finder's fee of 280,000 units was issued as part of the private placement. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.15 for a period of two years; and
- signed an option agreement for the Harris Group of properties in Southeastern BC for cash payments totaling $100,000, incurring $225,000 of work commitments, and issuing 800,000 shares. The optionee retains a 2% NSR which can be reduced to 1% for $1,000,000 and to 0% for an additional $2,000,000.