Financial Statements of

VIKING GOLD EXPLORATION INC.

For the Years Ended December 31, 2011 and 2010

VIKING GOLD EXPLORATION INC.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Viking Gold Exploration Inc.

We have audited the accompanying financial statements of Viking Gold Exploration Inc., which comprise the statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the statements of loss and comprehensive loss, statements of cash flows and statements of changes in equity for the years ended December 31, 2011 and 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.

Auditor's 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 auditor's 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Viking Gold Exploration Inc. 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 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 24, 2012

VIKING GOLD EXPLORATION INC.

STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011 AND 2010, AND JANUARY 1, 2010
(Expressed in Canadian dollars)

	Notes	December 31, 2011	December 31, 2010 (Note 16)	January 1, 2010 (Note 16)
ASSETS				
Non-current assets				
Exploration and evaluation assets	3	$ 1,483,882	$ 3,611,604	$ 3,128,041
Equipment	4	7,291	11,061	14,080
Investments	5	9,750	1,250	1,250
Total non-current assets		1,500,923	3,623,915	3,143,371
Current assets				
Amounts receivable and prepaid expenses	6	103,287	44,045	14,328
Cash and cash equivalents		1,008,105	1,099,517	171,496
Total current assets		1,111,392	1,143,562	185,824
Total Assets		$ 2,612,315	$ 4,767,477	$ 3,329,195
EQUITY AND LIABILITIES				
Equity				
Share capital	7	$ 8,383,653	$ 6,915,669	$ 5,305,645
Reserve – equity-settled employee benefit reserve		911,055	398,175	290,904
Deficit		(7,229,646)	(3,042,328)	(2,646,631)
Total equity		2,065,062	4,271,516	2,949,918
Non-current liabilities				
Deferred tax liability	8	-	363,382	302,510
Current liabilities				
Liability for flow-through share premium	7	-	35,667	3,893
Trade and other payables	9	547,253	96,912	72,874
Total current liabilities		547,253	132,579	76,767
Total Equity and Liabilities		$ 2,612,315	$ 4,767,477	$ 3,329,195

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 3 and 11)

The Board of Directors approved these financial statements on April 24, 2012.
They are signed on the Company's behalf by:

/s/Mark Edwards
Director

/s/John Hansuld
Director

VIKING GOLD EXPLORATION INC.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian dollars)

	Notes	2011	2010 (Note 16)
Revenue		$ -	$ -
Expenses			
Management fees	10	158,284	83,120
Share-based compensation	10	566,000	321,000
Professional and regulatory fees	10	118,167	54,067
Office and administration	10	76,363	58,052
Depreciation	4	2,396	3,445
Claims management		3,013	-
Investigation of new properties		7,764	1,870
Total expenses		931,987	521,554
Operating loss		(931,987)	(521,554)
Other income (expense)			
Interest income		4,999	-
Loss on disposal of equipment	4	(3,233)	-
Part XII.6 tax		(65,124)	(9,023)
Write-down of exploration and evaluation assets	3	(3,635,489)	-
Loss before income taxes		(4,630,834)	(530,577)
Deferred tax (recovery) expense	8	(377,049)	86,479
Net loss and comprehensive loss, attributable to common shareholders		$ (4,253,785)	$ (617,056)
Basic and diluted loss per common share		$ (0.067)	$ (0.011)
Weighted-average number of common shares			
Basic		63,316,385	54,190,538
Diluted	7f	63,316,385	54,190,538

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian dollars)

	2011	2010 (Note 16)
Operating activities		
Net loss	$ (4,253,785)	$ (617,056)
Adjusted for		
Share-based compensation	566,000	321,000
Depreciation	2,396	3,445
Other expense	3,698,847	9,023
Deferred tax (recovery) expense	(377,049)	86,479
	(363,591)	(197,109)
Changes in non-cash working capital items		
(Increase) in amounts receivable and prepaid expenses	(59,242)	(29,717)
Increase (decrease) in trade and other payables, net of items (i)(iii)(vi) below	4,853	(23,295)
Net cash used in operating activities	(417,980)	(250,121)
Investing activities		
Interest income	4,999	-
Additions to exploration and evaluation assets, net of items (i)(ii)(iv) below	(785,432)	(483,563)
Purchase of equipment	(1,859)	(426)
Net cash used in investing activities	(782,292)	(483,989)
Financing activities		
Part XII.6 tax, net of item (iii) below	-	(9,023)
Issuance of private placement units	1,048,750	1,670,000
Issue costs of private placement units, net of items (vi)(vii) below	(115,840)	(59,346)
Exercise of warrants	109,200	40,000
Exercise of options	66,750	20,500
Net cash provided by financing activities	1,108,860	1,662,131
Net (decrease) increase in cash and cash equivalents	(91,412)	928,021
Cash and cash equivalents, beginning of year	1,099,517	171,496
Cash and cash equivalents, end of year (Note 13)	$ 1,008,105	$ 1,099,517

Additional information:

	2011	2010
(i) Increase in accrued E&E expenditures	$ 397,835	$ -
(ii) Non-cash option payment received	(8,500)	-
(iii) Increase in accrued Part XII.6 tax costs	65,124	-
(iv) Common shares issued to acquire E&E assets	333,000	-
(v) Value of other warrants issued	(17,000)	-
(vi) (Decrease) increase in accrued issue costs of private placements	(17,471)	47,333
(vii) Value of broker warrants issued in private placements	(45,000)	(22,000)

See accompanying notes to the financial statements.

VIKING GOLD EXPLORATION INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Expressed in Canadian dollars)

	Notes	# of Issued and fully paid common shares	Share capital	Equity-settled employee benefit reserve	Deficit	Total equity
Balance – January 1, 2010 (Note 16)		40,523,370	$ 5,305,645	$ 290,904	$ (2,646,631)	$ 2,949,918
Proceeds from private placements						
Non-flow-through shares	7c	8,150,000	520,000	-	-	520,000
Flow-through shares	7c	11,833,332	1,150,000	-	-	1,150,000
Premium paid by investors for flow-through shares	7c	-	(35,667)	-	-	(35,667)
Issue costs	7c	-	(106,679)	-	-	(106,679)
Issue costs – deferred tax	8	-	29,500	-	-	29,500
Other warrants issued	7d	-	(22,000)	-	22,000	-
Exercise of warrants	7d	200,000	40,000	-	-	40,000
Exercise of options	7e	150,000	20,500	-	-	20,500
Value of options transferred on exercise	7e	-	14,370	(14,370)	-	-
Comprehensive loss for year		-	-	-	(617,056)	(617,056)
Share-based compensation	7e, 10	-	-	321,000	-	321,000
Options expired	7e	-	-	(199,359)	199,359	-
Net change for the year		20,333,332	1,610,024	107,271	(395,697)	1,321,598
Balance – December 31, 2010 (Note 16)		60,856,702	6,915,669	398,175	(3,042,328)	4,271,516
Proceeds from private placement						
Non-flow-through shares	7c	1,747,917	262,187	-	-	262,187
Flow-through shares	7c	5,243,750	786,563	-	-	786,563
Shares issued to acquire exploration and evaluation assets	3	1,650,000	333,000	-	-	333,000
Issue costs	7c	-	(98,369)	-	-	(98,369)
Issue costs – deferred tax	8	-	22,000	-	-	22,000
Other warrants issued	7d	-	(62,000)	-	62,000	-
Exercise of warrants	7d	546,000	109,200	-	-	109,200
Exercise of options	7e	525,000	66,750	-	-	66,750
Value of options transferred on exercise	7e	-	48,653	(48,653)	-	-
Comprehensive loss for year		-	-	-	(4,253,785)	(4,253,785)
Share-based compensation	7e, 10	-	-	566,000	-	566,000
Options expired	7e	-	-	(4,467)	4,467	-
Net change for the year		9,712,667	1,467,984	512,880	(4,187,318)	(2,206,454)
Balance – December 31, 2011		70,569,369	$ 8,383,653	$ 911,055	$ (7,229,646)	$ 2,065,062

See accompanying notes to the financial statements.

1. NATURE AND CONTINUANCE OF OPERATIONS

Viking Gold Exploration Inc. (the "Company") is a Canadian mineral exploration company with interests in projects located in Ontario, Quebec and the Northwest Territories. The Company's shares are publicly traded on the TSX Venture Exchange ("TSX-V") under the trading symbol "VGC". The Company has not generated any operating revenue since its reorganization in 2004. It is devoting its efforts to raising capital and exploring and developing its mineral property interests. The Company currently has no subsidiaries.

The address of the Company's registered office is #2B – 2900 John Street, Markham, Ontario, Canada, L3R 5G3.

As at December 31, 2011, the Company had working capital of $564,139 and an estimated flow-through expenditure obligation of approximately $722,000. Accordingly, continuing operations of the Company are dependent on its ability to generate future cash flows or obtain additional financing. Management believes that sufficient working capital will be obtained from external financing to meet the Company's current and future liabilities and commitments as they become due, though there is a significant risk that additional financing may not be available on a timely basis or on terms acceptable to the Company.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern. Such adjustments could be material.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The Company's transition date from Canadian generally accepted accounting principles ("Canadian GAAP") to IFRS is January 1, 2010, with a corresponding IFRS adoption date of January 1, 2011. Accordingly, the preparation of these financial statements has resulted in changes to the accounting policies as compared with the Company's most recent annual Canadian GAAP financial statements prepared as at December 31, 2010 and for the year then ended. The accounting policies set out below are consistently applied to all periods presented in these financial statements. They were also applied in preparing an opening IFRS statement of financial position as at the IFRS adoption date, as is required by IFRS 1, "First Time Adoption of International Financial Reporting Standards." The impact of the transition from Canadian GAAP to IFRS is explained in Note 16, Transition to International Financial Reporting Standards.

b) Basis of Measurement

These financial statements are prepared on the historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information. The Company uses the Canadian dollar for both its functional (i.e. measurement) and presentation currencies.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Judgments, Estimates and Assumptions

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The estimates and underlying assumptions are based on historical experience and other factors believed to be reasonable under the circumstances. Accounting estimates are reviewed on an ongoing basis and revisions are recognized in the period in which the estimate is revised and the revision affects both current and future periods. Significant items in these financial statements that involve the use of estimates include the following items: the valuation of exploration and evaluation assets (Note 2e); share-based compensation (Note 2m); decommissioning, restoration and similar obligations (Note 2h); and the valuation of deferred income tax assets (Note 2j).

d) Financial Instruments

Financial instruments consist of financial assets and liabilities and are initially measured at fair value. The accounting policies for financial instruments are described below and the composition of the period-end financial instruments and related risks are disclosed in Note 13, Financial Risk Factors.

Financial Assets

The Company classifies each financial asset into one of four categories depending on the purpose for which the asset was acquired.

(i) Financial Assets at Fair Value Through Profit or Loss ("FVTPL")

Assets in this category are derivatives or other assets held for trading (i.e. acquired or incurred principally for the purpose of selling or repurchasing in the near term) or designated as FVTPL upon initial recognition. After initial recognition, such assets are measured at fair value with changes therein being recognized in profit or loss. The Company has no derivative financial instruments. The Company's cash equivalents, which consist of guaranteed investment certificates cashable at any time, and an investment (see Note 5, Investments) are classified as FVTPL.

(ii) Available For Sale ("AFS")

Assets in this category are non-derivative financial assets that are either designated as available for sale or do not fit into one of the other categories. After initial recognition, AFS assets are measured at fair value with changes therein (excluding those attributable to impairment) being recognized directly in other comprehensive income (loss). The Company has no AFS assets.

(iii) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. For loans and receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are recognized in profit or loss. The Company has cash and amounts receivables, which are classified as loans and receivables.

(iv) Held to Maturity

Assets in this category are financial assets with known payments and a fixed maturity date. In addition, the Company has the positive intention and ability to hold the financial asset to maturity, other than those initially designated as held for trading, available for sale, or loans and receivables as explained above. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method. The Company has no held-to-maturity financial assets.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Financial Instruments (Continued)

Unquoted Equity Instruments

Unquoted equity instruments, the fair value of which cannot be reliably measured, are carried at cost less estimated impairment losses. Impairment losses for these assets may not be reversed. The Company has an investment (see Note 5), which is an unquoted equity instrument.

Financial Liabilities

The Company classifies each financial liability into one of two categories depending on the purpose for which the liability was incurred.

(i) Financial Liabilities at FVTPL

Liabilities in this category are derivatives or liabilities classified as held for trading or designated as FVTPL upon initial recognition. After initial recognition, such liabilities are measured at fair value with changes in fair value being recognized in profit or loss. The Company has no held-for-trading financial liabilities.

(ii) Other Financial Liabilities

Liabilities in this category are non-derivative financial liabilities that are not classified as held for trading. After initial recognition, such liabilities are measured at amortized cost using the effective interest rate method. The Company has trade and other payables, which are classified as other financial liabilities. The Company's liability for flow-through share premium is considered to be a deferred credit and not a financial liability.

Transaction Costs

For FVTPL financial assets and liabilities, transaction costs on initial recognition and thereafter are included directly in profit or loss. For other categories of financial assets and liabilities, transaction costs are capitalized and included in the calculation of the effective interest rate, i.e. amortized through profit or loss over the term of the related instrument.

Fair Value Hierarchy

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly (e.g. broker quotes); and
Level 3 – Inputs for assets or liabilities that are not based on observable market data.

Financial assets and liabilities are recognized in the Statement of Financial Position when the Company has become party to the contractual provision of the instruments.

e) Mineral Properties

The Company's accounting policies for mineral property interests are as follows:

Pre-exploration

Prospecting and other pre-exploration expenditures incurred before the Company has the legal right to explore a mineral property are charged to profit or loss as incurred.

Exploration and Evaluation ("E&E") Assets

Acquisition costs and deferred exploration expenditures are capitalized to intangible assets. Acquisition costs are the costs of acquiring legal rights to explore a mineral property. Deferred exploration expenditures are exploration and evaluation expenditures incurred after the Company has secured the legal rights to explore.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Mineral Properties (Continued)

Exploration and Evaluation ("E&E") Assets (Continued)

Acquisition costs include cash consideration paid and the fair market value of shares issued by the Company. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Deferred exploration expenditures include such items as drilling and camps, transportation, technical studies, assays, consulting fees and property-specific general and administrative expenses. Amounts recovered and administrative fees earned from exploration partners are applied as a reduction of the cost of the related mineral property interest.

The Company assesses its individual exploration and evaluation properties for impairment when facts and circumstances indicate that the carrying amount may not be recoverable. The expiry of rights to explore, the cessation of planned exploration activities, and the indication of mineral reserves that are insufficient to recover the capitalized costs are important factors the Company considers in identifying impairment. When an impairment situation is identified, a write-down of the related intangible asset is charged to profit or loss. The Company's write-downs of E&E assets in 2011 due to impairment are discussed in Note 3i, Exploration and Evaluation Assets – Write-downs.

Development and Production Assets

When the technical feasibility and commercial viability of extraction of an exploration property are determined, the related intangible assets are transferred to property, plant and equipment. Development costs incurred thereafter to bring an actual mine into production are capitalized to property, plant and equipment.

Once commercial production has commenced, the net costs of the applicable mineral property are charged to profit or loss using the unit-of-production method based on estimated recoverable reserves. Production costs for the period are allocated to inventory and profit or loss as appropriate. The Company's accounting policy for impairment of mineral property interests under development and in production is described in Note 2g, Impairment.

f) Equipment

Items of equipment are recorded at cost less accumulated depreciation and impairment losses. The Company recognizes, in the carrying amount of an item of equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are charged to profit or loss as incurred.

Depreciation of equipment is provided on a declining-balance basis over the estimated useful lives at the following annual rates – vehicles 30%; field and office equipment 20%.

g) Impairment

The carrying amounts of the Company's non-current assets, except exploration and evaluation assets which are tested for impairment consistent with the policy disclosed in Note 2e, are reviewed at each Statement of Financial Position date to determine whether there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated. An impairment loss is charged to profit or loss whenever the carrying amount of an asset (or its cash-generating unit) exceeds its recoverable amount.

An asset's recoverable amount is the greater of its fair value less costs to sell and its value-in-use (calculated as the present value of expected future cash flows). Impairment losses may be reversed (other than for goodwill) if there has been a change in the estimates used to determine the recoverable amount.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Decommissioning, Restoration and Similar Obligations

Obligations to perform, or fund, site decommissioning, restoration or other rehabilitative work arise when a disturbance to a mineral property is caused by exploration, development or production. The costs associated with these obligations are capitalized to the asset's carrying value and accrued as liabilities as incurred, using a current pre-tax risk-free interest rate and based on management's assumptions and best estimates. Capitalized costs are charged to profit or loss over the economic life of the related asset using the unit-of-production method of amortization. The related liability is adjusted each period for changes in the current pre-tax risk-free interest rate, and the amount and timing of the underlying cash flows needed to settle the obligation. The increase in provisions for decommissioning, restoration and similar obligations due to the passage of time, is charged to profit or loss as a finance cost.

As at December 31, 2011, management believes that the Company's provision of $20,000 (December 31, 2010 – nil; January 1, 2010 – nil) for decommissioning, restoration and similar obligations is adequate (see Note 3a).

i) Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. The Company does not invest in any asset-backed deposits or investments. The Company has no banking arrangements for overdrafts or borrowings.

j) Income Taxes

Income tax expense (recovery) included in profit or loss is the sum of current and deferred tax as explained below.

Current Tax

Current tax is the expected income tax payable (recoverable) on the taxable income (loss) for the period, using tax rates enacted, or substantively enacted, as at the reporting date. Current tax expense (recovery) included in profit or loss reflects the current tax for the reporting period, plus adjustments to the current tax of prior periods, less current tax recorded directly in other comprehensive income (loss) or equity.

Deferred Tax

Under the balance sheet liability method, deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and unused tax losses and tax credits can be utilized. Deferred tax is calculated on a non-discounted basis, using tax rates enacted, or substantively enacted, as at the reporting date. The carrying amounts of individual deferred tax assets are reviewed at the reporting date but are only recognized to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

In assessing the probability that a potential deferred tax asset will be recovered, management makes estimates as to the Company's future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences, and the likelihood that tax positions taken by the Company will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

The deferred tax (recovery) expense included in profit or loss reflects the net change in deferred tax assets and liabilities, less deferred tax recorded directly in other comprehensive income (loss) or equity, less adjustments for investor premiums as further explained in Note 2l, Flow-through Shares.

Continued…

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Share Capital and Warrants

The Company's common shares are classified as equity and may be issued on either a flow-through or non-flow-through basis. Certain unique aspects of flow-through shares are discussed in greater detail in Note 2l, Flow-through Shares.

The Company periodically issues units to investors consisting of common shares and warrants in non-brokered private placements. Each whole warrant issued entitles the holder to acquire a common share of the Company, at a fixed Canadian dollar price over a specified term. These warrants are not transferable from the original investor to a new investor. The Company's investor warrants are equity instruments and not financial liabilities or financial derivatives. Accordingly, gross investor proceeds received from the issuance of units are accounted for as an increase in share capital. No separate valuation (i.e. "bifurcation") of investor warrants is made for accounting purposes at the time of issuance or at any time thereafter.

Transaction costs directly attributable to the issuance of units (such as legal, finders' and regulatory fees) are recognized as a decrease in share capital net of related income tax effects. Other warrants (e.g. broker warrants issued in a private placement) are also included in transaction costs at their estimated issue date fair value as determined using the Black-Scholes option-pricing model. An offsetting credit is recorded in equity as a reduction of deficit.

When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, no accounting entry is recorded.

The Company makes full and relevant disclosure of outstanding investor and other warrants in its financial statements, so that readers can assess the impact of potential future warrant exercises on the Company's cash flows and outstanding shares.

l) Flow-through Shares

The Company finances its exploration activities through the issuance of flow-through common shares. These shares transfer the tax deductibility of resource expenditures to investors. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the accounting policy described below.

At the time of issuing flow-through shares, the Company allocates the proceeds of issuance to share capital and the sale of tax benefits. The allocation to tax benefits is recorded as a liability and is based on the estimated premium, if any, an investor pays for the common shares over the value of the shares issued based on the quoted price.

As qualifying exploration expenditures are made in each reporting period, the Company capitalizes these costs to intangible assets as explained in Note 2e, Mineral Properties. If the Company intends to formally renounce these expenditures to investors under an existing flow-through agreement (whether using the "General Rule" or "Look-back Rule" as permitted under Canadian income tax regulations), it earmarks them as "effectively renounced" as at the end of the reporting period, and records a related deferred tax expense/liability net of a proportionate amount of any related share issue premium. At the end of each reporting period, the Company discloses its outstanding flow-through expenditure commitment (see Note 11a, Commitments and Contingencies – Flow-through Shares.

m) Share-based Payments

The Company's accounting policies for share-based payments are outlined below.

Employees

The term "employees" as used in these financial statements includes all officers, directors and others, including persons providing services that are similar to those provided by employees, e.g. consultants.

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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Share-based Payments (Continued)

Equity-settled Transactions

An equity-settled transaction occurs when the Company enters into an agreement to acquire goods or services in exchange for its shares or other equity instruments. Such transactions are recorded at the fair value of the goods or services received. When shares or other securities are issued to compensate key employees, the fair value is determined using the market value of the securities issued. When employees purchase shares or other securities on the same terms as non-employee investors, such transactions are not treated as share-based payments. Instead, see Note 2k, Share Capital and Warrants, and Note 2l, Flow-through Shares.

Stock options are granted to key employees as performance incentives. The fair value of options granted is determined using the Black-Scholes option-pricing model. This amount is recognized as a compensation expense in profit or loss at time of vesting with offsetting credits recorded to an Equity-settled Employee Benefit Reserve. Since the Company grants options that vest entirely at the grant date, no adjustments to compensation expense for forfeitures or graded vesting are required. When options are exercised, a transfer is made from the reserve to share capital and added to the proceeds of issuance. When stock options expire or are forfeit, a transfer is made from the reserve to deficit. Accordingly, the balance of the reserve at each reporting date reflects the Company's unexpired/unexercised vested options.

Management makes assumptions and judgments In applying the Black-Scholes option-pricing model as a market-based valuation technique. These assumptions and judgments include estimating the future volatility of the stock price, the expected dividend yield, and the risk-free interest rate. Such assumptions and judgments are inherently uncertain. Changes in these assumptions affect the fair value estimates.

The Company's stock option plan is described in Note 7e, Share Capital – Stock Options. A summary of compensation expense for options granted is presented in Note 10, Related Party Transactions. The Company's accounting policies for share-based payments made to acquire mineral property interests or to compensate brokers are discussed in Notes 2e, Mineral Properties and 2k, Share Capital and Warrants.

Cash-settled Transactions

A cash-settled transaction occurs when the Company enters into an agreement in which it incurs a liability linked to the Company's share price. Such transactions are recorded at the grant date but are subsequently re-measured to fair value in each period, until the liability is settled. The Company has not entered into any cash-settled transactions.

n) Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common shareholders by the weighted-average number of shares outstanding during the period. Diluted earnings (loss) per share is calculated in a similar manner, but with adjustments to give full effect to all dilutive potential common shares that were outstanding during the period. Anti-dilutive effects of potential conversions of securities are ignored for this calculation. When there is a loss from continuing operations, options and warrants are considered to be anti-dilutive.

o) Mineral Property Agreements With Other Parties

A portion of the Company's activities is conducted jointly with other parties wherein the Company enters into agreements that provide for specified percentage interests in mineral properties. Once the parties have earned their respective interests and undertake to conduct further acquisition, exploration or development through a joint venture or other legal arrangement, the Company determines the proper accounting treatment for its continued interest in the mineral property.

Continued…

(Unaudited – expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Mineral Property Agreements With Other Parties (Continued)

Where the property is subject to the shared joint control of the parties, the Company discloses this relationship as "a joint venture" and applies proportionate consolidation accounting. Under this method of accounting, the Company's share of assets, liabilities, revenue and expenses are grouped with similar items in the Company's financial statements. Where shared joint control is not present, the Company discloses this relationship as being one of "undivided working interests" and instead recognizes its assets, liabilities, revenue and expenses and/or its relative shares thereof. In either case, costs incurred during earn-in periods remain capitalized and are added to amounts recorded under the new arrangement, subject to any overriding impairment tests.

p) New IFRS Standards Not Yet Adopted

The Company has not yet adopted certain new IFRS standards, amendments and interpretations to existing standards, which have been published but are only effective for the Company's accounting periods beginning on or after January 1, 2012. These include:

New IFRS standards	Description	Effective date
• Amendments to IFRS 7 – Disclosures – Financial Instruments (Issued October 2010)	The amendments to this standard will allow users of financial statements to improve their understanding and disclosures of transfer transactions of financial assets.	January 1, 2012
• IFRS 9 – Financial Instruments (issued November 2009 and revised October 2010)	The existing standard was expanded in 2010 to include guidance on the classification and measurement of financial liabilities.	January 1, 2015 (extended from January 1, 2013)
• IFRS 10 – Consolidated Financial Statements (issued May 2011)	The standard provides a new definition of control, which is intended to provide more consistent guidance in the determination of whether control exists to justify consolidation of investees.	January 1, 2013
• IFRS 11 – Joint Arrangements (issued May 2011)	The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.	January 1, 2013
• IFRS 12 – Disclosure of Interests in Other Entities (issued May 2011)	The standard sets out disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles.	January 1, 2013
• IFRS 13 – Fair Value Measurement (issued May 2011)	The standard provides guidance on measuring fair value when required by other IFRS's.	January 1, 2013
• Amendments to IAS 1 – Presentation of Financial Statements (issued June 2011)	The standard was amended to align the presentation of items in other comprehensive income with U.S. standards.	January 1, 2012

Continued…

(Unaudited – expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) New IFRS Standards Not Yet Adopted (Continued)

New IFRS standards	Description	Effective date
• Amendments to IAS 27 – Separate Financial Statements (issued May 2011)	The standard addresses accounting and disclosure for investments in subsidiaries, joint ventures and associates in separate financial statements.	January 1, 2013
• Amendments to IAS 28 – Investments in Associates and Joint Ventures (issued May 2011)	The standard establishes accounting principles for investments in associates under significant influence. It sets out the equity method of accounting for investments in associates and joint ventures.	January 1, 2013

These nine new IFRS standards apply to annual periods beginning on or after the stated effective date. Early adoption is available, however, if an entity early adopts any of IFRS 10, 11, 12, or amendments to IAS27/28, it must adopt all five of these standards at the same time. Management is currently assessing the impact of adopting these proposed new standards on the Company's financial reporting.

3. EXPLORATION AND EVALUATION ASSETS

The Company has 6 mineral property interests that comprise its "Morris Lake Project" – a block of contiguous claims and leases situated approximately 73 kilometres north of Yellowknife, Northwest Territories. In 2011, the Company acquired 5 additional mineral property interests, 2 in Ontario and 3 in Quebec as outlined below, bringing the total number of properties to 11.

Properties	Year Acquired	Notes	Current Mineral Tenure (all 100% unless otherwise stated)	# of Claims/ Leases
Morris Lake Project, NT				
Viking Yellowknife	2003	3a	Leases; 60% undivided working interest	3
Max Lake	2004	3b	Leases	2
ML Properties	2006	3c	Claims	5
Peregrine	2006	3d	Claims; 60% undivided working interest	5
Maguire Lake	2009	3e	Claims	3
LM Claims	2010	3f	Claims	3
				21
Venton Lake, ON	2011	3g	Claims	13
Larose, ON	2011	3h	Claims	16
				29
Verneuil, QC				
Verneuil Central	2011	3h	Claims; 70% undivided working interest	44
Verneuil West	2011	3h	Claims	19
Verneuil East	2011	3h	Claims	10
				73
Total				123

NT = Northwest Territories; ON = Ontario; QC = Quebec

A continuity of the Company's exploration and evaluation (E&E) assets for the years ended December 31, 2010 and 2011 follows.

Continued…

(Unaudited – expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

Properties– Canada	Balance, January 1, 2010	Expenditures for year ended December 31, 2010	Balance, December 31, 2010	Expenditures for year ended December 31, 2011	Write-downs for year ended December 31, 2011	Balance, December 31, 2011
Acquisition costs						
Morris Lake, NT						
Viking Yellowknife	$ 123,500	$ -	$ 123,500	$ -	$ (123,499)	$ 1
Max Lake	29,700	-	29,700	-	(29,699)	1
ML Properties	8,359	-	8,359	-	(8,358)	1
Maguire Lake	10,967	-	10,967	-	(10,966)	1
LM Claims	-	8,277	8,277	-	(8,276)	1
	172,526	8,277	180,803	-	(180,798)	5
Venton Lake, ON	-	-	-	112,536	-	112,536
Larose, ON	-	-	-	93,028	-	93,028
Verneuil, QC						
Verneuil Central	-	-	-	137,372	-	137,372
Verneuil West	-	-	-	93,926	-	93,926
Verneuil East	-	-	-	65,615	-	65,615
	172,526	8,277	180,803	502,477	(180,798)	502,482
Deferred exploration expenditures						
Morris Lake, NT						
Viking Yellowknife	1,840,393	875	1,841,268	42,261	(1,883,529)	-
Max Lake	510,826	1,843	512,669	1,843	(514,512)	-
ML Properties	104,634	128	104,762	-	(104,762)	-
Peregrine	498,942	472,440	971,382	(20,213)	(951,168)	1
Maguire Lake	720	-	720	-	(720)	-
	2,955,515	475,286	3,430,801	23,891	(3,454,691)	1
Larose, ON	-	-	-	179	-	179
Verneuil, QC						
Verneuil Central	-	-	-	718,829	-	718,829
Verneuil West	-	-	-	164,214	-	164,214
Verneuil East	-	-	-	98,177	-	98,177
	2,955,515	475,286	3,430,801	1,005,290	(3,454,691)	981,400
Total expenditures						
Morris Lake, NT						
Viking Yellowknife	1,963,893	875	1,964,768	42,261	(2,007,028)	1
Max Lake	540,526	1,843	542,369	1,843	(544,211)	1
ML Properties	112,993	128	113,121	-	(113,120)	1
Peregrine	498,942	472,440	971,382	(20,213)	(951,168)	1
Maguire Lake	11,687	-	11,687	-	(11,686)	1
LM Claims	-	8,277	8,277	-	(8,276)	1
	3,128,041	483,563	3,611,604	23,891	(3,635,489)	6
Venton Lake, ON	-	-	-	112,536	-	112,536
Larose, ON	-	-	-	93,207	-	93,207
Verneuil, QC						
Verneuil Central	-	-	-	856,201	-	856,201
Verneuil West	-	-	-	258,140	-	258,140
Verneuil East	-	-	-	163,792	-	163,792
	$ 3,128,041	$ 483,563	$ 3,611,604	$ 1,507,767	$ (3,635,489)	$ 1,483,882

Continued…

(Unaudited – expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

Capitalized acquisition costs of $8,277 for the year ended December 31, 2010 consisted of claims staking costs for the Morris Lake LM Claims property.

Capitalized acquisition costs of $502,477 for the year ended December 31, 2011 are comprised of:

Properties	Price Per share	# of common shares issued	Common shares issued	Cash payments made	Option payments rec'd	Legal and other fees	Totals
Venton Lake, ON	$0.20	150,000	$ 30,000	$ 75,000	$ -	$ 7,536	$ 112,536
Larose, ON	0.20	400,000	80,000	(1) 10,000	(8,500)	11,528	93,028
Verneuil, QC							
Verneuil Central	0.20	600,000	120,000	-	-	17,372	137,372
Verneuil West	0.20	300,000	60,000	30,000	-	3,926	93,926
Verneuil East	0.215	200,000	43,000	20,000	-	2,615	65,615
Totals		1,650,000	$ 333,000	$ 135,000	$ (8,500)	$ 42,977	$ 502,477

(1) = advance royalty payment made in June 2011, pursuant to an existing 3% net smelter return royalty ("NSR") on the Larose property which was assumed by the Company (see Note 3h).

The values assigned to the common shares issued by the Company for the acquisition of exploration and evaluation assets, are all based on the closing prices per share on the respective dates of issuance in 2011. See also Notes 3g and 3h concerning these acquisitions in 2011.

See Note 10, for information concerning amounts billed to the Company by related parties and capitalized as either acquisition costs or deferred exploration expenditures. Information concerning each of the individual properties follows.

a) Viking Yellowknife

As of January 1, 2008, the Company owned a 60% working interest in the Viking Yellowknife property, which consisted of three mineral leases. Viking Yellowknife Gold Mines Limited, a 78.8%-owned subsidiary of Tembo Gold Corp. (formerly Lakota Resources Inc.), sold its 40% interest in the property to a privately owned company.

In 2011, the Company incurred property restoration costs of $33,750 including a December 31, 2011 accrual of $20,000. The Company also reversed a receivable due from its former working interest partner in the amount of $7,961. These amounts were capitalized to deferred exploration expenditures in 2011.

See Note 3i for additional information in support of the $2,007,028 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

b) Max Lake

Pursuant to an arm's length option agreement with Aur Resources Inc. dated September 15, 2004, the Company earned a 100% interest in two mining leases located in the Northwest Territories (the "Max Lake Gold Property"), subject to a 2% NSR. The Company has the right to repurchase 50% of the NSR for $1,000,000. These leases expire in May 2018.

See Note 3i for additional information in support of the $544,211 write-down of this Morris Lake, NT property on September 30, 2011, due to impairment.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

c) ML Properties

This group of contiguous properties is comprised of five claims staked by the Company, which are all in good standing as a result of receiving the Federal government's approval of the Company's Limnic Survey Report in January 2011. This report was filed in May 2009 to attest to the completion of assessment work.

See Note 3i for additional information in support of the $113,120 write-down of this Morris Lake, NT property on September 30, 2011, due to impairment.

d) Peregrine

The Company has an agreement with Peregrine Diamonds Ltd. ("PeregrineD") with respect to certain lands held by PeregrineD. The Peregrine property consists of five claims.

Under the original agreement, the Company had a four-year right to explore for minerals other than diamonds, subject to completing an airborne geophysical survey in 2006 (completed) and maintaining the property in good standing under the Mining Act (NT). If the Company completed $1 million of exploration work by September 9, 2011 (modified from April 21, 2010 by way of an amending agreement dated April 9, 2009), it would earn a 60% working interest with PeregrineD owning the other 40%. The amending agreement contains a dilution formula in the event either party to the joint interest fails to fund approved programs, and a conversion clause requiring an automatic conversion to a 2% net smelter royalty should a party's interest fall below 15%. The amending agreement also acknowledged that BHP Billiton held a 2% NSR, which could be repurchased for fair value as determined by a third party valuator acceptable to the parties. On February 2, 2012, the Company was informed by BHP Billiton that it had relinquished the 2% NSR to PeregrineD.

As of May 31, 2010, the Company believed it had satisfied its earn-in expenditure commitment (with the permitted inclusion of a calculated allowance for overhead) though this was not confirmed by PeregrineD until March 2011. The Company now holds a 60% working interest and could, at any time, submit a joint exploration program for approval by PeregrineD, as previously explained.

The Peregrine claims are presently all in good standing as a result of receiving approval of the Company's Limnic Survey Report, as previously explained in Note 3c. In February 2011, the Company fulfilled additional reporting obligations to the Federal government and to PeregrineD, with the filing of a comprehensive technical report and supporting cost analysis, covering the years 2009 and 2010.

See Note 3i for additional information in support of the $951,168 write-down of this Morris Lake, NT property on March 31, 2011 ($72,000) and December 31, 2011 ($879,168), due to impairment.

e) Maguire Lake

This group of three contiguous claims lies to the north of, and adjoins, the Peregrine property described above. The Company staked these claims in April 2009. Parts of these claims fall within a one-kilometre area of influence defined by the original Peregrine Option agreement.

See Note 3i for additional information in support of the $11,686 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

f) LM Claims

In May 2010, the Company staked three claims on new lands adjacent to ML Properties, Max Lake and Peregrine at a cost of $8,277. Parts of these claims fall within the one-kilometre area of influence of the original Peregrine Option agreement.

See Note 3i for additional information in support of the $8,276 write-down of this Morris Lake, NT property on December 31, 2011, due to impairment.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

g) Venton Lake

On April 12, 2011, the Company signed a letter agreement in which it was granted an option to earn a 100% undivided interest in 13 mining claims located near Thunder Bay, Ontario known as “Venton Lake”. The agreement provides that the Company (as optionee) will earn a 100% interest in the property by making an initial $75,000 cash payment followed by three additional annual cash payments of $75,000 each from the “Effective Date” (of the transaction) which is defined as the date the TSX-V approves the transaction plus 10 days. Each respective cash payment is also to be accompanied by the issuance of common shares of the Company to the optionor, as follows – 150,000 shares (initial – completed), 50,000 shares (after the first year), 50,000 shares (after the second year) and 100,000 shares (after the third year), for a total of 350,000 shares.

Upon the exercise of the option, the optionor will retain a 2.5% NSR on output from the properties following the commencement of commercial production. For the period commencing on the date that is 60 months following the Effective Date and ending on the commencement of commercial production, the Company is required to pay an advance minimum royalty of $15,000 per year to the optionor within 30 days of the start of each year, which aggregate amounts shall be deducted from the subsequent 2.5% NSR payments. The Company may buy back up to one-fifth of the 2.5% NSR at a price of $500,000, for a period of 20 years from the Effective Date. The Company may abandon the option granted to it by giving 30 days notice prior to abandonment, provided that the mineral rights will be in good standing for at least six months following the date of abandonment.

The TSX-V approved the Venton Lake transaction on April 26, 2011. The transaction closed on September 19, 2011.

h) Verneuil and Larose Properties

On May 10, 2011, the Company signed a property sale agreement with Freewest Resources Canada Inc. (“Freewest”), a wholly owned subsidiary of Cliffs Natural Resources Inc. (NYSE: CLF), in which it agreed to acquire a 70% interest in the Verneuil property (“Verneuil Central”) and a 100% undivided interest in the Larose property (“Larose”), in exchange for a combined share-based payment of 1,000,000 common shares and a 0.5% NSR on each property.

Verneuil Central is comprised of 44 claims in Verneuil Township in the Abitibi region of Quebec. The other 30% interest in Verneuil Central is held by Golden Tag Resources Ltd. (“Golden Tag”). Larose is comprised of 16 claims in Moss Township in northwestern Ontario. Verneuil Central is subject to an existing 1% NSR and Larose to an existing 3% NSR. The NSR's described herein apply to all minerals in perpetuity. The Company allocated the share consideration paid – 60% to Verneuil Central and 40% to Larose.

On June 7, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire “Verneuil East”, a 100% undivided interest in 10 mining claims located immediately east of Verneuil Central, in exchange for cash of $20,000 (paid), a share-based payment of 200,000 common shares (issued) and a 2% NSR in perpetuity. The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

On June 13, 2011, the Company signed a letter agreement with other parties in which it agreed to acquire “Verneuil West”, a 100% undivided interest in 19 mining claims located immediately west of Verneuil Central, in exchange for cash of $30,000 (paid), a share-based payment of 300,000 common shares (issued) and 150,000 warrants (issued and exercisable at a price of $0.30 for 2 years), and a 2% NSR in perpetuity. The estimated fair value of the warrants issued was treated as a $17,000 transaction cost for the common shares issued (see Note 7d). The Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

Continued…

3. EXPLORATION AND EVALUATION ASSETS (Continued)

h) Verneuil and Larose Properties (Continued)

The TSX-V approved the Verneuil/Larose transaction on May 27, 2011 and the Verneuil East and West transactions on June 21, 2011. These three transactions closed on June 28, July 20 and June 29, 2011, respectively.

On December 8, 2011, the Company (as optionor) entered into an option agreement with Golden Share Mining Corporation ("Golden Share" as optionee) whereby the optionee may earn up to a 50% interest in the Larose property. Under the terms of the agreement, Golden Share agreed to issue 100,000 shares to the Company on the later of (i) execution of the agreement and (ii) TSX Venture Exchange approval (completed with an assigned value of $8,500 – see Note 5, Investments), and an additional 100,000 shares on the first anniversary date of the agreement.

Golden Share has agreed to spend $200,000 in the first year of the agreement on exploration of the property plus another $150,000 in each of years two and three of the agreement. The parties have also agreed that at the time they become 50/50 owners in the property, they will enter into a joint venture agreement with Golden Share as the operator.

i) Write-downs of Morris Lake Properties in 2011

The Company's ability to explore its Morris Lake properties was interrupted by the expiry of its two land-use permits in March 2011 and January 2012. Continued exploration of these properties is subject to the Company securing new permits. In the case of Peregrine, the parties would also be required to conduct a land survey at an estimated cost of $60,000 per claim in order to bring one or more of the five individual expiring claims to lease on November 7, 2012.

In 2011, the Company wrote down the carrying values of its Morris Lake properties to nominal amounts (i.e. $1 each) to reflect management's view that (for each property):

- significant efforts and financial resources would be required to restore and/or extend the Company's rights and abilities to explore the property;
- the Company has incurred limited exploration expenditures in recent years (with the exception of Peregrine which was last explored in 2010) and has no current plans for exploration;
- while the Company may have achieved certain favourable assay results and identified certain mineral anomalies and significant geological trends, it has not identified any commercially viable mineral reserves on the property; and
- the Company is presently unable to establish a higher recoverable amount for the property on the basis of a potential sale or option to a third party including, where applicable, an existing joint interest partner.

The total write-down of the Morris Lake properties in 2011 is $3,635,489. The breakdown by property is listed in the continuity of the Company's E&E assets for the year ended December 31, 2011, which is presented earlier in this note.

These accounting write-downs do not mean that the Company has permanently abandoned all its Morris Lake mineral exploration rights and, in future, its plans, financial resources and opportunities could change. In certain circumstances of recovery from impairment, IFRS accounting rules allow for a reversal of previously recorded write-downs.

j) Undivided Working Interests

Gross deferred exploration expenditures of $1,883,529 for Viking Yellowknife as at December 31, 2011 (December 31, 2010 – $1,841,268, January 1, 2010 – $1,840,393), include $1,597,819 (December 31, 2010 - $1,597,819; January 1, 2010 – $1,597,819) attributable to the Company's earn-in efforts and $285,710 (December 31, 2010 – $243,449; January 1, 2010 – $242,574) attributable to post earn-in activities.

Continued…

(Unaudited – expressed in Canadian dollars)

3. EXPLORATION AND EVALUATION ASSETS (Continued)

j) Undivided Working Interests (Continued)

Gross deferred exploration expenditures of $951,168 for Peregrine (see Note 3d) as at December 31, 2011 (December 31, 2010 – $971,382; January 1, 2010 – $498,942) are all attributable to the Company's earn-in efforts.

The Company and Golden Tag have agreed that Golden Tag (see Note 3h) is not required to contribute financially to deferred exploration expenditures incurred on the Verneuil Central property prior to January 1, 2012.

The Company has not generated any revenue or expenses in respect of these undivided working interests since their inception.

4. EQUIPMENT

A continuity of the Company's equipment for the years ended December 31, 2010 and 2011 follows.

Year ended December 31, 2010	Field equipment	Office equipment	All-terrain vehicle	Total
Cost				
As at January 1, 2010	$ 13,203	$ 300	$ 19,021	$ 32,524
Additions for year	-	426	-	426
As at December 31, 2010	13,203	726	19,021	32,950
Accumulated Depreciation				
As at January 1, 2010	4,753	108	13,583	18,444
Depreciation for year	1,690	124	1,631	3,445
As at December 31, 2010	6,443	232	15,214	21,889
Net Book Value				
As at January 1, 2010	$ 8,450	$ 192	$ 5,438	$ 14,080
As at December 31, 2010	$ 6,760	$ 494	$ 3,807	$ 11,061

Year ended December 31, 2011	Field equipment	Office equipment	All-terrain vehicle	Total
Cost				
As at January 1, 2011	$ 13,203	$ 726	$ 19,021	$ 32,950
Additions for year	-	1,859	-	1,859
Disposals for year	-	-	(19,021)	(19,021)
As at December 31, 2011	13,203	2,585	-	15,788
Accumulated Depreciation				
As at January 1, 2011	6,443	232	15,214	21,889
Depreciation for year	1,352	470	574	2,396
Disposals for year	-	-	(15,788)	(15,788)
As at December 31, 2011	7,795	702	-	8,497
Net Book Value				
As at January 1, 2011	$ 6,760	$ 494	$ 3,807	$ 11,061
As at December 31, 2011	$ 5,408	$ 1,883	$ -	$ 7,291

During the year ended December 31, 2011, the Company disposed of its all-terrain vehicle for nil proceeds, resulting in a loss on disposal of $3,233.

Continued…

(Unaudited – expressed in Canadian dollars)

5. INVESTMENTS

	December 31, 2011	December 31, 2010	January 1, 2010
Investment in Golden Share Mining Corporation 100,000 common shares, recorded at an issue date fair value of $0.085 per share, which approximates the year-end fair value	$ 8,500	$ -	$ -
Investment in Copper Hill Resources Inc. ("CHRI") 10% interest, at cost	1,250	1,250	1,250
	$ 9,750	$ 1,250	$ 1,250

Held-For-Trading Investment
On December 9, 2011, the Company received 100,000 common shares of Golden Share Mining Corporation as an option payment (see Note 3h, Exploration and Evaluation Assets – Verneuil and Larose Properties). Golden Share Mining Corporation is a publicly traded company listed on the TSX-V under the trading symbol “GSH”.

Unquoted Equity Instrument
CHRI is a privately owned mineral exploration company that owns a 100% interest in the Powderhorn Lake and Turk’s Gut properties located in Newfoundland and Labrador, Canada. Prior to 2006, CHRI was a wholly owned subsidiary of the Company. See Note 15b concerning a sale of this investment after year-end.

6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2011	December 31, 2010	January 1, 2010
Sundry receivables	$ 92,365	$ 39,208	$ 9,263
Prepaid expenses	10,922	4,837	5,065
	$ 103,287	$ 44,045	$ 14,328

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL

a) Authorized Share Capital

The Company's authorized share capital consists of an unlimited number of voting common shares without nominal or par value.

b) Issued Share Capital

As at December 31, 2011, the Company's issued share capital is 70,569,369 (December 31, 2010 – 60,856,702, January 1, 2010 – 40,523,370) common shares with a stated value of $8,391,653 (December 31, 2010 - $6,923,669, January 1, 2010 – $5,313,645). A continuity of the Company's share capital is disclosed in the Statements of Changes in Equity. Details of common shares issued to acquire E&E assets are discussed in Note 3. Details of common shares issued pursuant to private placements are discussed below.

c) Non-brokered Private Placements

During the year ended December 31, 2010, non-brokered private placements of units consisting of common shares and warrants, were as follows:

Details	# of units issued	Unit price	Gross proceeds	# of shares issued	# of warrants issued	Exercise price of warrants (term)
Flow-through:						
January 27, 2010	9,600,000	$ 0.05	$ 480,000	9,600,000	9,600,000	$ 0.20 (3-year)
December 30, 2010	2,233,332	0.30	670,000	2,233,332	1,116,666	$ 0.50 (1-year)
	11,833,332		1,150,000	11,833,332	10,716,666	
Non-flow-through:						
January 27, 2010	4,400,000	0.05	220,000	4,400,000	4,400,000	$ 0.20 (3-year)
November 2, 2010	3,750,000	0.08	300,000	3,750,000	3,750,000	$ 0.15 (2-year)
	8,150,000		520,000	8,150,000	8,150,000	
Totals	19,983,332		$ 1,670,000	19,983,332	18,866,666	

Issue costs charged to share capital in 2010 were $106,679. Units issued pursuant to the private placements were subject to a 4-month restricted period. In 2010, 170,000 units were acquired by the Company's officers and directors for gross proceeds of $29,000.

The January 27, 2010 issuance of flow-through shares contained no identifiable premium paid by investors. The December 30, 2010 issuance of flow-through shares contained a $35,667 premium paid by investors.

During the year ended December 31, 2011, a single non-brokered private placement of units consisting of common shares and warrants, was as follows:

Details	# of units issued	Unit price	Gross proceeds	# of shares issued	# of warrants issued	Exercise price of warrants (term)
Flow-through:						
November 2011	5,243,750	$ 0.15	$ 786,563	5,243,750	2,621,875	$ 0.20 (2-year)
Non-flow-through:						
November 2011	1,747,917	0.15	262,187	1,747,917	873,959	$ 0.20 (2-year)
Totals	6,991,667		$ 1,048,750	6,991,667	3,495,834	

The November 2011 private placement consisted of 5 separate closings on November 14, 17, 21, 22 and December 1, 2011. The private placement was designated as being 75% flow-through.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

c) Non-Brokered Private Placements (Continued)
Issue costs charged to share capital for this private placement were $98,369. Units issued were subject to a 4-month restricted period. Of the units issued, 70,000 units were acquired by a director of the Company for gross proceeds of $10,500.

The issuance of the 5,243,750 flow-through shares contained no identifiable premium paid by investors.

d) Warrants
A continuity of the Company's outstanding warrants for the year ended December 31, 2010 follows:

Expiry date	Term in years	Exercise price	January 1, 2010	Issued 2010	Exercised 2010	Expired 2010	December 31, 2010
March 8, 2010	2	$0.35	1,050,000	-	-	(1,050,000)	-
September 9, 2010	2	$0.25	1,218,000	-	-	(1,218,000)	-
December 30, 2011	1	$0.50	-	1,116,666	-	-	1,116,666
December 30, 2011	1 **	$0.30	-	142,333	-	-	142,333
June 30, 2012	3	$0.20	4,091,500	-	-	-	4,091,500
November 2, 2012	2	$0.15	-	3,750,000	-	-	3,750,000
November 2, 2012	2 **	$0.08	-	110,000	-	-	110,000
December 30, 2012	3	$0.20	3,400,000	-	(200,000)	-	3,200,000
January 27, 2013	3	$0.20	-	14,000,000	-	-	14,000,000
Totals			9,759,000	19,118,999	(200,000)	(2,268,000)	26,410,499
Weighted-average exercise price			$0.22	$0.21	$0.20	$0.20	$0.21

A continuity of the Company's outstanding warrants for the year ended December 31, 2011 follows:

Expiry date(s)	Term in years	Exercise price	January 1, 2011	Issued 2011	Exercised 2011	Expired 2011	December 31, 2011
December 30, 2011	1	$0.50	1,116,666	-	-	(1,116,666)	-
December 30, 2011	1 **	$0.30	142,333	-	-	(142,333)	-
June 30, 2012	3	$0.20	4,091,500	-	-	-	4,091,500
November 2, 2012	2	$0.15	3,750,000	-	-	-	3,750,000
November 2, 2012	2 **	$0.08	110,000	-	-	-	110,000
December 30, 2012	3	$0.20	3,200,000	-	(200,000)	-	3,000,000
January 27, 2013	3	$0.20	14,000,000	-	(346,000)	-	13,654,000
June 29, 2013	2 **	$0.30	-	150,000	-	-	150,000
Nov./Dec. 2013	2	$0.20	-	3,495,834	-	-	3,495,834
Nov./Dec. 2013	2 **	$0.20	-	651,667	-	-	651,667
Totals			26,410,499	4,297,501	(546,000)	(1,258,999)	28,903,001
Weighted-average exercise price			$0.21	$0.20	$0.48	$0.48	$0.19

The expired warrants have no accounting effect. All warrants reflected in the schedules above are investor warrants, except for those flagged ** and as further explained below.

Continued…

7. SHARE CAPITAL (Continued)

d) Warrants (Continued)

Other Warrants Issued and Recorded as Transaction Costs

Other warrants of 110,000 and 142,333 were issued to brokers on November 2, 2010 and December 30, 2010, respectively, and were recorded using an issue date, aggregate total fair value of $22,000 ($0.09 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 160%; risk-free interest rate – 1.95%; expected life – 1.4 years.

An aggregate of 150,000 other warrants were issued on June 29, 2011 in connection with the acquisition of E&E assets (see Note 3h, Exploration and Evaluation Assets – Verneuil and Larose Properties) and were recorded using an issue date, aggregate total fair value of $17,000 ($0.11 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 128%; risk-free interest rate – 1.56%; expected life – 2.0 years.

An aggregate of 651,667 other warrants were issued to brokers in connection with the November 2011 private placement, and assigned an issue date, aggregate total fair value of $45,000 ($0.07 per warrant issued) based on the Black-Scholes option-pricing model. Weighted-average Black-Scholes assumptions used for valuing these other warrants were as follows: expected dividend yield – 0%; expected volatility – 120%; risk-free interest rate – 0.9%; expected life – 2.0 years.

Warrant Exercises

On December 2, 2010, the Company received proceeds of $40,000 from the exercise of 200,000 investor warrants at $0.20 per share.

On February 2, 2011, the Company received proceeds of $40,000 from the exercise of 200,000 investor warrants at $0.20 per share. On April 19 and 21, 2011, the Company received total proceeds of $69,200 from the exercise of 346,000 warrants at $0.20 per share.

Other Information

The Company has the right to accelerate the expiry of the unexercised 13,654,000 investor warrants issued on January 27, 2010, if the Company's stock trades over $0.30 for 30 consecutive days.

The accounting effects of the various warrant transactions described above are reflected in the Statements of Changes in Equity.

e) Stock Options

Under the Company's stock option plan, options may be granted to employees for up to 10% of the issued and outstanding common shares. The exercise price of the options is not less than the Company's closing market price on the day prior to the grant of the options less the applicable discount permitted by the TSX-V, and will not otherwise be less than $0.10 per share. The maximum exercise period after the grant of the option is 5 years.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

A continuity of the Company's outstanding and exercisable stock options for the year ended December 31, 2010 is as follows:

Expiry date	Exercise price	January 1, 2010	Granted 2010	Exercised 2010	Expired 2010	December 31, 2010
March 11, 2010	$0.20	370,000	-	-	(370,000)	-
March 3, 2011	$0.15	375,000	-	-	(200,000)	175,000
May 5, 2011	$0.16	50,000	-	-	(50,000)	-
June 19, 2011	$0.15	100,000	-	(50,000)	-	50,000
January 26, 2012	$0.13	900,000	-	(100,000)	(550,000)	250,000
January 8, 2013	$0.135	50,000	-	-	-	50,000
April 9, 2013	$0.16	850,000	-	-	(300,000)	550,000
September 12, 2013	$0.115	100,000	-	-	-	100,000
February 4, 2015	$0.11	-	1,200,000	-	(300,000)	900,000
October 6, 2015	$0.125	-	1,200,000	-	-	1,200,000
November 15, 2015	$0.17	-	700,000	-	-	700,000
Totals		2,795,000	3,100,000	(150,000)	(1,770,000)	3,975,000
Weighted-average exercise price		$0.18	$0.13	$0.14	$0.15	$0.14

A continuity of the Company's outstanding and exercisable stock options for the year ended December 31, 2011 is as follows:

Expiry date	Exercise price	January 1, 2011	Granted 2011	Exercised 2011	Expired 2011	December 31, 2011
March 3, 2011	$0.15	175,000	-	(125,000)	(50,000)	-
June 19, 2011	$0.15	50,000	-	(50,000)	-	-
January 26, 2012	$0.13	250,000	-	(100,000)	-	150,000
January 8, 2013	$0.135	50,000	-	-	-	50,000
April 9, 2013	$0.16	550,000	-	-	-	550,000
September 12, 2013	$0.115	100,000	-	-	-	100,000
February 4, 2015	$0.11	900,000	-	(250,000)	-	650,000
October 6, 2015	$0.125	1,200,000	-	-	-	1,200,000
November 15, 2015	$0.17	700,000	-	-	-	700,000
May 17, 2016	$0.24	-	300,000	-	-	300,000
September 12, 2016	$0.17	-	1,675,000	-	-	1,675,000
December 8, 2016	$0.20	-	1,675,000	-	-	1,675,000
Totals		3,975,000	3,650,000	(525,000)	(50,000)	7,050,000
Weighted-average exercise price		$0.14	$0.19	$0.13	$0.15	$0.16

All of the options reported above have a 5-year term and vested at their respective grant dates.

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

Options Exercised/Expired

On December 10, 2010, the Company received $20,500 from the exercise of 150,000 options by a director. The grant date fair value of these options was $14,370.

During the year ended December 31, 2010, 1,770,000 vested options expired unexercised, including 1,400,000 options that expired early due to resignation or retirement. The total grant date fair value of the 1,770,000 options was $199,359.

On February 25, 2011, the Company received $18,750 from the exercise of 125,000 options by a director. The grant date fair value of these options was $11,165. On April 25, 2011, the Company received $27,500 from the exercise of 250,000 options by a Consultant (who was a former CEO/director of the Company). The grant date fair value of these options was $23,121. On June 8, 2011, the Company received $20,500 from the exercise of 150,000 options by a director. The grant date fair value of these options was $14,367.

On March 2, 2011, 50,000 vested options expired unexercised. The grant date fair value of these options was $4,467.

Options Outstanding/Exercisable

The 7,050,000 (December 31, 2010 – 3,975,000; January 1, 2010 – 2,795,000) options outstanding and exercisable as at December 31, 2011 have a weighted-average remaining contractual life of 3.9 years (December 31, 2010 – 3.7; January 1, 2010 – 2.1 years), and represent approximately 10.0% (December 31, 2010 – 6.5%; January 1, 2010 – 6.9%) of the Company's outstanding common shares.

Share-based Compensation Expense

Annual share-based compensation expense for 2011 of $566,000 (2010 – $321,000) was recorded based on the estimated fair value of options granted, as determined using the Black-Scholes option-pricing model. The assumptions used and the valuation results were as follows:

Grant Date	February 4, 2010	October 7, 2010	November 16, 2010	Totals
Assumptions used				
# of options granted	1,200,000	1,200,000	700,000	3,100,000
Expected dividend yield	0%	0%	0%	
Expected volatility	122%	149%	130%	
Risk-free interest rate	2.5%	1.9%	1.9%	
Expected life in years	5.0	5.0	5.0	
Exercise price	$0.11	$0.125	$0.17	
Valuation results				
Grant date fair value/option	$0.09	$0.09	$0.15	$0.10
Compensation expense	$111,000	$108,000	$102,000	$321,000

Grant Date	May 17, 2011	September 12, 2011	December 8, 2011	Totals
Assumptions used				
# of options granted	300,000	1,675,000	1,675,000	3,650,000
Expected dividend yield	0%	0%	0%	
Expected volatility	135%	133%	149%	
Risk-free interest rate	2.53%	1.45%	1.33%	
Expected life in years	5.0	5.0	5.0	
Exercise price	$0.24	$0.17	$0.20	
Valuation results				
Grant date fair value/option	$0.21	$0.14	$0.16	$0.16
Compensation expense	$62,000	$231,000	$273,000	$566,000

Continued…

(Unaudited – expressed in Canadian dollars)

7. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

Share-based Compensation Expense (Continued)

See Note 10, Related Party Transactions for a breakdown of compensation expense by employee group.

Other Information

The accounting effects of the various stock option transactions described above, are reflected in the Statements of Changes in Equity. Stock option transactions occurring after December 31, 2011 are disclosed in Note 15a, Subsequent Events – Expiry of Stock Options.

f) Diluted Loss Per Share

Loss per share is calculated using the basic and diluted weighted-average number of common shares outstanding during the year ended December 31, 2011, which was 63,316,385 (2010 – 54,190,538). The determination of the weighted-average number of shares outstanding for the calculation of diluted loss per share does not include the potential effect of 28,903,001 (2010 – 26,410,499) outstanding warrants and 7,050,000 (2010 – 3,975,000) outstanding options, as they are anti-dilutive.

8. INCOME TAXES

A reconciliation of the expected income tax recovery to the amounts recognized in the Statements of Loss and Comprehensive Loss is as follows:

	2011	2010
(Loss) before income taxes	$ (4,630,834)	$ (530,577)
Statutory income tax rate for year	28.25%	31%
Expected tax recovery, at statutory income tax rate	$ (1,308,000)	$ (164,500)
Share-based compensation	160,000	99,500
Renunciation of exploration expenditures	284,000	118,822
Other, net	(4,382)	26,250
Change in expected tax rates	101,000	10,300
Unrecorded income tax benefits relating to write-downs of E&E assets	426,000	-
Amortization of liability for flow-through share premium	(35,667)	(3,893)
Effective income tax (recovery) expense	$ (377,049)	$ 86,479

The components of the Company's net deferred tax (liability), end of year, is as follows:

	2011	2010
Deferred tax asset (liability), based on a 25% tax rate		
Exploration and evaluation assets	$ (230,500)	$ (556,382)
Non-capital losses	177,200	141,500
Share issue costs	34,800	29,600
Other	18,500	21,900
Net deferred tax (liability), end of year	$ -	$ (363,382)

Continued…

(Unaudited – expressed in Canadian dollars)

8. INCOME TAXES (Continued)

A continuity of the Company's deferred tax asset (liability) for the year is as follows:

	2011	2010
Net deferred tax (liability), beginning of year	$ (363,382)	$ (302,510)
Per Statements of Loss and Comprehensive Loss		
Income tax recovery (expense) for year	377,049	(86,479)
Flow-through share premium included in income tax recovery	(35,667)	(3,893)
Per Statements of Changes in Equity		
Tax benefit of share issue expenses	22,000	29,500
Net change for period	363,382	(60,872)
Net deferred tax (liability), end of year	$ -	$ (363,382)

The write-down of exploration and evaluation assets of $3,635,489 (see Note 3i, Mineral Properties – Write-downs of Morris Lake Properties in 2011) in 2011 results in a potential deferred tax benefit of approximately $909,000 using a 25% expected future tax rate. In arriving at the $230,500 deferred tax liability for exploration and evaluation assets, the Company has only recorded $426,000 of the $909,000 potential tax benefit. The excess potential deferred tax benefit of $483,000 has not been recorded, on the basis that it is not probable that the Company will generate future taxable income to utilize it.

As at December 31, 2011, the Company effectively renounced for accounting purposes approximately $1,005,000 (December 31, 2010 – $475,000) of exploration expenditures incurred, including $940,000 (2010 – $265,000) using the look-back rule and $65,000 (2010 – $210,000) using the general rule. These renouncements have been reflected in the Company's flow-through filings and will be further confirmed in 2012 when the Company files its 2011 corporate income tax returns.

As at December 31, 2011, the Company has the following approximate deductions available to reduce future taxable income:

Canadian development expense ("CDE")	$ 712,000
Canadian exploration expenditures ("CEE")	1,552,000
Non-capital losses	709,000
Share issue costs	139,000
Other ("CEC" and "UCC")	81,000
Capital losses	1,022,000

The non-capital loss carry-forwards of $709,000 expire as follows: 2014 – $196,000; 2015 – $33,000; 2026 – $54,000; 2027 – $85,000; 2028 – $66,000; 2029 – $77,000; 2030 – $55,000; and 2031 – $143,000. The capital losses may only be utilized for tax purposes against capital gains.

Continued…

(Unaudited – expressed in Canadian dollars)

9. TRADE AND OTHER PAYABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 386,242	$ 8,165	$ 1,814
Finders' fees payable	-	42,700	-
Accrued expenses	128,504	29,000	41,366
Due to related parties (Note 10)	32,507	17,047	29,694
	$ 547,253	$ 96,912	$ 72,874

10. RELATED PARTY TRANSACTIONS

At present, the Company considers its related parties to consist of the Company's key management personnel (e.g. officers, directors and advisory committee members), including close family members and companies related to such individuals. Details of transactions with key management personnel and their related companies, for the year ended December 31, 2011 and 2010, are as follows:

	2011	2010
Statements of Financial Position		
Evaluation and exploration assets – capitalized during year		
Legal fees – officer's law firm, capitalized as acquisition costs	$ 37,062	$ -
Geology fees – advisory committee member's company (2010 – officer/director), capitalized as deferred exploration expenditures	24,000	23,000
	$ 61,062	$ 23,000
Statements of Equity		
Legal fees – officer's law firm, included in issue costs	$ 12,563	$ 11,885
Statements of Loss and Comprehensive Loss		
Management fees – officers' companies	$ 158,284	$ 78,120
Management fees – director (for acting as temporary officer)	-	5,000
	158,284	83,120
Rent – officer's company	5,250	-
Rent – non-executive director's company	7,000	-
	12,250	-
Legal fees – officer's law firm, expensed to operations	61,818	24,498
Share-based compensation		
Stock options granted to employees, vested		
Officers	197,403	125,018
Non-executive directors	191,821	118,500
Advisory committee members and consultants	176,776	77,482
Total (Note 7e)	566,000	321,000
Total expense	$ 798,352	$ 428,618

The Company's officers receive fees through their companies pursuant to fee-for-service arrangements in lieu of salaries. The Company's board of directors approves these fees and the share-based compensation. Common shares and warrants purchased by employees during the year on the same terms as other investors, are described in Note 7c, Share Capital – Non-brokered Private Placements.

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10. RELATED PARTY TRANSACTIONS (Continued)

Trade and other payables as at December 31, 2011 includes amounts owed to related parties of $32,507 (December 31, 2010 – $17,047, January 1, 2010 – $29,694), consisting of amounts owed to officers and their companies/law firm (see Note 9). These related party liabilities are unsecured, non-interest bearing and due within 30 days.

11. COMMITMENTS AND CONTINGENCIES

a) Flow-through Shares
As at December 31, 2011, the Company is committed to incur, on a best efforts basis, $786,563 in qualifying Canadian exploration expenditures pursuant to a private placement for which flow-through share proceeds had been received and renounced to investors with an effective date of December 31, 2011. As at December 31, 2011, the Company had incurred qualifying expenditures of approximately $65,000; accordingly, the Company must incur approximately $722,000 of qualifying expenditures prior to January 1, 2013.

The Company has agreed to indemnify the subscribers of its flow-through shares for tax-related amounts that become payable by them, if the Company fails to meet it expenditure commitments.

b) Environmental Contingencies
The Company's exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and are generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations and has made, and expects to make in the future, appropriate expenditures to comply with such laws and regulations.

12. CAPITAL MANAGEMENT

The Company considers its capital structure to consist of components of shareholders' equity. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The 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 is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

Continued…

(Unaudited – expressed in Canadian dollars)

13. FINANCIAL RISK FACTORS

The Company's financial instruments consist of financial assets and liabilities as outlined below and as further explained in Note 2d, Financial Instruments.

	December 31, 2011	December 31, 2010	January 1, 2010
Statements of Financial Position			
Financial assets			
FVTPL – Held for trading			
Cash equivalents – GIC's bearing interest at 0.9%, cashable anytime without penalty	$ 500,000	$ 500,000	$ -
Investment (Note 5)	8,500	-	-
	508,500	500,000	-
Loans and receivables			
Amounts receivable (Note 6)	92,365	39,208	9,263
Cash	508,105	599,517	171,496
	600,470	638,725	180,759
Unquoted equity investment (Note 5)	1,250	1,250	1,250
	$ 1,050,091	$ 1,139,975	$ 182,009
Financial liabilities			
Other financial liabilities			
Trade and other payables (Note 9)	$ 547,253	$ 96,912	$ 72,874
Statements of Cash Flows			
Cash	$ 508,105	$ 599,517	$ 171,496
Cash equivalents	500,000	500,000	-
Cash and cash equivalents, end of year	$ 1,008,105	$ 1,099,517	$ 171,496

As at December 31, 2011, the carrying values and fair values of the Company's financial instruments are approximately the same. In addition, the Company's financial instruments that are carried at fair value consist of cash equivalents, classified as "Level 2", and a FVTPL investment, classified as "Level 1", within the fair value heirarchy.

Risk exposures and the impact on its financial instruments are summarized below.

Credit risk
The Company's financial assets are exposed to some credit risk. The Company has no significant concentration of credit risk arising from operations. Guaranteed investment certificates are invested with reputable financial institutions from which management believes the risk of loss to be remote. The Company does not use derivatives to manage credit risk.

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 at December 31, 2011, the Company has a cash and cash equivalents balance of $1,008,105 (December 31, 2010 – $1,099,517, December 31, 2009 – $171,496) to settle trade and other payables of $547,253 (December 31, 2010 – $96,912, December 31, 2009 – $72,874). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company is also committed to spending an additional $722,000 (December 31, 2010 – $940,000; January 1, 2009 – $187,000) on qualifying Canadian exploration expenditures prior to January 1, 2013 (2012; 2011).

Continued…

13. FINANCIAL RISK FACTORS (Continued)

Market risk
The Company's market risk has three components – interest rate risk, foreign currency risk and price risk.

(i) Interest rate risk
The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its banking institution. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its bank.

(ii) Foreign currency risk
The Company's functional currency is the Canadian dollar and all purchases are transacted in Canadian dollars. The Company has no foreign operations and thus has no foreign exchange risk derived from either currency conversions or from holding foreign currencies. The Company does not speculate in the foreign currency market nor does it have any need to acquire foreign currency hedges.

(iii) Price risk
The Company is exposed to some price risk with respect to commodity prices; however, this is limited since the Company is not a producing entity. The Company closely monitors commodity prices to determine its appropriate course of action.

Sensitivity Analysis
Management believes that sensitivity analysis on the Company's financial instruments is presently unnecessary, since any changes in interest rates and commodity prices are unlikely to have a material effect on the Company's financial instruments.

14. SEGMENTED INFORMATION

The Company's operations comprise a single operating segment engaged in the acquisition, exploration and development of mineral properties in Canada.

15. EVENTS OCCURRING AFTER THE REPORTING PERIOD

a) Expiry of Stock Options
On January 26, 2012, 150,000 stock options expired (see Note 7e, Share Capital – Stock Options).

b) Sale of investment
On March 22, 2012, the Company sold its 10% investment in CHRI (see Note 5, Investments) for proceeds of $20,000 and a 2% NSR on CHRI's "Turks Gut" exploration property. CHRI may purchase at any time from the Company, half of the 2% NSR for $1 million.

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16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The significant accounting policies presented in Note 2 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010, and in the preparation of an opening IFRS Statement of Financial Position as at January 1, 2010, the Company's IFRS transition date.

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its former basis of accounting, Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance, cash flows and changes in equity is set out in the following reconciliation tables and the notes that accompany the tables.

IFRS Transition Exceptions and Elections
IFRS 1 identifies certain exceptions to retrospective application of some aspects of other IFRS's. This includes:

- Non-controlling Interests (IAS 27)

In accordance with IFRS 1, the Company has also elected to apply the following exemption to full retrospective application of IFRS:

- Business Combinations (IFRS 3)

The Company has applied IFRS 2, Share-based Payments, on a retrospective basis as further explained in Note 16a(ii).

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(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS Reconciliations
Below is a reconciliation of the Company's Statement of Financial Position from Canadian GAAP to IFRS as at the January 1, 2010 IFRS transition date.

Viking Gold Exploration Inc. IFRS Statement of Financial Position Reconciliation As at January 1, 2010 See Note 16a(i)	Canadian GAAP	IFRS adjustment re stock options (Note 16a(ii))	IFRS adjustment re warrants (Note 16a(iii))	IFRS adjustment re flow-through shares & issue costs (Note 16a(iv))	IFRS
ASSETS					
Non-current assets					
Exploration and evaluation assets	$ 3,128,041	$ -	$ -	$ -	$ 3,128,041
Equipment	14,080	-	-	-	14,080
Investment	1,250	-	-	-	1,250
	3,143,371	-	-	-	3,143,371
Current assets					
Amounts receivable and prepaid expenses	14,328	-	-	-	14,328
Cash and cash equivalents	171,496	-	-	-	171,496
	185,824	-	-	-	185,824
Total Assets	$ 3,329,195	$ -	$ -	$ -	$ 3,329,195
EQUITY AND LIABILITIES					
Equity					
Share capital	$ 3,820,173	$ -	$ 693,001	$ 792,471	$ 5,305,645
Warrants	152,917	-	(152,917)	-	-
Contributed surplus	1,025,787	(485,703)	(540,084)	-	-
Equity-settled employee benefit reserve	-	290,904	-	-	290,904
Deficit	(1,998,756)	194,799	-	(842,674)	(2,646,631)
	3,000,121	-	-	(50,203)	2,949,918
Non-current liabilities					
Deferred tax liability	256,200	-	-	46,310	302,510
Current liabilities					
Liability for flow-through share prem.	-	-	-	3,893	3,893
Accounts payable and accrued liabilities	72,874	-	-	-	72,874
	72,874	-	-	3,893	76,767
Total Equity and Liabilities	$ 3,329,195	$ -	$ -	$ -	$ 3,329,195

Continued…

(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS Reconciliations (Continued)
Below is a reconciliation of the Company's Statement of Financial Position from Canadian GAAP to IFRS as at December 31, 2010.

Viking Gold Exploration Inc. IFRS Statement of Financial Position Reconciliation As at December 31, 2010 See Note 16a(i)	Canadian GAAP	IFRS adjustment re stock options (Note 16a(ii))	IFRS adjustment re warrants (Note 16a(iii))	IFRS adjustment re flow-through shares & issue costs (Note 16a(iv))	IFRS
ASSETS					
Non-current assets					
Exploration and evaluation assets	$ 3,611,604	$ -	$ -	$ -	$ 3,611,604
Equipment	11,061	-	-	-	11,061
Investment	1,250	-	-	-	1,250
	3,623,915	-	-	-	3,623,915
Current assets					
Amounts receivable and prepaid expenses	44,045	-	-	-	44,045
Cash and cash equivalents	1,099,517	-	-	-	1,099,517
	1,143,562	-	-	-	1,143,562
Total Assets	$ 4,767,477	$ -	$ -	$ -	$ 4,767,477
EQUITY AND LIABILITIES					
Equity					
Share capital	$ 4,942,706	$ -	$ 1,103,409	$ 869,554	$ 6,915,669
Warrants	545,465	-	(545,465)	-	-
Contributed surplus	1,372,277	(792,333)	(579,944)	-	-
Equity-settled employee benefit reserve	-	398,175	-	-	398,175
Deficit	(2,500,883)	394,158	22,000	(957,603)	(3,042,328)
	4,359,565	-	-	(88,049)	4,271,516
Non-current liabilities					
Deferred tax liability	311,000	-	-	52,382	363,382
Current liabilities					
Liability for flow-through share prem.	-	-	-	35,667	35,667
Accounts payable and accrued liabilities	96,912	-	-	-	96,912
	96,912	-	-	35,667	132,579
Total Equity and Liabilities	$ 4,767,477	$ -	$ -	$ -	$ 4,767,477

Continued…

(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS Reconciliations (Continued)

Below is a reconciliation of the Company's Statement of Loss and Comprehensive Loss from Canadian GAAP to IFRS for the year ended December 31, 2010.

Viking Gold Exploration Inc. IFRS Statement of Loss and Comprehensive Loss Reconciliation For the Year Ended December 31, 2010 (See Note 16b)	Canadian GAAP	IFRS adjustment re stock options (Note 16a(ii))	IFRS adjustment re warrants (Note 16a(iii))	IFRS adjustment re flow-through shares & issue costs (Note 16a(iv))	IFRS
Revenue	$ -	$ -	$ -	$ -	$ -
Expenses					
Management fees	83,120	-	-	-	83,120
Share-based compensation	321,000	-	-	-	321,000
Professional and regulatory fees	54,067	-	-	-	54,067
Office and administration	58,052	-	-	-	58,052
Depreciation	3,445	-	-	-	3,445
Investigation of new properties	1,870	-	-	-	1,870
	521,554	-	-	-	521,554
Operating loss	(521,554)	-	-	-	(521,554)
Other expense					
Part XII.6 tax	(9,023)	-	-	-	(9,023)
Loss before income taxes	(530,577)	-	-	-	(530,577)
Deferred tax (recovery)	(28,450)	-	-	114,929	86,479
Net loss and comprehensive loss	$ (502,127)	$ -	$ -	$ 114,929	$ (617,056)
Basic and diluted loss per common share	$ (0.009)				$ (0.011)
Weighted-average number of common shares – basic and diluted	54,190,538				54,190,538

Below is a reconciliation of the Company's Statement of Changes in Equity from Canadian GAAP to IFRS for the year ended December 31, 2010.

Viking Gold Exploration Inc. IFRS Statement of Changes in Equity Reconciliation For the Year Ended December 31, 2010 (See Note 16d)	Canadian GAAP	IFRS adjustment re stock options (Note 16a(ii))	IFRS adjustment re warrants (Note 16a(iii))	IFRS adjustment re flow-through shares & issue costs (Note 16a(iv))	IFRS
Share capital (GAAP/IFRS)					
Balance, January 1, 2010	$ 3,820,173	$ -	$ 693,001	$ 792,471	$ 5,305,645
Proceeds of private placements					
Non-flow-through	520,000	-	-	-	520,000
Flow-through	1,150,000	-	-	-	1,150,000
Premium paid by investors for flow-through shares	-	-	-	(35,667)	(35,667)
Fair value of warrants issued	(456,000)	-	456,000	-	-
Issue costs	(83,087)	-	(23,592)	-	(106,679)
Issue costs – deferred tax	23,500	-	6,000	-	29,500
Other warrants issued	(22,000)	-	-	-	(22,000)
Exercise of warrants	42,000	-	(2,000)	-	40,000
Exercise of options	34,870	-	-	-	34,870
Deferred tax - flow-through shares	(86,750)	-	(26,000)	112,750	-
Net change for year	1,122,533	-	410,408	77,083	1,610,024
Balance, December 31, 2010	4,942,706	-	1,103,409	869,554	6,915,669

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(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Continued from previous page…

Viking Gold Exploration Inc. **IFRS Statement of Changes in Equity Reconciliation** **For the Year Ended December 31, 2010** **(See Note 16d)**	Canadian GAAP	IFRS adjustment re stock options (Note 16a(ii))	IFRS adjustment re warrants (Note 16a(iii))	IFRS adjustment re flow-through shares & issue costs (Note 16a(iv))	IFRS
Warrants (GAAP)					
Balance, January 1, 2010	152,917	-	(152,917)	-	-
Fair value of warrants issued	456,000	-	(456,000)	-	-
Issue costs	(23,592)	-	23,592	-	-
Issue costs – deferred tax	6,000	-	(6,000)	-	-
Other warrants issued	22,000	-	(22,000)	-	-
Exercise of warrants	(2,000)	-	2,000	-	-
Warrants expired	(39,860)	-	39,860	-	-
Deferred tax - flow-through shares	(26,000)	-	26,000	-	-
Net change for year	392,548	-	(392,548)	-	-
Balance, December 31, 2010	545,465	-	(545,465)	-	-
Contributed surplus (GAAP)					
Balance, January 1, 2010	1,025,787	(485,703)	(540,084)	-	-
Stock-based compensation	321,000	(321,000)	-	-	-
Exercise of options	(14,370)	14,370	-	-	-
Warrants expired	39,860	-	(39,860)	-	-
Net change for year	346,490	(306,630)	(39,860)	-	-
Balance, December 31, 2010	1,372,277	(792,333)	(579,944)	-	-
Equity-settled employee benefit reserve (IFRS)					
Balance, January 1, 2010	-	290,904	-	-	290,904
Share-based compensation	-	321,000	-	-	321,000
Exercise of options	-	(14,370)			(14,370)
Options expired	-	(199,359)	-	-	(199,359)
Net change for year	-	107,271	-	-	107,271
Balance, December 31, 2010	-	398,175	-	-	398,175
Deficit (GAAP/IFRS)					
Balance, January 1, 2010	(1,998,756)	194,799	-	(842,674)	(2,646,631)
Other warrants issued	-	-	22,000	-	22,000
Comprehensive loss for year	(502,127)	-	-	(114,929)	(617,056)
Options expired	-	199,359	-	-	199,359
Net change for year	(502,127)	199,359	22,000	(114,929)	(395,697)
Balance, December 31, 2010	(2,500,883)	394,158	22,000	(957,603)	(3,042,328)
Change in equity for year	1,359,444	-	-	(37,846)	1,321,598
Balance – January 1, 2010	3,000,121	-	-	(50,203)	2,949,918
Balance – December 31, 2010	$ 4,359,565	$ -	$ -	$ (88,049)	$ 4,271,516

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16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

a) Notes to IFRS Statement of Financial Position Reconciliations

(i) Statements of Financial Position/Balance Sheet Format

The Canadian GAAP balance sheets are presented for reconciliation purposes using the IFRS non-current/current format.

(ii) Adjustment – Stock Options

Under Canadian GAAP, the Company valued stock options granted to employees using the Black-Scholes option-pricing model, and then recorded a “stock-based” compensation expense in profit or loss with an offsetting increase in contributed surplus. When options were exercised, the Company reclassified the related net carrying value from contributed surplus to share capital and added the proceeds received. When options expired, no entry was recorded. This accounting policy was consistently applied by the Company during the period January 1, 2002 to December 31, 2010, prior to its conversion to IFRS. Prior to 2002, the Company did not record a stock-based compensation expense when options were granted.

Under its new IFRS accounting policy, which adheres to the recommendations of IFRS 2 (“Share-based Payments” – see Note 2m, the Company similarly records the fair value of options granted using the Black-Scholes option-pricing model, and then records a “share-based” compensation expense in profit or loss with an offsetting increase directly to an equity-settled employee benefit reserve. When options are exercised, a transfer is made from the reserve to share capital and added to the proceeds received. When stock options expire or are forfeit, a transfer is made from the reserve to deficit.

Under IFRS 1, the Company is required to account for its share-based payment transactions (e.g. stock options) that were granted after November 2, 2002 and that have not vested before the Company’s January 1, 2010 IFRS transition date (of which there were none). For options granted before November 2, 2002, or granted after November 2, 2002 and vesting before the Company’s IFRS transition date, the Company is not required to apply IFRS 2, but may choose to do so only if the fair value of those options granted was previously disclosed publicly and was determined at the grant date in accordance with IFRS 2.

The Company has optionally elected under IFRS 1 to apply IFRS 2 to options granted in 2002 (which were granted prior to November 2, 2002) as well as those options granted in subsequent years and vesting before the IFRS transition date, on the basis that these options satisfy the necessary inclusion tests. Accordingly, as a December 31, 2010 retrospective IFRS adjustment, the Company has reclassified its $792,233 balance of share-based payments from contributed surplus to reserve (for $398,175 of outstanding, exercisable options) and to deficit (for $394,158 of expired options), as outlined below. Total compensation expense of $806,703 for the years 2002 to 2010 is the same under both Canadian GAAP and IFRS.

During the years 2002 to 2009 inclusive, there were no exercises of the Company’s stock options.

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(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

a) Notes to IFRS Statement of Financial Position Reconciliations
(ii) Adjustment – Stock Options (Continued)
Below is a summary of the related cumulative entries recorded under Canadian GAAP and the IFRS retrospective adjustment:

	Cumulative to December 31, 2009	Year ended December 31, 2010	Cumulative to December 31, 2010
Canadian GAAP summary:			
Contributed surplus – value of options granted, recorded as stock-based compensation	$ 485,703	$ 321,000	$ 806,703
Contributed surplus – value of options exercised	-	(14,370)	(14,370)
Contributed surplus	$ 485,703	$ 306,630	$ 792,333
IFRS retrospective adjustment:			
Increase in			
Equity-settled employee benefit reserve – share-based compensation	$ 290,904	$ 107,271	$ 398,175
Equity – reduction of deficit	194,799	199,359	394,158
	$ 485,703	$ 306,630	$ 792,333
Decrease in			
Contributed surplus	$ (485,703)	$ (306,630)	$ (792,333)

(iii) Adjustment – Warrants
Under Canadian GAAP, the Company valued warrants issued to investors in private placements using the Black-Scholes option-pricing model, and then allocated an equivalent portion of proceeds received from share capital to warrants, a separate component of equity. The Company also allocated a portion of transaction costs and future taxes for flow-throw renunciations as an offset to the warrants issued. Other warrants were included in transaction costs at their estimated fair value using the Black-Scholes option-pricing model. An offsetting credit for other warrants was recorded in warrants. When investor or other warrants were exercised, the Company reclassified the related net carrying value from warrants to share capital and added that to the proceeds received. When investor or other warrants expired, the Company reclassified the related net carrying value to contributed surplus.

Under its new IFRS accounting policy (see Note 2k, Share Capital and Warrants), the Company ignores any separate valuation of warrants issued to investors in private placements and instead records the gross proceeds of issuance of common shares and attached warrants less transaction costs, directly in share capital. Other warrants (e.g. broker warrants issued in a private placement) are included in transaction costs at their estimated fair value using the Black-Scholes option-pricing model. An offsetting credit for other warrants is recorded as a reduction of deficit. When investor or other warrants are exercised, the proceeds received are added to share capital. When investor or other warrants expire unexercised, no accounting entry is recorded.

Accordingly, as a December 31, 2010 retrospective IFRS adjustment, the Company has reclassified \$1,103,409 to share capital and \$22,000 to deficit for a total of \$1,125,409 – \$545,465 from warrants (representing unexpired investor and other warrants) and \$579,944 from contributed surplus (representing expired investor warrants) – as outlined below. Prior to 2004, the Company did not issue investor warrants. Prior to 2010, the Company did not issue other warrants.

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(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

a) Notes to IFRS Statement of Financial Position Reconciliations
(iii) Adjustment – Warrants (Continued)
Below is a summary of the related cumulative entries recorded under Canadian GAAP and the IFRS retrospective adjustment:

	Cumulative to December 31, 2009	Year ended December 31, 2010	Cumulative to December 31, 2010
Canadian GAAP summary:			
Warrants issued	$ 992,141	$ 456,000	$ 1,448,141
Issue costs	(76,530)	(23,592)	(100,122)
Issue costs – tax benefit	-	6,000	6,000
Other warrants issued	-	22,000	22,000
Warrants exercised	(28,410)	(2,000)	(30,410)
Deferred tax effect of flow-through share renunciations, allocated to warrants	(194,200)	(26,000)	(220,200)
Warrants expired	(540,084)	(39,860)	(579,944)
Warrants equity component	$ 152,917	$ 392,548	$ 545,465
IFRS retrospective adjustment:			
Increase (decrease) in share capital			
Proceeds of issuance of shares	$ 963,731	$ 454,000	$ 1,417,731
Issue costs	(76,530)	(23,592)	(100,122)
Issue costs – tax benefit	-	6,000	6,000
Tax effect of flow-through renunciations	(194,200)	(26,000)	(220,200)
	693,001	410,408	1,103,409
Reduction of deficit			
Other warrants issued	-	22,000	22,000
	$ 693,001	$ 432,408	$ 1,125,409
Decrease in			
Warrants	(152,917)	(392,548)	(545,465)
Contributed surplus	(540,084)	(39,860)	(579,944)
	$ (693,001)	$ (432,408)	$ (1,125,409)

The cumulative tax adjustment of $220,200 to December 31, 2010 recognizes that there would have been no separate allocation of the future tax effect to warrants under Canadian GAAP, if proceeds of flow-through unit offerings were originally allocated entirely to share capital. The Company's IFRS adjustment for flow-through shares is discussed separately in Note 16a(iv).

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16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

a) Notes to IFRS Statement of Financial Position Reconciliations (Continued)
(iv) Adjustment – Flow-through Shares and Issue Costs
Flow-through Shares
Under Canadian GAAP, the Company recorded the proceeds received in a unit offering involving flow-through shares to capital stock and warrants and then capitalized related resource expenditures to mineral properties. The Company renounced the tax benefits of the resource expenditures in accordance with income tax legislation, and recorded a future income tax liability in respect of the temporary taxable differences created by the renouncement, as a reduction of share capital and warrants. The Company followed Canadian Accounting Standards Board ("AcSB") Accounting Abstract EIC-146, Flow-through Shares, which recommended that the future tax liability be recorded on the date on which the Company filed its renouncement documents, which typically fell in the calendar year subsequent to the year of flow-through share issuance.

Under its new IFRS accounting policy (see Note 2l, Flow-through Shares), at the time of issuing flow-through shares, the Company allocates the proceeds of issuance to share capital and the sale of tax benefits. The allocation to tax benefits is recorded as a liability and is based on the estimated premium, if any, an investor pays for the flow-through common shares over the value of non-flow-through shares issued based on the quoted price. As qualifying exploration expenditures are made in each reporting period, the Company capitalizes these costs to intangible assets. Further, If the Company intends to formally renounce these expenditures to investors under an existing flow-through agreement (whether using the "General Rule" or "Look-back Rule" as permitted under Canadian income tax regulations), it earmarks them as "effectively renounced" as at the end of the reporting period, and records a related deferred tax expense/liability, net of a proportionate amount of share issue premium.

Accordingly, as a December 31, 2010 retrospective IFRS adjustment, the Company has reclassified $781,554 to share capital, $35,667 to liability for flow-through share premium and $52,382 to deferred income tax liability from deficit (total $869,603). Prior to 2004, the Company did not issue flow-through shares.

Issue Costs
Under Canadian GAAP, the Company recorded in 2007 and 2010, future tax benefits amounting to $40,500 in respect of issue costs for common shares and warrants. The IFRS adjustments for deferred taxes relating to flow-through shares, as discussed above, increased the Company's deferred tax liability as at the end of each reporting year. Management has determined that it is appropriate to ensure that all previously recorded issue costs under Canadian GAAP are properly tax-effected under IFRS, on an as-incurred basis.

Accordingly, as an additional December 31, 2009 retrospective IFRS adjustment, the Company has reclassified $88,000 of equity from deficit to share capital. This cumulative adjustment recognizes the full tax benefit of issue costs during the years 2004-2006 and 2008-2009, inclusive. The adjustment to deficit reflects that deferred income tax recoveries included in net loss for those years are correspondingly reduced.

Continued…

(Unaudited – expressed in Canadian dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

a) Notes to IFRS Statement of Financial Position Reconciliations (Continued)
(iv) Adjustment – Flow-through Shares and Issue Costs (Continued)
Below is a summary of the related cumulative entries recorded under Canadian GAAP and the IFRS retrospective adjustment:

	Cumulative to December 31, 2009	Year ended December 31, 2010	Cumulative to December 31, 2010
Canadian GAAP summary:			
Future tax effect of flow-through renouncements			
Reduction of share capital	$ 658,359	$ 86,750	$ 745,109
Reduction of warrants (Note 16a(iii))	194,200	26,000	220,200
Future tax benefit – issue costs			
Increase in share capital	(11,000)	(23,500)	(34,500)
Increase in warrants (Note 16a(iii))	-	(6,000)	(6,000)
Net effect on future taxes due to flow-through shares and issue costs	$ 841,559	$ 83,250	$ 924,809
IFRS retrospective adjustment:			
Increase (decrease) in			
Share capital – flow-through shares	$ 658,359	$ 86,750	$ 745,109
Share capital – warrants (Note 16a(iii))	194,200	26,000	220,200
Share capital – adjustment for flow-through share premium	(148,088)	(35,667)	(183,755)
Share capital – flow-through share adjustments	704,471	77,083	781,554
Liability for flow-through share premium	3,893	31,774	35,667
Deferred income tax liability	46,310	6,072	52,382
Flow-through share adjustments	754,674	114,929	869,603
Share capital – issue cost adjustment	88,000	-	88,000
	$ 842,674	$ 114,929	$ 957,603
Decrease in equity, charged to deficit			
Cumulative deferred tax expense adjustment for taxable temporary differences	$ (898,869)	$ (118,822)	$ (1,017,691)
Cumulative deferred tax expense adjustment for flow-through share premium	144,195	3,893	148,088
Flow-through share adjustments	(754,674)	(114,929)	(869,603)
Cumulative deferred tax expense adjustment for issue costs	(88,000)	-	(88,000)
	$ (842,674)	$ (114,929)	$ (957,603)

b) Notes to IFRS Statement of Loss and Comprehensive Loss Reconciliations
(i) Reporting Format
Under Canadian GAAP, the Company prepared a Statement of Loss, Comprehensive Loss and Deficit. Under IFRS, the Company prepares a Statement of Loss and Comprehensive Loss along with a separate Statement of Changes in Equity, as further explained below.

(ii) Net Loss, and Loss Per Share Calculations
The previously disclosed Canadian GAAP weighted-average number of common shares (basic and diluted) for 2010 and prior periods did not change under IFRS. The previously disclosed Canadian GAAP net loss increased under IFRS for 2010 and certain prior periods, due to deferred tax adjustments for flow-through shares, as explained in Note 16a(iv). IFRS-calculated basic and diluted loss per common share for 2010 increased to $0.011 from $0.009 originally reported under Canadian GAAP.

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16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

c) IFRS Statement of Cash Flows Reconciliation

An IFRS Statement of Cash Flows reconciliation is not presented for quantitative analysis as the adjustments from Canadian GAAP to IFRS are not significant. Instead, some qualitative description of the adjustments is provided below.

(i) Interest Received/Paid

Under IFRS, interest received and interest paid are disclosed separately in the Statement of Cash Flows when not Nil; accordingly, interest income is included in investing activities and Part XII.6 tax expense is included under financing activities. Other income (expense), which includes these items, is removed from Operating Activities in the Statement of Cash Flows.

(ii) Deferred Tax

Under IFRS, the Statement of Cash Flows reflects a deferred tax adjustment for flow-through shares (see Note 16a(iv)) in which the net loss and offsetting deferred tax add-back are correspondingly increased. The net effect is that total cash flow used in operating activities is unchanged under IFRS from Canadian GAAP.

d) Notes to IFRS Statement of Changes in Equity Reconciliation

(i) Reporting Format

Although under Canadian GAAP, the Company did not present a Statement of Changes in Equity, a Statement of Changes in Equity reconciliation is nevertheless presented to allow readers to better understand the IFRS adjustments to individual equity components, as described in Note 16a, including the allocation of these adjustments to 2010 and prior years.