Condensed Interim Financial Statements of

# VIKING GOLD EXPLORATION INC.

For the Three and Six-Month Periods Ended June 30, 2012 and 2011
(Unaudited – expressed in Canadian dollars)

**Responsibility for the Financial Statements**

The accompanying Condensed Interim Financial Statements of Viking Gold Exploration Inc. (the "Company" or "Viking Gold") for the three and six-month periods ended June 30, 2012 and 2011 are unaudited and are the responsibility of the management and the Board of Directors of the Company. The Condensed Interim Financial Statements have been prepared by management, and approved by the Board of Directors, in accordance with the accounting policies disclosed in the notes to the Condensed Interim Financial Statements. Where necessary, management has made informed judgments and estimates in accounting for transactions that were not complete as at the reporting date.

In the opinion of management, the Condensed Interim Financial Statements have been prepared within the acceptable limits of materiality and are in accordance with International Accounting Standard 34 "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ('IFRS") appropriate in the circumstances.

**Auditors' Involvement**

In accordance with National Instrument 51-102, Part 4, sub-section 4.3(3)(a), notice is hereby given that the accompanying Condensed Interim Financial Statements of the Company for the three and six-month periods ended June 30, 2012 and 2011 have not been reviewed by the Company's auditors in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by the Company's auditors.

# VIKING GOLD EXPLORATION INC.

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# VIKING GOLD EXPLORATION INC.

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**
(Unaudited – expressed in Canadian dollars)

| | Notes | June 30, 2012 | December 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 3 | $ 1,704,529 | $ 1,483,882 |
| Equipment | 4 | 6,491 | 7,291 |
| Investments | 5 | 5,500 | 9,750 |
| Total non-current assets | | 1,716,520 | 1,500,923 |
| **Current assets** | | | |
| Prepaid expenses | | 15,890 | 10,923 |
| Amounts receivable | 6 | 140,226 | 92,364 |
| Cash and cash equivalents | | 132,823 | 1,008,105 |
| Total current assets | | 288,939 | 1,111,392 |
| **Total Assets** | | $ 2,005,459 | $ 2,612,315 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 7 | $ 8,387,903 | $ 8,383,653 |
| Reserve – equity-settled employee benefit reserve | | 869,720 | 911,055 |
| Deficit | | (7,370,595) | (7,229,646) |
| Total equity | | 1,887,028 | 2,065,062 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 118,431 | 547,253 |
| **Total Equity and Liabilities** | | $ 2,005,459 | $ 2,612,315 |

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

The Board of Directors approved these Condensed Interim Financial Statements on August 23, 2012.

They are signed on the Company's behalf by:

/s/Mark Edwards
Director

/s/John Hansuld
Director

**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited – expressed in Canadian dollars)

| | Notes | Three-month period ended June 30, 2012 | Three-month period ended June 30, 2011 | Six-month period ended June 30, 2012 | Six-month period ended June 30, 2011 |
|---|---|---|---|---|---|
| **Revenue** | | $ - | $ - | $ - | $ - |
| **Expenses** | | | | | |
| Management fees | 10 | 42,098 | 31,373 | 82,086 | 69,468 |
| Share-based compensation | 10 | 6,000 | 62,000 | 6,000 | 62,000 |
| Professional and regulatory fees | 10 | 29,510 | 31,003 | 57,924 | 58,330 |
| Office and administration | 10 | 15,558 | 18,283 | 40,673 | 38,096 |
| Depreciation | | 400 | 750 | 800 | 1,500 |
| Claims management | | 1,050 | - | 2,100 | - |
| NWT cleanup – Morris Lake | | 8,872 | - | 8,872 | - |
| Investigation of new properties | | 11,126 | 573 | 16,126 | 1,573 |
| Total expenses | | 114,614 | 143,982 | 214,581 | 230,967 |
| **Operating loss** | | (114,614) | (143,982) | (214,581) | (230,967) |
| **Other income (expense)** | | | | | |
| Interest income | | 905 | 2,643 | 1,314 | 2,643 |
| Part XII.6 taxes recovered | | 9,233 | - | 9,233 | - |
| Loss on disposal of equipment | | - | (3,233) | - | (3,233) |
| Write-down of exploration and evaluation assets | 3 | - | - | - | (72,000) |
| Unrealized loss on investment | 5 | (2,000) | - | (3,000) | - |
| Gain on sale of investment | 5 | - | - | 18,750 | - |
| Total other income (expense) | | 8,138 | (590) | 26,297 | (72,590) |
| **Loss before income taxes** | | (106,476) | (144,572) | (188,284) | (303,557) |
| Deferred tax (recovery) | 8 | - | (5,500) | - | (44,882) |
| **Net loss and comprehensive loss attributable to common shareholders** | | $ (106,476) | $ (139,072) | $ (188,284) | $ (258,675) |
| **Loss per common share** | | | | | |
| Basic and diluted | 7f | $ (0.002) | $ (0.002) | $ (0.003) | $ (0.004) |
| **Weighted-average number of common shares** | | | | | |
| Basic and diluted | 7f | 70,605,632 | 61,780,734 | 70,587,499 | 61,408,426 |

See accompanying notes to the Condensed Interim Financial Statements.

# VIKING GOLD EXPLORATION INC.

## CONDENSED INTERIM STATEMENTS OF CASH FLOWS

(Unaudited – expressed in Canadian dollars)

| | Six-month period ended June 30, 2012 | Six-month period ended June 30, 2011 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ (188,284) | $ (258,675) |
| Adjusted for | | |
| Share-based compensation | 6,000 | 62,000 |
| Depreciation | 800 | 1,500 |
| Other (income) expense, net | (26,297) | 72,590 |
| Deferred tax (recovery) | - | (44,882) |
| | (207,781) | (167,467) |
| Changes in non-cash working capital | | |
| (Increase) in prepaid expenses | (4,967) | (7,226) |
| Decrease (increase) in amounts receivable, net of item (ii) | 61,413 | (22,575) |
| (Decrease) in trade and other payables, net of items (i)(iv) | (165,960) | (48,858) |
| Net cash used in operating activities | (317,295) | (246,126) |
| **Investing activities** | | |
| Interest received | 1,314 | 2,643 |
| Part XII.6 taxes recovered | 9,233 | - |
| Additions to exploration and evaluation assets, net of items (i)(ii)(iii) | (558,672) | (100,362) |
| Proceeds on sale of investment | 20,000 | - |
| Net cash used in investing activities | (528,125) | (97,719) |
| **Financing activities** | | |
| Issue costs of private placement units, net of item (iv) | (29,862) | - |
| Exercise of warrants | - | 109,200 |
| Exercise of options | - | 66,750 |
| Net cash (used in) provided by financing activities | (29,862) | 175,950 |
| **Net (decrease) in cash and cash equivalents** | (875,282) | (167,895) |
| **Cash and cash equivalents, beginning of period** | 1,008,105 | 1,099,517 |
| **Cash and cash equivalents, end of period** | $ 132,823 | $ 931,622 |
| As at June 30, cash and cash equivalents is comprised of: | | |
| Cash | $ 82,823 | $ 246,622 |
| GIC bearing interest at 0.9%, cashable at any time without penalty | 50,000 | 685,000 |
| | $ 132,823 | $ 931,622 |
| **Additional information:** | | |
| (i) Increase (decrease) in accrued E&E expenditures | $ (233,000) | $ 117,000 |
| (ii) E&E recoveries included in amounts receivable | 109,275 | - |
| (iii) Value assigned to common shares used to acquire E&E assets | 4,250 | 290,000 |
| (iv) (Decrease) in accrued issue costs of private placements | (29,862) | - |

See accompanying notes to the Condensed Interim Financial Statements.

# VIKING GOLD EXPLORATION INC.

**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**
(Unaudited – expressed in Canadian dollars)

| | Notes | # of Issued and fully paid common shares | Share capital | Equity-settled employee benefit reserve | Deficit | Total equity |
|---|---|---|---|---|---|---|
| **Six-month period ended June 30, 2012:** | | | | | | |
| **Balance – January 1, 2012** | | 70,569,369 | $ 8,383,653 | $ 911,055 | $ (7,229,646) | $ 2,065,062 |
| Shares issued to acquire exploration and evaluation assets | 3a | 50,000 | 4,250 | - | - | 4,250 |
| Comprehensive loss for period | | - | - | - | (188,284) | (188,284) |
| Share-based compensation | 7e, 10 | - | - | 6,000 | - | 6,000 |
| Options expired | 7e | - | - | (47,335) | 47,335 | - |
| Net change for period | | - | 4,250 | (41,335) | (140,949) | (184,034) |
| **Balance – June 30, 2012** | | 70,619,369 | $ 8,387,903 | $ 869,720 | $ (7,370,595) | $ 1,887,028 |
| **Six-month period ended June 30, 2011:** | | | | | | |
| **Balance – January 1, 2011** | | 60,856,702 | $ 6,923,669 | $ 398,175 | $ (3,050,328) | $ 4,271,516 |
| Shares issued to acquire exploration and evaluation assets | | 1,450,000 | 290,000 | - | - | 290,000 |
| Exercise of warrants | | 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) | - | - |
| Issue costs – warrants issued re acquisition of exploration and evaluation assets | | - | (17,000) | - | 17,000 | - |
| Comprehensive loss for period | | - | - | - | (258,675) | (258,675) |
| Share-based compensation | 7e, 10 | - | - | 62,000 | - | 62,000 |
| Options expired | 7e | - | - | (4,467) | 4,467 | - |
| Net change for period | | 2,521,000 | 497,603 | 8,880 | (237,208) | 269,275 |
| **Balance – June 30, 2011** | | 63,377,702 | $ 7,421,272 | $ 407,055 | $ (3,287,536) | $ 4,540,791 |

## 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 and is considered to be a development stage entity. It is devoting its efforts to raising capital and exploring and developing its mineral property interests. The Company presently has no subsidiaries.

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

As at June 30, 2012, the Company had working capital of $170,508 and an estimated flow-through expenditure obligation of approximately $587,000 (see Note 11a). 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 Condensed Interim Financial Statements (also referred to as "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 Condensed Interim Financial Statements are prepared using accounting policies that comply with International Financial Reporting Standards ("IFRS"), in accordance with IAS 34, ("Interim Financial Reporting").

The policies applied in these financial statements are based on IFRS standards effective for the Company's current year ended December 31, 2012, as issued and outstanding as of the date of the Board of Director's approval. The accounting policies and methods of computation are the same as those used in the Company's most recent annual financial statements, i.e. for the year ended December 31, 2011.

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.

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(Unaudited – expressed in Canadian dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Use of Judgments, Estimates and Assumptions

The preparation of Condensed Interim Financial Statements using accounting policies that comply 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 Condensed Interim Financial Statements that involve the use of estimates include the valuation of exploration and evaluation assets, other warrants and share-based compensation, decommissioning, restoration and similar obligations, and the valuation of deferred income tax assets.

d) 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, 2013. These include:

| New IFRS standards | Description | Effective date |
|---|---|---|
| • 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. | April 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. | July 1, 2012 |

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(Unaudited – expressed in Canadian dollars)

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) 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 eight 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.

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(Unaudited – expressed in Canadian dollars)

## 3. EXPLORATION AND EVALUATION ASSETS

In 2011, the Company acquired 5 mineral property interests, 2 in Ontario (ON) and 3 in Quebec (QC). These 5 active properties are either currently being explored or are planned for future exploration.

The Company also has 6 inactive 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 (NT).

Below is a summary of the 11 properties:

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

** Prior to December 31, 2011, the mineral tenure was disclosed as a joint venture; it is now disclosed as an undivided working interest.

In 2011, the Company recorded write-downs totaling $3,635,489 (including $72,000 in the six-month period ended June 30, 2011) in respect of the 6 Morris Lake properties, though it still retains the mineral property interests. The Company is continuing discussions with unrelated third parties, including existing working interest partners, to determine levels of interest and potential opportunities for optioning the properties to these parties. A full description of each of the 6 properties can be found in the Company's annual audited IFRS financial statements for 2011. For any costs incurred on the Morris Lake properties after January 1, 2012, such amounts are being expensed directly in operations.

A continuity of the Company's exploration and evaluation (E&E) assets for the year ended December 31, 2011 and the six-month period ended June 30, 2012 follows. Additional information about the Company's active properties is presented thereafter.

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(Unaudited – expressed in Canadian dollars)

## 3. EXPLORATION AND EVALUATION ASSETS (Continued)

| | Balance, January 1, 2011 | Expenditures for 2011 | Write-downs for 2011 | Balance, December 31, 2011 | Expenditures for six-month period ended June 30, 2012 | Balance, June 30, 2012 |
|---|---|---|---|---|---|---|
| **Acquisition costs** | | | | | | |
| Venton Lake, ON | $ - | $ 112,536 | $ - | $ 112,536 | $ 79,250 | $ 191,786 |
| Larose, ON | - | 93,028 | - | 93,028 | 10,000 | 103,028 |
| Verneuil, QC | | | | | | |
| Verneuil Central | - | 137,372 | - | 137,372 | - | 137,372 |
| Verneuil West | - | 93,926 | - | 93,926 | - | 93,926 |
| Verneuil East | - | 65,615 | - | 65,615 | - | 65,615 |
| Active properties | - | 502,477 | - | 502,477 | 89,250 | 591,727 |
| Morris Lake, NT | | | | | | |
| Viking Yellowknife | 123,500 | - | (123,499) | 1 | - | 1 |
| Max Lake | 29,700 | - | (29,699) | 1 | - | 1 |
| ML Properties | 8,359 | - | (8,358) | 1 | - | 1 |
| Maguire Lake | 10,967 | - | (10,966) | 1 | - | 1 |
| LM Claims | 8,277 | - | (8,276) | 1 | - | 1 |
| Inactive properties | 180,803 | - | (180,798) | 5 | - | 5 |
| Total properties | 180,803 | 502,477 | (180,798) | 502,482 | 89,250 | 591,732 |
| **Deferred expl'n expenditures** | | | | | | |
| Venton Lake, ON | - | - | - | - | 85,655 | 85,655 |
| Larose, ON | - | 179 | - | 179 | - | 179 |
| Verneuil, QC | | | | | | |
| Verneuil Central | - | 718,829 | - | 718,829 | (6,317) | 712,512 |
| Verneuil West | - | 164,214 | - | 164,214 | 34,569 | 198,783 |
| Verneuil East | - | 98,177 | - | 98,177 | 17,490 | 115,667 |
| Active properties | - | 981,399 | - | 981,399 | 131,397 | 1,112,796 |
| Morris Lake, NT | | | | | | |
| Viking Yellowknife | 1,841,268 | 42,261 | (1,883,529) | - | - | - |
| Max Lake | 512,669 | 1,843 | (514,512) | - | - | - |
| ML Properties | 104,762 | - | (104,762) | - | - | - |
| Peregrine | 971,382 | (20,213) | (951,168) | 1 | - | 1 |
| Maguire Lake | 720 | - | (720) | - | - | - |
| Inactive properties | 3,430,801 | 23,891 | (3,454,691) | 1 | - | 1 |
| Total properties | 3,430,801 | 1,005,290 | (3,454,691) | 981,400 | 131,397 | 1,112,797 |
| **Total expenditures** | | | | | | |
| Venton Lake, ON | - | 112,536 | - | 112,536 | 164,905 | 277,441 |
| Larose, ON | - | 93,207 | - | 93,207 | 10,000 | 103,207 |
| Verneuil, QC | | | | | | |
| Verneuil Central | - | 856,201 | - | 856,201 | (6,317) | 849,884 |
| Verneuil West | - | 258,140 | - | 258,140 | 34,569 | 292,709 |
| Verneuil East | - | 163,792 | - | 163,792 | 17,490 | 181,282 |
| Active properties | - | 1,483,876 | - | 1,483,876 | 220,647 | 1,704,523 |
| Morris Lake, NT | | | | | | |
| Viking Yellowknife | 1,964,768 | 42,261 | (2,007,028) | 1 | - | 1 |
| Max Lake | 542,369 | 1,843 | (544,211) | 1 | - | 1 |
| ML Properties | 113,121 | - | (113,120) | 1 | - | 1 |
| Peregrine | 971,382 | (20,213) | (951,168) | 1 | - | 1 |
| Maguire Lake | 11,687 | - | (11,686) | 1 | - | 1 |
| LM Claims | 8,277 | - | (8,276) | 1 | - | 1 |
| Inactive properties | 3,611,604 | 23,891 | (3,635,489) | 6 | - | 6 |
| Total properties | $ 3,611,604 | $ 1,507,767 | $ (3,635,489) | $ 1,483,882 | $ 220,647 | $ 1,704,529 |

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**3. EXPLORATION AND EVALUATION ASSETS (Continued)**

Information concerning the Company's individual active properties follows.

a) 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 the Company's common shares to the optionor, as follows – 150,000 shares (initial – completed), 50,000 shares (after the first year – completed), 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% net smelter return royalty ("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 and the transaction closed on September 19, 2011.

On April 26, 2012, the Company issued 50,000 common shares as a share-based option payment for the Venton Lake property. The fair value of the shares issued was $4,250. On May 24, 2012, the Company also paid $30,000 towards its first annual $75,000 cash option payment. The optionor of the Venton Lake property has extended the payment date for the $45,000 balance owing to August 31, 2012 (see Note 9).

b) Verneuil and Larose

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% undivided working 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 (valued at $200,000) 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.

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.

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(Unaudited – expressed in Canadian dollars)

## 3. EXPLORATION AND EVALUATION ASSETS (Continued)

b) Verneuil and Larose (Continued)

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 Company may re-purchase half of the 2% NSR for $1,000,000 at any time.

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.

The Company and Golden Tag agreed that Golden Tag is not required to contribute financially towards deferred exploration expenditures incurred on the Verneuil Central property prior to January 1, 2012. For the six-month period ended June 30, 2012, the parties have further agreed that Golden Tag's share of the Verneuil Central exploration expenditures is $100,000. As at June 30, 2012, this amount is recorded as both an amount receivable (see Note 6) and a reduction of deferred exploration expenditures (included in the $6,317 net exploration recovery in the six-month continuity schedule for 2012).

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

c) Acquisition Costs Summary

Acquisition costs of exploration and evaluation assets for the six-month period ended June 30, 2012 and the year ended December 31, 2011 are summarized below. The values assigned to the common shares issued by the Company were based on the closing share price on the respective dates of issuance.

| Properties | # of common shares issued | Common shares issued | Cash payments due | Option payments rec'd | Legal and other | Totals |
|---|---|---|---|---|---|---|
| Six-month period ended June 30, 2012: | | | | | | |
| Venton Lake, ON | 50,000 | $ 4,250 | $ 75,000 | $ - | $ - | $ 79,250 |
| Larose, ON | - | - | (1) 10,000 | - | - | 10,000 |
| Acquisition costs for period | 50,000 | $ 4,250 | $ 85,000 | $ - | $ - | $ 89,250 |
| | | | | | | |
| Year ended December 31, 2011: | | | | | | |
| Venton Lake, ON | 150,000 | $ 30,000 | $ 75,000 | $ - | $ 7,536 | $ 112,536 |
| Larose, ON | 400,000 | 80,000 | (1) 10,000 | (8,500) | 11,528 | 93,028 |
| Verneuil, QC | | | | | | |
| Verneuil Central | 600,000 | 120,000 | - | - | 17,372 | 137,372 |
| Verneuil West | 300,000 | 60,000 | 30,000 | - | 3,926 | 93,926 |
| Verneuil East | 200,000 | 43,000 | 20,000 | - | 2,615 | 65,615 |
| Acquisition costs for year | 1,650,000 | $ 333,000 | $ 135,000 | $ (8,500) | $ 42,977 | $ 502,477 |

(1) = advance royalty payment made pursuant to an existing 3% NSR

Continued…

(Unaudited – expressed in Canadian dollars)

## 4. EQUIPMENT

A continuity of the Company's equipment for the six-month period ended June 30, 2012 follows.

| | Field equipment | Office equipment | Total |
|---|---|---|---|
| Cost | | | |
| As at January 1, 2012 | $ 13,203 | $ 2,585 | $ 15,788 |
| Additions/disposals for period | - | - | - |
| As at June 30, 2012 | 13,203 | 2,585 | 15,788 |
| Accumulated Depreciation | | | |
| As at January 1, 2012 | 7,795 | 702 | 8,497 |
| Depreciation for period | 600 | 200 | 800 |
| As at June 30, 2012 | 8,395 | 902 | 9,297 |
| Net Book Value | | | |
| As at January 1, 2012 | $ 5,408 | $ 1,883 | $ 7,291 |
| As at June 30, 2012 | $ 4,808 | $ 1,683 | $ 6,491 |

## 5. INVESTMENTS

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| FVTPL (Held-for-trading) Investment | | |
| Investment in Golden Share Mining Corporation, 100,000 common shares, originally recorded at an issue date fair value of $0.085 per share | $ 5,500 | $ 8,500 |
| Unquoted Equity Instrument | | |
| Investment in Copper Hill Resources Inc. ("CHRI") 10% interest, at cost | - | 1,250 |
| | $ 5,500 | $ 9,750 |

On December 9, 2011, the Company received 100,000 common shares of Golden Share as an option payment (see Note 3b, Exploration and Evaluation Assets – Verneuil and Larose Properties). The investment is carried at the June 30, 2012 fair market value of $0.055/share (December 31, 2011 – $0.085/share). The cumulative unrealized loss on this investment of $3,000 is included in net loss for the six-month period ended June 30, 2012.

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. On March 22, 2012, the Company sold its 10% investment in CHRI 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. No value has been assigned to the 2% NSR in the Company's financial statements. The realized gain on sale of this investment of $18,750 is included in net loss for the six-month period ended June 30, 2012.

Continued…

(Unaudited – expressed in Canadian dollars)

## 6. AMOUNTS RECEIVABLE

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Exploration recoveries (Note 3b) | $ 100,000 | $ - |
| HST/QST receivables | 30,226 | 92,364 |
| Due from related party (Note 10) | 10,000 | - |
| | $ 140,226 | $ 92,364 |

## 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 June 30, 2012, the Company's issued share capital is 70,619,369 (December 31, 2011 – 70,569,369) common shares with a stated value of $8,387,903 (December 31, 2011 - $8,383,653). A continuity of the Company's share capital is disclosed in the Condensed Interim Statements of Changes in Equity.

c) Non-Brokered Private Placements

There were no private placements during the six-month periods ended June 30, 2012 and 2011.

d) Warrants

A continuity of the Company's outstanding warrants for the six-month period ended June 30, 2012 follows:

| Expiry date(s) | Term in years | Exercise price | January 1, 2012 | Issued 2012 | Exercised 2012 | Expired 2012 | March 31, 2012 |
|---|---|---|---|---|---|---|---|
| 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 | 3,000,000 | - | - | - | 3,000,000 |
| January 27, 2013 | 3 | $0.20 | 13,654,000 | - | - | - | 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 | | | 28,903,001 | - | - | (4,091,500) | 24,811,501 |
| Weighted-average exercise price | | | $0.19 | $ - | $ - | $ 0.20 | $0.19 |

All warrants reflected in the schedules above are investor warrants, except for those flagged ** which are broker and other warrants. The Company has the right to accelerate the expiry of the 13,654,000 outstanding investor warrants expiring on January 27, 2013 if the Company's stock trades over $0.30 for 30 consecutive days.

Warrants Exercised and Expired – Six-Month Periods Ended June 30, 2012 and 2011

No warrants were exercised in the six-month period ended June 30, 2012. A total of 546,000 options were exercised during the six-month period ended June 30, 2011 for total proceeds of $109,200. On June 30, 2012, 4,091,500 warrants expired unexercised. No warrants expired during the six-month period ended June 30, 2011.

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(Unaudited – expressed in Canadian dollars)

## 7. SHARE CAPITAL (Continued)

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.

A continuity of the Company's outstanding and exercisable stock options for the six-month period ended June 30, 2012 follows:

| Expiry date | Exercise price | January 1, 2012 | Granted 2012 | Exercised 2012 | Expired 2012 | June 30, 2012 |
|---|---|---|---|---|---|---|
| January 26, 2012 | $0.13 | 150,000 | - | - | (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 | 650,000 | - | - | - | 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 | - | - | (200,000) | 1,475,000 |
| February 9, 2017 | $0.175 | - | 150,000 | - | - | 150,000 |
| Totals | | 7,050,000 | 150,000 | - | (350,000) | 6,850,000 |
| Weighted-average exercise price | | $0.16 | $ 0.175 | $ - | $0.17 | $0.17 |

All of the options reported above have a 5-year term and vested at their respective grant dates. The 6,850,000 options outstanding and exercisable as at June 30, 2012, have a weighted-average remaining contractual life of 2.7 years, and represent approximately 9.8% of the Company's outstanding common shares.

Stock Options Granted – Six-Month Periods Ended June 30, 2012 and 2011

On February 9, 2012, the Company granted 150,000 options to a consultant. The related share-based compensation expense of $6,000 was recorded on April 1, 2012, based on the estimated fair value of the options granted, as determined using the Black-Scholes option-pricing model. The assumptions used were as follows: expected dividend yield: 0%; expected volatility: 87%; risk-free interest rate: 1.66%; expected life: 5 years; exercise price: $0.175.

On May 17, 2011, the Company granted an aggregate total of 300,000 options to three officers. The related share-based compensation expense of $62,000 was recorded on May 17, 2011, based on the estimated fair value of the options granted, as determined using the Black-Scholes option-pricing model. The assumptions used were as follows: expected dividend yield: 0%; expected volatility: 135%; risk-free interest rate: 2.53%; expected life: 5 years; exercise price: $0.24.

Stock Options Expired – Six-Month Periods Ended June 30, 2012 and 2011

On January 26, 2012, 150,000 options expired unexercised. The grant date fair value of these options was $14,857. On May 24, 2012, 200,000 options expired unexercised. The grant date fair value of these options was $32,478. On March 2, 2011, 50,000 options expired unexercised. The grant date fair value of these options was $4,467.

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(Unaudited – expressed in Canadian dollars)

## 7. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

Stock Options Exercised – Six-Month Periods Ended June 30, 2012 and 2011

No stock options were exercised during the six-month period ended June 30, 2012. A total of 525,000 options were exercised during the six-month period ended June 30, 2011 for total proceeds of $66,750. The combined grant date fair value of these options was $48,653.

f) Diluted Loss Per Share

Loss per common share is calculated using the basic and diluted weighted-average number of common shares outstanding during the three and six-month periods ended June 30, 2012 and 2011. For this calculation, warrants and options have a dilutive effect only when the average market price of the ordinary common shares during the reporting period exceeds the exercise price of the warrants or options (i.e. they are "in the money").

Accordingly, the determination of the weighted-average number of shares outstanding for the calculation of Diluted loss per common share does not include the potential effect of 24,811,501 (2011 – 28,903,001) outstanding warrants, and 6,850,000 (2011 – 7,050,000) outstanding options, as they are not dilutive.

## 8. INCOME TAXES

The deferred income tax (recovery) is comprised of the following amounts:

| | Six-month period ended June 30, 2012 | Six-month period ended June 30, 2011 |
|---|---|---|
| Deferred tax (recovery) based on application of 26.25% average tax rate | $ (47,000) | $ (60,000) |
| Adjustments | | |
| Deferred tax expense related to effective renunciation of flow-through expenditures incurred | 35,000 | 15,118 |
| Reduction in deferred tax recovery, due to unrecorded potential deferred tax asset | 12,000 | - |
| Deferred income tax (recovery) for period | $ - | $ (44,882) |

A continuity of the deferred tax (liability) follows:

| | Six-month period ended June 30, 2012 | Six-month period ended June 30, 2011 |
|---|---|---|
| Balance – beginning of period, January 1 | $ - | $ (363,382) |
| Condensed Interim Statement of Loss and Comprehensive Loss | | |
| Income tax recovery for period | - | 44,882 |
| Balance – end of period, June 30 | $ - | $ (318,500) |

The Company has a potential deferred tax asset of approximately $466,000 as at June 30, 2012. The potential asset, which is attributable to the write-down of exploration and evaluation assets in 2011 (see Note 3), has not been recorded in these financial statements on the basis that it is not probable that the Company will generate future taxable income to realize the related income tax benefit.

Continued…

(Unaudited – expressed in Canadian dollars)

## 9. TRADE AND OTHER PAYABLES

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Trade payables | $ 5,098 | $ 386,242 |
| Accrued expenses | 50,000 | 128,504 |
| Due to related parties (Note 10) | 18,333 | 32,507 |
| Balance of option payment due (Note 3a) | 45,000 | - |
| | $ 118,431 | $ 547,253 |

## 10. RELATED PARTY TRANSACTIONS

The Company considers its related parties to consist of its key management personnel (i.e. officers, directors and advisory committee members) and companies related to such individuals. Details of transactions with related parties are as follows:

| | Six-month period ended June 30, 2012 | Six-month period ended June 30, 2011 |
|---|---|---|
| Condensed Interim Statements of Loss and Comprehensive Loss | | |
| Management fees – officers | $ 82,086 | $ 69,468 |
| Share-based compensation – officers (Note 7e) | 6,000 | 62,000 |
| Legal fees – officer's law firm | 30,469 | 30,918 |
| Rent – officers and director | 11,580 | 1,750 |
| | $ 130,135 | $ 164,136 |

The related party charges presented above are reflected in the first four expense line items in the Condensed Interim Statements of Loss and Comprehensive Loss.

The Company's officers receive management fees through their companies pursuant to fee-for-service arrangements with the Company, in lieu of salaries. The Company's Board of Directors approves these fees and the share-based compensation.

Amounts receivable as at June 30, 2012 includes $10,000 (December 31, 2011 – nil) due from an officer/director (Note 6). Trade and other payables as at June 30, 2012 includes $18,333 (December 31, 2011 – $32,507) owed to officers and their companies (Note 9). The related party receivable/payables are unsecured, non-interest bearing and due within 30 days.

Continued…

(Unaudited – expressed in Canadian dollars)

## 11. COMMITMENTS AND CONTINGENCIES

a) Flow-through Shares

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 June 30, 2012, the Company had incurred qualifying expenditures of approximately $300,000 less exploration recoveries of $100,000 (see Note 6); accordingly, the Company must incur approximately $587,000 of additional 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. FINANCIAL RISK FACTORS

The Company's financial instruments consist of financial assets and liabilities as outlined below.

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Financial Assets | | |
| Fair Value Through Profit or Loss (FVTPL) | | |
| Investment (Note 5) | $ 5,500 | $ 8,500 |
| Cash equivalents | 50,000 | 500,000 |
| | 55,500 | 508,500 |
| Loans and receivables | | |
| Cash | 32,823 | 508,105 |
| Amounts receivable | 140,226 | 92,364 |
| | 173,049 | 600,469 |
| Total Financial Assets | $ 228,549 | $ 1,108,969 |
| Financial Liabilities | | |
| Other financial liabilities | | |
| Trade and other payables (Note 9) | $ 118,431 | $ 547,253 |

The Company's financial instruments consist of cash (classified as loans and receivables), cash equivalents and an investment (classified as financial assets at fair value through profit or loss), amounts receivable (classified as loans and receivables), and accounts payable and accrued liabilities (classified as other financial liabilities).

As at June 30, 2012, 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 hierarchy.

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## 12. FINANCIAL RISK FACTORS (Continued)

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. 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.

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 nominal 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.

## 13. 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 spends its existing working capital and raises additional amounts as needed. The Company continues 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 period. The Company is not subject to externally imposed capital requirements.

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## 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. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current reporting period.