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**ACREX VENTURES LTD.  
(AN EXPLORATION STAGE COMPANY)**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL  
STATEMENTS**

**FOR THE NINE MONTHS ENDED**

**SEPTEMBER 30, 2011**

(Unaudited)

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## **Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements**

The accompanying unaudited condensed interim consolidated financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors. The Company's independent auditors have not performed a review of these condensed interim consolidated financial statements in accordance with the standards established for a review of interim financial statements by an entity's auditors.

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**ACREX VENTURES LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**(Unaudited)

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	<b>September 30, 2011</b>	December 31,
	(Unaudited)	2010
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 522,414	\$ 974,072
Marketable securities	14,230	10,858
HST recoverable	10,580	36,546
Prepaid expenses	6,073	4,606
	<b>553,297</b>	1,026,082
Reclamation bond	5,000	5,000
Mineral properties exploration <i>[Note 4]</i>	1,527,030	1,332,286
	<b>\$ 2,085,327</b>	<b>\$ 2,363,368</b>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued expenses	\$ 30,281	57,472
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	9,064,279	9,064,279
Contributed surplus	760,617	725,112
Deficit	(7,769,850)	(7,483,495)
	<b>2,055,046</b>	2,305,896
	<b>\$ 2,085,327</b>	<b>\$ 2,363,368</b>

Approved on behalf of the Board on November 22, 2011:

"Malcolm Powell"

Malcolm Powell, Director

"Carl Jonsson"

Carl Jonsson, Director

(The Accompanying Notes are an Integral Part of These Condensed Interim Consolidated Financial Statements)

**ACREX VENTURES LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

(Unaudited)

	<b>Three months ended September 30, 2011</b>	<b>Three months ended September 30, 2010</b>	<b>Nine months ended September 30, 2011</b>	<b>Nine months ended September 30, 2010</b>
<b>EXPENSES</b>				
Management fees	\$ 27,000	\$ 27,000	\$ 81,000	\$ 81,000
Investor relations	15,791	28,760	47,322	68,285
Share-based compensation	35,505	26,178	35,505	26,178
Legal	6,850	7,479	22,150	20,757
Office and general	6,245	8,555	19,234	19,666
Promotion and travel	5,683	12,273	18,336	28,989
Accounting	3,500	3,500	17,000	10,500
Consulting	–	10,448	10,500	36,979
Advertising	2,150	1,246	12,203	12,139
Filing fees	1,615	–	10,867	5,000
Rent	3,810	3,235	11,430	11,575
Transfer agent fees	6,575	5,864	8,139	7,793
Insurance	–	300	500	400
Donations	–	3,000	–	3,000
	<b>114,724</b>	<b>137,838</b>	<b>294,186</b>	<b>332,261</b>
Loss before other items	<b>(114,724)</b>	<b>(137,838)</b>	<b>(294,186)</b>	<b>(332,261)</b>
<b>OTHER ITEMS</b>				
Interest income	<b>(1,977)</b>	2,349	<b>4,459</b>	9,215
Unrealized gain on marketable securities	<b>1,747</b>	218	<b>3,372</b>	1,096
	<b>(230)</b>	2,567	<b>7,831</b>	10,311
<b>NET LOSS AND COMPREHENSIVE LOSS</b>				
	<b>(114,954)</b>	<b>(135,271)</b>	<b>(286,355)</b>	<b>(321,950)</b>
<b>LOSS PER SHARE – BASIC AND DILUTED</b>				
	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING</b>				
	<b>40,760,447</b>	<b>40,760,447</b>	<b>40,760,447</b>	<b>40,760,447</b>

(The Accompanying Notes are an Integral Part of These Condensed Interim Consolidated Financial Statements)

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**ACREX VENTURES LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**(Unaudited)

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	Nine months ended September 30, 2011	Nine months ended September 30, 2010
<b>CASH FROM (USED IN):</b>		
<b>OPERATIONS</b>		
Net loss	\$ (286,355)	\$ (321,950)
Add (deduct) items not involving cash:		
Share-based compensation	35,505	46,157
Unrealized gain on marketable securities	(3,372)	(1,096)
	(254,222)	(276,889)
Changes in non-cash working capital balances:		
Decrease (increase) in sales taxes recoverable	25,966	(7,541)
(Increase) in prepaid expenses	(1,467)	(8,196)
Increase (decrease) in accounts payable	(27,191)	10,233
	(256,914)	(282,393)
<b>INVESTING</b>		
Exploration expenditures	(194,744)	(87,991)
DECREASE IN CASH	(451,658)	(370,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	974,072	1,696,970
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 522,414</b>	<b>\$ 1,326,568</b>
<b>Non cash investing and financing activities</b>		
Common shares issued for mineral properties	\$ -	\$ 6,000

(The Accompanying Notes are an Integral Part of These Condensed Interim Consolidated Financial Statements)

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**ACREX VENTURES LTD.****CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**(Unaudited)

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	<b>Number of Common Shares</b>	<b>Amount</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
As at January 1, 2010	40,660,447	\$ 9,058,279	\$ 674,548	\$ (6,911,346)	\$ 2,821,481
Common shares issued for mineral properties	100,000	6,000	–	–	6,000
Share-based compensation expense	–	–	46,157	–	46,157
Net loss for the period	–	–	–	(321,950)	(321,950)
<b>As at September 30, 2010</b>	<b>40,760,447</b>	<b>\$ 9,064,279</b>	<b>\$ 720,705</b>	<b>\$ (7,233,296)</b>	<b>\$ 2,551,688</b>
As at December 31, 2010	40,760,447	\$ 9,064,279	\$ 725,112	\$ (7,483,495)	\$ 2,305,896
Share-based compensation expense	–	–	35,505	–	35,505
Net loss for the period	–	–	–	(286,355)	(286,355)
<b>As at September 30, 2011</b>	<b>40,760,447</b>	<b>\$ 9,064,279</b>	<b>\$ 760,617</b>	<b>\$ (7,769,850)</b>	<b>\$ 2,055,046</b>

(The Accompanying Notes are an Integral Part of These Condensed Interim Consolidated Financial Statements)

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

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**1. CORPORATE INFORMATION AND NATURE OF OPERATIONS**

Acrex Ventures Ltd., incorporated in British Columbia, is a public company listed on the TSX Venture Exchange ("TSX-V") and trades under the symbol AKV. The address of the Company's corporate office and its principal place of business is 1066 West Hastings Street, Suite 2300, Vancouver British Columbia, Canada.

The Company is in the exploration stage and its principal business activity is the sourcing and exploration of mineral properties in North America. The Company is in the process of exploring and evaluating its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related capitalized exploration expenditures is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production or proceeds from the disposition thereof.

**2. BASIS OF PREPARATION**

a) Statement of compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. Subject to certain IFRS transition adjustments disclosed in Note 10, the Company has consistently applied the same accounting policies in its condensed interim financial statements and throughout all periods presented, as if the policies have always been in effect. These condensed interim consolidated financial statements do not contain all of the information required for full annual financial statements. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS and certain transition elections are described in the condensed interim financial statements for the three months ended March 31, 2011 and these condensed interim consolidated financial statements should be read in conjunction with the interim March 31, 2011 financial statements and the annual December 31, 2010 financial statements. IFRS reconciliation disclosures for September 30, 2010 balances presented for comparative purposes are described in Note 10.

b) Going Concern

These condensed interim consolidated financial statements are prepared on a going concern basis, which assumes that the Company will continue its operations for a reasonable period of time. The Company has incurred losses since its inception and had an accumulated deficit of \$7,769,850 at September 30, 2011 which has been funded primarily by issuance of shares. The Company's ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing or maintaining continued support from its shareholders and creditors, and generating profitable operations in the future. The Company has been successful in the past in raising funds for operations by issuing shares but there is no assurance that it will be able continue to do so in the future.

c) Consolidation

The consolidated financial statements include the accounts of the Company and its 100% wholly owned subsidiary, Acrex Minerals (U.S.) Inc. ("Acrex US"). Acrex US was incorporated in the State of Nevada and as at September 30, 2011 is 100% owned by Acrex Ventures Ltd. Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Measurement basis** - These condensed interim consolidated financial statements are prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out in Note 3. All amounts are expressed in Canadian dollars unless otherwise stated.

**Cash and cash equivalents** - The Company considers deposits with banks or highly liquid short-term interest bearing securities that are readily convertible to known amounts of cash and those that have maturities of 90 days or less when acquired to be cash equivalents.

**Use of estimates** - The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Significant areas requiring the use of management estimates include the determination of impairment of mineral properties exploration assets, asset retirement obligations, deferred income tax assets and liabilities, and assumptions used in valuing options and warrants in share-based compensation calculations. Actual results could differ from these estimates.

**Mineral properties exploration** - All expenditures related to the cost of exploration and evaluation of mineral resources including acquisition costs for interests in mineral claims are capitalized as mineral properties exploration and are classified as intangible assets. General exploration costs not related to specific mineral properties are expensed as incurred. If economically recoverable reserves are developed, capitalized costs of the related property are reclassified as mining assets and upon commencement of commercial production, are amortized using the units of production method over estimated recoverable reserves. Impairment is assessed at the level of cash-generating units. Management regularly assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if one of the following factors are present; the rights to explore have expired or are near to expiry with no expectation of renewal, no further substantive expenditures are planned or budgeted, exploration and evaluation work is discontinued in an area for which commercially viable quantities have not been discovered, indications that in an area with development likely to proceed the carrying amount is unlikely to be recovered in full be development or sale.

The recoverability of mineral properties and capitalized exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its future mineral properties contain economically recoverable reserves. Amounts capitalized to mineral properties as exploration and development costs do not necessarily reflect present or future values.

Mineral properties are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of a value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.



### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Provisions** - Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probably that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. At each financial position reporting date presented the Company has not incurred any decommissioning costs related to the exploration and evaluation of its mineral properties and accordingly no provision has been recorded for such site reclamation or abandonment.

**Government assistance** - B.C. mining exploration tax credits for certain exploration expenditures incurred in B.C. are treated as a reduction of the exploration and development costs of the respective mineral property.

**Income taxes** - The Company provides for income taxes using the liability method of tax allocation. Under this method deferred income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using enacted or substantially enacted tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any deferred income tax asset to the extent that it is not probable the asset will be realized.

**Share-based payments** - The Company records all share-based payments at their fair value. The share-based compensation costs are charged to operations over the stock option vesting period and agents' options and warrants issued in connection with common share placements are recorded at their fair value on the date of issue as share issuance costs. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options expected to vest. On the exercise of stock options and agents' options and warrants, share capital is credited for consideration received and for fair value amounts previously credited to contributed surplus. The Company uses the Black-Scholes option pricing model to estimate the fair value of share-based compensation.

**Loss per share** - Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. The Company applies the treasury stock method in calculating diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

**Share issue costs** - Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred share issue costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred share issue costs related to financing transactions that are not completed are charged to expenses.

**Financial instruments** - All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available for sale, loans and receivable or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, marketable securities and accounts payable. At initial recognition management has classified financial assets and liabilities as follows:

a) Financial assets

The Company has recognized its cash and cash equivalents and marketable securities at FVTPL. A financial instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Financial instruments at FVTPL are measured at fair value and changes therein are recognized in income.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### b) Financial liabilities

The Company has recognized its accounts payable as other financial liabilities. Accounts payable are recognized at the amount required to be paid less, when material, a discount to reduce the payable to fair value. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

**Flow-through shares** - The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the common shares are offered, the difference ("premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred.

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

#### **New accounting standards effective January 1, 2012**

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

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

#### **New accounting standards effective January 1, 2013**

**IFRS 9 *Financial Instruments*** - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

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

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

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

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

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

**IFRS 13 Fair Value Measurement** - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

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

Each of the new standards, IFRS 9 to 13 and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim consolidated financial statements or whether to early adopt any of the new requirements.

**ACREX VENTURES LTD.****NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NINE MONTHS ENDED SEPTEMBER 30, 2011**

(Unaudited)

**4. MINERAL PROPERTIES EXPLORATION**

Expenditures on interests in mineral properties are considered exploration and evaluation assets.

	<b>Spanish Mountain</b>	<b>Grizzly Kellar</b>	<b>Rainbow Canyon</b>	<b>Total</b>
<b>Acquisition costs</b>				
Balance, January 1, 2010	\$ 177,334	\$ –	\$ –	\$ 177,334
Option payment	–	21,000	–	21,000
Other costs	2,492	–	–	2,492
Write-off	–	(21,000)	–	(21,000)
Balance, December 31, 2010	179,826	–	–	179,826
Cash paid on purchase	–	–	123,719	123,719
Staking and title maintenance	–	–	35,070	35,070
Balance, September 30, 2011	179,826	–	158,789	338,615
<b>Exploration and evaluation</b>				
Balance, January 1, 2010	967,704	–	–	967,704
Assays	36,405	6,276	–	42,681
Geological	69,229	80,376	–	149,605
Drilling	99,065	–	–	99,065
Mining and exploration tax credit	(19,943)	–	–	(19,943)
Write-off	–	(86,652)	–	(86,652)
Balance, December 31, 2010	1,152,460	–	–	1,152,460
Assays	–	–	2,095	2,095
Geological	2,061	–	29,575	31,636
Travel	–	–	2,224	2,224
Balance, September 30, 2011	1,154,521	–	33,894	1,188,415
<b>Total</b>	<b>\$ 1,334,347</b>	<b>\$ –</b>	<b>\$ 192,683</b>	<b>\$ 1,527,030</b>

**Spanish Mountain claims, British Columbia** - On July 23, 2005, the Company entered into an Option Agreement (the "Agreement") to acquire a 100% interest in the Spanish Mountain property, consisting of 8 mineral claims covering approximately 1,350 hectares located near Likely in Northeastern British Columbia. On September 22, 2008, the Company completed its obligations for payment of cash totalling \$90,000 and issuance of 200,000 common shares in aggregate, and exercised the option to acquire the 100% interest in the Spanish Mountain property. The Company is to issue 200,000 common shares upon receipt of a positive feasibility study.

The Agreement is subject to a 3% net smelter return ("NSR"). The Company has the right to purchase 66.67% of the NSR for \$1,000,000 upon commencement of commercial production of the property.

On February 7, 2007, the Company acquired a 100% interest of two mineral tenures immediately to the west and south of the Company's existing claim group. The purchase price of these claims was \$10,000 and 200,000 shares.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NINE MONTHS ENDED SEPTEMBER 30, 2011**(Unaudited)

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**4. MINERAL PROPERTIES EXPLORATION (continued)**

**Grizzly Kellar property, Quebec** – On April 20, 2010, the Company entered into an option agreement to acquire a 100% interest in the Grizzly Kellar property, consisting of 120 mineral claims covering approximately 6,270 hectares located in the northeast corner of Guettard Township, near the town of Chapais, Quebec. To earn its interest, the Company agreed to pay \$140,000, issue 1,000,000 common shares and incur \$1,000,000 of cumulative exploration expenditures. As at December 31, 2010, the Company has paid \$15,000 and issued 100,000 shares. The fair value of these shares was \$6,000.

The Company conducted a drill programme and the mineralization encountered was not up to the expectations of management. Accordingly, on December 22, 2010, the Company terminated the option agreement and wrote-off the cumulative exploration and acquisition costs totalling \$107,652.

**Rainbow Canyon, Nevada** – By an Agreement dated March 25, 2011 the Company purchased 52 non-patented mineral claims, covering approximately 421 hectares, located approximately 40 kilometers east of Reno, in Washoe County, Nevada, USA. The purchase price for the claims was U.S. \$125,000 (Can. \$123,719). A 3.0% Net Smelter Return royalty is reserved to the vendor subject to the Company's right to purchase back up to a 2.0% NSR royalty by the payment of \$500,000 for each 1.0% NSR royalty interest purchased.

During the nine months ended September 30, 2011, the Company staked an additional 48 claims (388.5 hectares) to the south and west of the purchased claims, almost doubling the size of the claim holdings.

**5. SHARE CAPITAL**

The Company has authorized share capital of an unlimited number of common voting shares without par value. Disclosures on any common shares issued are provided in the Statements of Changes in Shareholders' Equity.

**6. STOCK OPTION PLAN AND SHARE-BASED PAYMENTS**

The Company has established a stock option plan for directors, employees, and consultants. The following table summarizes the stock options outstanding and exercisable at September 30, 2011:

Price	Number Outstanding	Number Exercisable	Expiry Date
\$0.20	100,000	100,000	February 7, 2012
\$0.16	550,000	550,000	July 2, 2012
\$0.16	1,300,000	1,300,000	December 17, 2012
\$0.10	540,000	540,000	December 11, 2013
\$0.10	435,000	435,000	July 19, 2015
\$0.10	675,000	675,000	August 9, 2016
	<hr/> 3,600,000	<hr/> 3,600,000	

Under the Company's stock option plan, the exercise price of each option is determined by the Board, subject to the pricing policies of the TSX Venture Exchange. Options vest immediately when granted and expire five years from the date of the grant, unless the Board establishes more restrictive terms.

The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued shares at the time the options are granted. The aggregate number of options granted to any one optionee in a 12-month period is limited to 5% of the issued shares of the corporation.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS****NINE MONTHS ENDED SEPTEMBER 30, 2011**(Unaudited)

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**6. STOCK OPTION PLAN AND SHARE-BASED PAYMENTS (continued)**

A summary of the Company's stock options for the period ended September 30, 2011 is presented below:

	<b>Number</b>	<b>Weighted Average Exercise Price</b>
Outstanding, December 31, 2010	3,725,000	\$ 0.14
Expired	(150,000)	\$ 0.30
Forfeited	(650,000)	\$ 0.12
Granted	675,000	\$ 0.10
Outstanding and exercisable, September 30, 2011	3,600,000	\$ 0.13

The Company uses the Black-Scholes option pricing model to value the stock options granted during the year. The Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The model requires management to make estimates which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

A total of 675,000 options were granted during the nine months ended September 30, 2011. All options granted, vested during the same period. The fair value of the 675,000 options vested was \$35,505 using the Black-Scholes model, and accounted for as \$35,505 in share-based compensation and included in contributed surplus.

For purposes of the calculations, the following weighted average assumptions were used under the Black-Scholes model:

Risk free interest rate	1.35%
Expected dividend yield	0%
Expected stock price volatility	147%
Expected life of options	5 years

The weighted average grant date fair value of stock options granted during the nine months ended September 30, 2011 was \$0.0526 per option.

**7. RELATED PARTY TRANSACTIONS**

- a) The Company has identified its directors and certain senior officers as its key management personnel and the compensation costs for key management personnel and companies related to them were recorded at their exchange amounts as agreed upon by transacting parties and on terms and conditions similar to non-related parties as follows:
- i) The Company incurred legal fees of \$22,150 (September 30, 2010: \$20,757) from a law firm of which a director is a principal.
  - ii) The Company incurred management fees of \$81,000 (September 30, 2010: \$81,000) and equipment rental charges of \$13,818 (September 30, 2010: \$11,972) from a company owned by a director.
  - iii) The Company incurred rent expense of \$Nil (September 30, 2010: \$11,575) from a company which was controlled by a former director.
  - iv) The Company incurred investor relations fees of \$58,572 (September 30, 2010: \$68,285) from a director.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

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**7. RELATED PARTY TRANSACTIONS (continued)**

- v) The Company incurred geological consulting fees of \$2,250 (September 30, 2010: \$Nil) from a director.
  - vi) The Company received reimbursements for investor relations, promotions and office expenses totalling \$22,500 (September 30, 2010: \$22,500) from companies controlled by common directors.
- b) At September 30, 2011, accounts payable and accrued liabilities included \$8,179 (September 30, 2010: \$4,893) for amounts due to a law firm of which a director is a member.

**8. FINANCIAL INSTRUMENTS**

**Credit Risk** - Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

**Liquidity Risk** - The Company ensures its holding of cash and cash equivalents is sufficient to meet its short-term exploration, development, and general and administrative expenditures. The Company's cash equivalents are invested in business guaranteed investment certificates which are immediately available on demand when required. The Company does not have investments in any asset backed deposits.

**Foreign Exchange Risk** - The Company does not have foreign currency denominated financial instruments and is not exposed to significant foreign exchange risk.

**Interest Rate Risk** - The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions.

**Market risk** - Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The sale of the financial instruments can be affected by changes in interest rates, foreign exchange rates, and equity prices. The Company is exposed to market risk in trading its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. The Company's investments are accounted for at estimated fair values and are sensitive to changes in market prices, such that changes in market prices result in a proportionate change in the carrying value of the Company's investments. The Company's ability to raise capital to fund mineral resource exploration is subject to risks associated with fluctuations in mineral resource prices. Management closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**9. OPERATING SEGMENT INFORMATION**

The Company's operations are limited to a single industry segment being the acquisition, exploration and development of mineral properties. The Company has mineral properties located in Canada in the Province of British Columbia and in the United States in the State of Nevada.

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

## 10. ADOPTION OF IFRS

## a) Transition to IFRS

The Company has adopted IFRS effective January 1, 2011 with a transition date of January 1, 2010. Prior to the adoption of IFRS the Company prepared its financial statements in accordance with Canadian GAAP.

The comparative information presented in these condensed interim consolidated financial statements for the three and nine months ended September 30, 2010 and year ended December 31, 2010 have been prepared in accordance with the accounting policies referenced in Note 3. For disclosures and reconciliations related to the first time adoption of IFRS, refer to the Company's condensed interim financial statements for the three months ended March 31, 2011.

## b) Reconciliation between Canadian GAAP and IFRS

In preparing the Company's September 30, 2010 statement of financial position presented for comparative purposes, management noted that adjustments related to flow-through shares were necessary to be made by the Company previously in its financial statements prepared in accordance with previous Canadian GAAP.

## Flow-through shares

Under Canadian GAAP, when flow-through shares are issued, they are initially recorded in share capital at their issue price less the deferred tax liability related to the renounced expenditures. Under IFRS, flow-through shares are recognized in share capital based on the fair value attributed to common shares without a flow-through feature on the date the Company and the investors agree to the transaction. The difference ("premium") between the amount recognized in common shares and the amount the investors pay for the flow-through shares is recognized as a flow-through share related liabilities which is reversed into the statement of loss within other income when the eligible expenditures are incurred. The amount recognized as flow-through share related liabilities represented the difference between the fair value of the common shares and the amount the investor pays for the flow-through shares.

The cumulative premium and renunciation adjustment as at September 30, 2010 related to flow-through shares issued before January 1, 2010 is \$97,488.

The September 30, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

Statement of Financial Position	September 30, 2010 Canadian GAAP	Effect of IFRS Transition	September 30, 2010 IFRS
Total Assets	\$ 2,601,897	\$ –	\$ 2,601,897
Total Liabilities	\$ 50,209	\$ –	\$ 50,209
Shareholders' Equity			
Share capital	8,966,791	97,488	9,064,279
Contributed surplus	720,705	–	720,705
Deficit	(7,135,808)	(97,488)	(7,233,296)
Total Shareholders' Equity	2,551,688	–	2,551,688
Total Liabilities and Shareholders' Equity	\$ 2,601,897	\$ –	\$ 2,601,897



## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2011

(Unaudited)

## 10. ADOPTION OF IFRS (continued)

## b) Reconciliation between Canadian GAAP and IFRS

IFRS 1 also requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported comprehensive income (loss) for the three months and nine months ended September 30, 2010. As management noted that no reconciling adjustments were made, an explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's comprehensive income (loss) is not included in the accompanying notes. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous Canadian GAAP.

Statement of Operations and Comprehensive Loss	3 months ended September 30, 2010 Canadian GAAP	Effect of IFRS Transition	3 months ended September 30, 2010 IFRS
Revenue	\$ -	\$ -	\$ -
Total expenses	\$ (137,838)	\$ -	\$ (137,838)
Total other items	2,567	-	2,567
Net loss and comprehensive loss	\$ (135,271)	\$ -	\$ (135,271)

Statement of Operations and Comprehensive Loss	9 months ended September 30, 2010 Canadian GAAP	Effect of IFRS Transition	9 months ended September 30, 2010 IFRS
Revenue	\$ -	\$ -	\$ -
Total expenses	\$ (332,261)	\$ -	\$ (332,261)
Total other items	10,311	-	10,311
Net Loss and comprehensive loss	\$ (321,950)	\$ -	\$ (321,950)