Financial Statements
(Expressed in Canadian dollars)

TAKU GOLD CORP.

Years ended December 31, 2011 and 2010

DeVISSER GRAY LLP
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Taku Gold Corp.

We have audited the accompanying financial statements of Taku Gold Corp., which comprise the statements of financial position at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements comprehensive loss, changes in shareholder's equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 Taku Gold Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

De Visser Gray LLP

CHARTERED ACCOUNTANTS
Vancouver, BC
April 4, 2012

Taku Gold Corp.
Statements of financial position
(Expressed in Canadian dollars)

	Notes		December 31, 2011		December 31, 2010 (Note 17)		January 1, 2010 (Note 17)
ASSETS							
Current assets							
Cash and cash equivalents	5	$	3,566,568	$	7,982,719	$	28,081
Receivables	6		368,238		188,013		21,480
Prepaid expense			87,386		10,054		-
			4,022,192		8,180,786		49,561
Non-current assets							
Reclamation deposits			15,000		15,000		15,000
Equipment	7		-		-		796
Exploration and evaluation assets	8		9,878,127		7,020,079		4,200,003
			9,893,127		7,035,079		4,215,799
TOTAL ASSETS		**$**	**13,915,319**	**$**	**15,215,865**	**$**	**4,265,360**
LIABILITIES							
Current liabilities							
Trade payables and accrued liabilities	9	$	90,864	$	547,081	$	178,135
Non-current liabilities							
Deferred tax liabilities	10		743,156		297,712		472,000
TOTAL LIABILIITES			**834,020**		**844,793**		**650,135**
SHAREHOLDERS' EQUITY							
Share capital	11		16,980,466		16,161,957		5,405,068
Reserves			3,202,016		2,356,761		770,929
Deficit			(7,101,183)		(4,147,646)		(2,560,772)
TOTAL EQUITY			**13,081,299**		**14,371,072**		**3,615,225**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**13,915,319**	**$**	**15,215,865**	**$**	**4,265,360**

Nature and continuance of operations (Note 1)

Taku Gold Corp.
Statements of comprehensive loss
(Expressed in Canadian dollars)

	Notes		Years ended December 31, 2011		Years ended December 31, 2010 (Note 17)
Expenses					
Amortization		$	-	$	796
Consulting fees	13		329,139		177,500
Director fees	13		60,000		11,300
Investor relations			36,000		11,220
Management fees	13		90,000		222,000
Office and miscellaneous	13		148,941		61,603
Professional fees	13		106,618		110,290
Research funding			35,000		35,000
Shareholder information, transfer agent and filing fee			27,307		90,914
Stock-based compensation	13		1,022,514		873,735
Travel and promotion			155,277		156,142
Website costs			4,617		10,663
			2,015,413		1,761,163
Other items					
Impairment of exploration and evaluation asset	8		804,863		-
Interest income			(44,983)		-
			759,880		-
Loss before income taxes			**2,775,293**		**1,761,163**
Income tax expense (recovery)	10		178,244		(174,289)
Net loss and comprehensive loss for the year		**$**	**2,953,537**	**$**	**1,586,874**
Loss per share – basic and diluted	11	**$**	**0.04**	**$**	**0.05**

Taku Gold Corp.
Statement of changes in shareholders' equity
(Expressed in Canadian dollars)

		Share capital		Reserves		
	Notes	Number of shares	Amount	Contributed Surplus	Deficit	Total
Balance at January 1, 2010	**17**	**35,332,915**	**$ 5,405,068**	**$ 770,929**	**$ (2,560,772)**	**$ 3,615,225**
Comprehensive loss		-	-	-	(1,586,874)	(1,586,874)
Consolidation of shares on a 3:1 basis		(23,555,276)	-	-	-	-
Shares issued for cash – private placement @ $0.08	11(i)	2,500,000	200,000	-	-	200,000
Shares issued for cash – private placement @ $0.10	11(ii)	4,975,000	497,500	-	-	497,500
Shares issued for cash – private placement @ $0.15	11(iii)	23,000,000	3,450,000	-	-	3,450,000
Shares issued for cash – private placement	11(iv)	17,740,000	7,008,400	-	-	7,008,400
Share issue costs		-	(1,031,339)	-	-	(1,031,339)
Fair values of agents warrants		-	(839,427)	839,427	-	-
Shares issued for cash – option exercise @ $0.20		420,000	84,000	-	-	84,000
Shares issued for cash – option exercise @ $0.25		100,000	25,000	-	-	25,000
Shares issued for cash –warrants exercise @0.10		1,650,000	165,000	-	-	165,000
Shares issued for cash –warrants exercise @ $0.15		1,577,500	236,625	-	-	236,625
Shares issued for cash –warrants exercise @ $0.25		1,060,000	265,000	-	-	265,000
Shares issued pursuant to royalty agreement	8	100,000	28,000	-	-	28,000
Shares issued to acquire exploration and evaluation asset	8	2,450,000	808,000	-	-	808,000
Premium on flow through placements		-	(267,200)	-	-	(267,200)
Transfer of contributed surplus for exercise of options		-	127,330	(127,330)	-	-
Stock-based compensation		-	-	873,735	-	873,735
Balance at December 31, 2010		**67,350,139**	**16,161,957**	**2,356,761**	**(4,147,646)**	**14,371,072**
Comprehensive loss		-	-	-	(2,953,537)	(2,953,537)
Shares issued for cash –warrants exercise @ $0.10		700,000	70,000	-	-	70,000
Shares issued for cash –warrants exercise @ $0.15		75,000	11,250	-	-	11,250
Shares issued for cash –warrants exercise @ $0.25		1,000,000	250,000	-	-	250,000
Shares issued for cash –agent warrants exercise @ $0.15		40,000	6,000	-	-	6,000
Shares issued for cash - stock options exercise @ $0.25		600,000	150,000	-	-	150,000
Shares issued to acquire exploration and evaluation asset	8	500,000	154,000	-	-	154,000
Transfer of contributed surplus for exercise of options and agents warrants		-	177,259	(177,259)	-	-
Stock-based compensation		-	-	1,022,514	-	1,022,514
Balance at December 31, 2011		**70,265,139**	**$ 16,980,466**	**$ 3,202,016**	**$ (7,101,183)**	**$ 13,081,299**

(Expressed in Canadian dollars)

	Year ended December 31, 2011	Year ended December 31, 2010 (Note 17)
Operating activities		
Loss for the year	$ (2,953,537)	$ (1,586,874)
Adjustments for:		
Amortization	-	796
Deferred income tax expense (recovery)	178,244	(174,289)
Impairment of exploration and evaluation asset	804,863	-
Stock-based compensation	1,022,514	873,735
Changes in non-cash working capital items:		
Accounts receivable	(180,225)	(166,533)
Prepaid expenses	(77,332)	(10,054)
Trade payables and accrued liabilities	(167,296)	60,497
Net cash flows used in operating activities	(1,372,769)	(1,002,722)
Investing activities		
Expenditures on exploration and evaluation assets	(3,530,632)	(1,942,827)
Net cash flows used in investing activities	(3,530,632)	(1,942,827)
Financing activities		
Proceeds on issuance of common shares	487,250	11,931,525
Share issue costs	-	(1,031,338)
Net cash flows from financing activities	487,250	10,900,187
Increase (decrease) in cash and cash equivalents	(4,416,151)	7,954,638
Cash and cash equivalents, beginning	7,982,719	28,081
Cash and cash equivalents, ending	**$ 3,566,568**	**$ 7,982,719**

1. Nature and continuance of operations

Taku Gold Corp. (the "Company") was incorporated on July 19, 1999, under the laws of the province of British Columbia, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada. The Company's shares are traded on the TSX Venture Exchange ("TSX-V") under the symbol "TAK.V". The head office, principal address and records office of the Company are located at 409 Granville Street, Suite 1450, Vancouver, British Columbia, Canada.

The Company is currently exploring its mineral properties and has not yet determined the existence of economically recoverable reserves. The recoverability of the amounts shown for interests in mineral properties is dependent upon the discovery of economically recoverable reserves or proceeds from the disposition thereof, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the properties and on future profitable operations.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2011 the Company had not advanced its property to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management believes that it has adequate funds to finance operating costs over the next twelve months.

2. Significant accounting policies and basis of preparation

The financial statements were authorized for issue on April 4, 2012 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

The financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first set of annual financial statements prepared in accordance with IFRS. The disclosures concerning the transition from pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 17.

Going Concern of Operations

The Company has not generated revenue from operations. The Company incurred a net loss of $2,953,537 during the year-ended December 31, 2011 and, as of that date the Company's accumulated deficit was $7,101,183. However, the Company has sufficient cash resources to meet its obligations for at least twelve months from the end of the reporting year. As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

2. Significant accounting policies and basis of preparation (cont'd)

Basis of preparation

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

Significant accounting judgments, estimates and assumptions

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, the recognition and valuation of provisions for restoration and environmental liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the year in which they occur. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transfee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

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

2. Significant accounting policies and basis of preparation (cont'd)

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

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

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

Mineral exploration and evaluation expenditures are classified as intangible assets.

Under IFRS 6, upon transition to IFRS, an entity may continue to follow their current accounting policies, whereby E&E expenditures are capitalized or a Company may elect to expense all E&E costs. Current industry practice on the capitalization vs. expensing of E&E activities varies by company. Significant management judgment is required to determine appropriate accounting policies relating to the treatment of E&E expenditures upon transition to FRS. The Company has elected to continue to capitalize E&E activities that are directly related to the discovery, acquisition or development of E&E activities upon transition to IFRS.

Reclamation Deposits

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

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

2. Significant accounting policies and basis of preparation (cont'd)

Impairment of assets

The carrying amount of the Company's assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

2. Significant accounting policies and basis of preparation (cont'd)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments.

Income taxes

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

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

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

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

2. Significant accounting policies and basis of preparation (cont'd)

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

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:

From time to time, the Company issues flow through common share to finance a significant portion of its Canadian exploration program. Qualifying resource expenditures under the terms of the flow through share agreements are renounced to the investors according to tax legislations. Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, and ii) share capital.

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability"). Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

2. Significant accounting policies and basis of preparation (cont'd)

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets. As at December 31, 2011, the Company has no restoration and environmental obligations.

2.

Equipment

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income and comprehensive income during the financial period in which they are incurred.

3. Accounting standards, amendments and interpretations issued by not yet effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2012 or later years.

The following standards and interpretations have been issued but are not yet effective:

Amendments to IFRS 7 "Financial Instruments: Disclosures"

This amendment increases the disclosure required regarding the transfer of financial assets, especially if there is a disproportionate amount of transfer transactions that take place around the end of a reporting period. This amendment is effective for annual periods beginning on or after July 1, 2011

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 10 "Financial Statements"

This new standard will replace IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". Concurrent with IFRS 10, the IASB issued IFRS 11 "Joint Ventures"; IFRS 12 "Disclosures of Involvement with Other Entities"; IAS 27 "Separate Financial Statements", which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 "Investments in Associates and Joint Ventures", which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

3. Accounting standards, amendments and interpretations issued by not yet effective (cont'd)

New standard IFRS 11 "Joint Control"

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

4.

New standard IFRS 12 "Interest in Other Entities"

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

New standard IFRS 1 "Fair Value Mesurements"

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Critical Accounting Estimates and Judgments

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

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the years of change, if the change affects that year only, or in the year of the change of future years, if the change affects both.

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

4. Critical Accounting Estimates and Judgments (cont'd)

Exploration and Evaluation Expenditure

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

Mineral Property Interests

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

Income Taxes

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

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent that it is probable that taxable profit will be available against which a deductible temporary difference can be utilized. This is deemed to be the case when there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same year as the expected reversal of the deductible temporary difference, or in years into which a tax loss arising from the deferred tax asset can be carried back or forward. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 12.

(Expressed in Canadian dollars)

5. Cash and cash equivalents

The components of cash and cash equivalents are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash at bank	$ 466,568	$ 3,012,719	$ 28,081
Guaranteed investment certificates	3,100,000	4,970,000	-
	$ 3,566,568	$ 7,982,719	$ 28,081

6. Receivables

	December 31, 2011	December 31, 2010	January 1, 2010
HST tax receivable	$ 356,220	$ 188,013	$ 21,480
Other receivables	12,018	-	-
	$ 368,238	$ 188,013	$ 21,480

7. Equipment

	December 31 2011	December 31, 2010	January 1, 2010
Office equipment	$ -	$ 3,517	$ 3,517
Less: accumulated amortization	-	(3,517)	(2,721)
	$ -	$ -	$ 796

(Expressed in Canadian dollars)

8. Exploration and evaluation assets

The following is a description of the Company's exploration and evaluation assets and the related spending commitments as at December 31, 2011:

	Canada		Total for
	Yukon Territory	TAG 025, BC	Year ended December 31, 2011
Property acquisition costs			
Balance, beginning of year	$ 1,394,550	$ 178,553	$ 1,573,103
Additions: cash option payment	110,000	-	110,000
Additions: staking and related costs	217,239	-	217,239
Additions: common shares under option agreement	154,000	-	154,000
Advance royalty payments	25,000	-	25,000
Write-down due to impairment	(265,274)	-	(265,274)
Balance, end of year	1,635,515	178,553	1,814,068
Exploration and evaluation costs			
Balance, beginning of year	1,279,256	4,167,720	5,446,976
Costs incurred during year:			
Drilling, labour and related costs	1,981,870	-	1,981,870
Assays and sampling	451,498	-	451,498
Transport, travel and accommodation	718,294	5,010	723,304
Write-down due to impairment	(539,589)	-	(539,589)
Balance, end of year	3,891,329	4,172,730	8,064,059
Balance, December 31, 2011	$ 5,526,844	$ 4,351,283	$ 9,878,127

(Expressed in Canadian dollars)

8. Exploration and evaluation assets (cont'd)

The following is a description of the Company's exploration and evaluation assets and the related spending commitments as at December 31, 2010:

	Canada		Total for
	Yukon Territory	TAG 025, BC	Year ended December 31, 2010
Property acquisition costs			
Balance, beginning of period	$ -	$ 150,553	$ 150,553
Additions: cash option payment	482,500	-	482,500
Additions: staking and related costs	104,050	-	104,050
Additions: common shares under option agreement	808,000	28,000	836,000
Write-down due to impairment	-	-	-
Balance, end of period	$ 1,394,550	$ 178,553	$ 1,573,103
Exploration and evaluation costs			
Balance, beginning of period	$ -	$4,049,450	$ 4,049,450
Costs incurred during period:			
Drilling, labour and related costs	782,075	113,546	895,621
Assays and Sampling	339,839	-	339,839
Transport, travel and accommodation	157,342	4,724	162,066
	1,279,256	4,167,720	5,446,976
Balance, December 31, 2010	$ 2,673,806	$4,346,273	$ 7,020,079

a. TAG 025 Gold Silver Property, Atlin Mining Division of British Columbia

During the year ended December 31, 2006, the Company signed a mineral property option agreement to acquire a 100% interest in the TAG 025 Gold Silver Property within the Atlin Mining Division of British Columbia. To earn this interest, the Company made cash payments totalling $60,000, issued a total of 600,000 shares and incurred $1,050,000 in exploration expenditures. The Property is subject to 2.5% net smelter returns royalty ("NSR") of which 1.5% can be purchased on the basis of $500,000 per 0.5% at any time prior to commercial production.

The Company subsequent to the option agreement acquired through staking additional mineral claims within the TAG Gold Silver Property.

During the year ended December 31, 2010, the Company amended the agreement to clarify the claims to which the NSR payable applies. In consideration for the amendment, the Company issued 100,000 common shares.

(Expressed in Canadian dollars)

8. Exploration and evaluation assets (cont'd)

b. Yukon Territory, Canada

Year Ended December 31. 2011		Balance, beginning	Cash Option payment	Common shares under option agreement	Staking and related costs	Advance Royalty	Write down due to impairment	Total
Acquisition costs								
Dan Property	(i)	$ 155,275	$ 50,000	$ 60,000	$ -	$ -	$(265,274)	$ 1
Rose & Bute Property	(ii)	152,325	50,000	57,000	12,250	-	-	271,575
AM Property	(iii)	183,850	-	-	-	5,000	-	188,850
Bishop Property	*	35,700	-	-	10,108	-	-	45,808
Burnham Property	*	-	-	-	118,511	-	-	118,511
FM Claims	*	-	-	-	3,640	-	-	3,640
Montana Property	(iv)	169,400	-	-	9,275	5,000	-	183,675
Quartz Property	(v)	93,425	-	-	-	5,000	-	98,425
Portland Property	(vi)	57,750	10,000	37,000	-	-	-	104,750
Sulphur Property	(vii)	362,975	-	-	-	5,000	-	367,975
Wounded Moose Property	(viii)	183,850	-	-	63,455	5,000	-	252,305
Balance, December 31, 2011		**$1,394,550**	**$ 110,000**	**$ 154,000**	**$ 217,239**	**$ 25,000**	**$(265,274)**	**$1,635,515**

Year Ended December 31, 2010		Balance, beginning	Cash Option payment	Common shares under option agreement	Staking and related costs	Total
Acquisition costs						
Dan Property	(i)	$ -	$ 50,000	$ 76,875	$ 28,400	$ 155,275
Rose & Bute Property	(ii)	-	50,000	73,125	29,200	152,325
AM Property	(iii)	-	70,000	113,850	-	183,850
Bishop Property	*	-	-	-	35,700	35,700
Montana Property	(iv)	-	59,000	110,400	-	169,400
Quartz Property	(v)	-	36,500	56,925	-	93,425
Portland Property	(vi)	-	10,000	37,000	10,750	57,750
Sulphur Property	(vii)	-	137,000	225,975	-	362,975
Wounded Moose Property	(viii)	-	70,000	113,850	-	183,850
Balance, December 31, 2010		**$ -**	**$ 482,500**	**$ 808,000**	**$ 104,050**	**$ 1,394,550**

*These claims were acquired by staking.

(Expressed in Canadian dollars)

8. Exploration and evaluation assets (cont'd)

(i) Dan Property, White Gold District, Yukon

On March 3, 2010, the Company entered into an option agreement to acquire a 100% interest in claims known as the Dan Property located south of Dawson City in the White Gold district of Yukon Territory. Under the terms of the agreement, the Company has the option to earn a 100% interest in the Dan Property for a total consideration of $250,000 in cash payments, the issuance of 1,000,000 common shares and the completion of $1,000,000 in exploration expenditures on the Property over a four year period as follows:

Option Exercise Schedule	Issue Shares		Make Payment		Exploration Expenditures
March 3, 2010	200,000 (1)	$	50,000 (1)	$	-
March 3, 2011	200,000 (1)		50,000 (1)		200,000
March 3, 2012	200,000		50,000		200,000
March 3, 2013	200,000		50,000		300,000
March 3, 2014	200,000		50,000		300,000
Total	1,000,000	$	250,000	$	1,000,000

(1) Shares issued and payment made

In April of 2010, the Company acquired through staking additional mineral claims to expand the Dan Property.

In February of 2012, the Company decided not to continue with the Dan Property option agreement and accordingly wrote down $265,274 and $539,589 of acquisition and exploration costs, respectively.

The remaining $1 dollar represents the additional staked claims which the Company still holds, and which were not subject to the option agreement.

(ii) Rose and Bute Property, White Gold District, Yukon Territory

On March 30, 2010, the Company entered into an option agreement to acquire a 100% interest in claims known as the Rose and Bute Property, located south of Dawson City in the White Gold district of Yukon Territory. Under the terms of the agreement, the Company has the option to earn a 100% interest in the Rose and Bute Property for a total consideration of $325,000 in cash payments, the issuance of 1,000,000 common shares and the completion of $1,000,000 in exploration expenditures on the Property over a four year period as follows:

Option Exercise Schedule	Issue Shares		Make Payment		Exploration Expenditures
March 30, 2010	200,000 (1)	$	50,000 (1)	$	-
March 31, 2011	200,000 (1)		50,000 (1)		200,000
March 31, 2012	200,000 (1)		75,000 (1)		200,000
March 30, 2013	200,000		75,000		300,000
March 30, 2014	200,000		75,000		300,000
Total	1,000,000	$	325,000	$	1,000,000

(1) Shares issued and payment made

A finder's fee of 75,000 treasury shares of the Company was paid to an arm's length party. The Property is subject to 2.0% NSR, of which the Company has the right to buy back the first 1.0% for $2,000,000.

On April 12, 2010, the Company acquired through staking additional mineral claims to expand the Rose and Bute Property.

(Expressed in Canadian dollars)

8. Exploration and evaluation assets (cont'd)

(iii) AM Property, Dawson Mining Division, Yukon Territory

On August 20, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the claims known as the AM Property, located in the Australia and Melba creeks area in the Dawson Mining Division of Yukon Territory. Under the terms of the agreement, the Company paid $70,000, issued 330,000 shares and will make cash payments of $5,000 (which are deductible against the NSR royalty) annually commencing August 20, 2011 for five years. The property is subject to a 2.0% NSR of which the Company has the option to purchase 1.0% of the NSR for $1,000,000 and has a right of first refusal to purchase the remaining 1%.

(iv) Montana Property, Dawson Mining Division, Yukon Territory

On August 20, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the claims called the Montana Property, located in the Montana Creek area in the Dawson Mining Division of Yukon Territory. Under the terms of the agreement, the Company issued 320,000 shares, reimbursed staking costs of $59,000 and will make advance royalty payments of $5,000 (which are deductible against the NSR royalty) annually commencing August 20, 2011 for five years. The property is subject to a 2.0% NSR of which the Company has the option to purchase 1% of the NSR for $1,000,000 and has a right of first refusal to purchase the remaining 1%.

(v) Quartz Property, Dawson Mining Division, Yukon Territory

On August 20, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the claims known as the Quartz Property, located in the Quartz Creek area in the Dawson Mining Division of Yukon Territory. Under the terms of the agreement, the Company issued 165,000 shares, reimbursed staking costs of $36,500 and will make advance royalty payments of $5,000 (which are deductible against the NSR royalty) annually commencing August 20, 2011 for five years. The property is subject to a 2.0% NSR of which the Company has the option to purchase 1% of the NSR for $1,000,000 and has a right of first refusal to purchase the remaining 1%.

(vi) Portland Property, Dawson Mining Division, Yukon Territory

On October 4, 2010, the Company entered into an option agreement to acquire a 100% interest in the claims known as the Portland Property located in the Dawson Mining Division of Yukon Territory. Under the terms of the Option Agreement, the Company has the option to earn a 100% undivided interest in the Portland Property for total cash consideration of $40,000, the issuance of 400,000 common shares and the completion of $200,000 of exploration expenditures on the Property over a three year period as follows:

Option Exercise Schedule	Issue Shares	Make Payment	Exploration Expenditures
October 4, 2010	100,000 (1)	$ 10,000 (1)	$ -
October 4, 2011	100,000 (1)	10,000 (1)	25,000
October 4, 2012	100,000	10,000	50,000
October 4, 2013	100,000	10,000	125,000
Total	400,000	$ 40,000	$ 200,000

(1) Shares issued and payment made

The Property is subject to a 2% NSR of which the Company has the option to purchase 1% of the NSR for $1,000,000.

(Expressed in Canadian dollars)

8. Exploration and evaluation assets (cont'd)

(vii) Sulphur Property, Dawson Mining Division, Yukon Territory

On August 20, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the claims known as the Sulphur Property, located in the Sulphur Creek area in the Dawson Mining Division of Yukon Territory. Under the terms of the agreement, the Company issued 655,000 shares, reimbursed staking costs of $137,000 and will make advance royalty payments of $5,000 (which is deductible against the NSR royalty) commencing August 20, 2011 annually for five years. The property is subject to a 2.0% NSR of which the Company has the option to purchase 1% of the NSR for $1,000,000 and has a right of first refusal to purchase the remaining 1%.

(viii) Wounded Moose Property, Dawson Mining Division, Yukon Territory

On August 20, 2010, the Company entered into a purchase agreement to acquire a 100% interest in the claims known as the Wounded Moose Property located in the Dawson Mining Division of Yukon Territory. Under the terms of the agreement, the Company paid $70,000 and issued 330,000 shares and will make advance royalty payments of $5,000 (which is deductible against the NSR Royalty) commencing August 20, 2011 annually for five years. The property is subject to a 2.0% NSR, of which the Company has the option to purchase 1% of the NSR for $1,000,000.

9. Trade payables and accrued liabilities

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables and accrued liabilities	$ 46,923	$ 97,193	$ -
Amounts due to related parties (Note 13)	43,941	182,688	178,135
Flow-through tax liability	-	267,200	-
	$ 90,864	$ 547,081	$ 178,135

10. Income tax expense and deferred tax assets and liabilities

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

	Year ended December 31, 30, 2011	Year ended December 31, 2010
Loss before income taxes	$ (2,775,293)	$ (1,761,162)
Statutory tax rate	26.5%	28.5%
Expected income tax recovery at the statutory tax rate	$ (735,453)	$ (501,931)
Non-deductible items and other	484,255	172,965
Expiration of non-capital losses	-	9,815
Change in valuation allowance	429,442	144,862
Income tax expense (recovery)	$ 178,244	$ (174,289)

(Expressed in Canadian dollars)

10. Income tax expense and deferred tax assets and liabilities (cont'd)

The components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010
Exploration and evaluation assets	$ (1,922,006)	$ (1,254,452)
Loss carry-forwards	1,018,245	731,750
Share issuance costs	159,532	223,916
Capital assets	1,074	1,074
	(743,156)	(297,712)
Valuation allowance	-	-
Net deferred income tax liability	$ (743,156)	$ (297,712)

The Company has non-capital losses of approximately 4.0 million (2010 – 2.9 million), which are available to reduce future taxable income and which expire between 2014 and 2031. Subject to certain restriction the Company also has mineral property expenditures of approximately 2.2 million (2010 – 2.0 million) available to reduce taxable income in future years.

11. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

At December 31, 2011 there were 70,265,139 issued and fully paid common shares (December 31, 2010 – 67,350,139).

Private placements

(i) On February 4, 2010, the Company issued 2,500,000 units pursuant to a non-brokered private placement at a price of $0.08 per unit for gross proceeds of $200,000. Each unit consists of one common share and one non-transferable share purchase warrant exercisable to purchase one additional non-flow-through common share for $0.10 until February 4, 2012.

(ii) On March 19, 2010, the Company completed a private placement of 4,975,000 units at $0.10 per unit for gross proceeds of $497,500. Each unit consists of one common share and one half (1/2) of one share purchase warrant. Each full share purchase warrant entitles the holder to purchase one additional common share at a price of $0.15 until March 16, 2012. The Company paid share issue costs consisting of $37,400 in finders' fees and $3,435 in legal fees in connection with the financing.

11. Share capital (cont'd)

Private placements *(cont'd)*

(iii) In July 2010, the Company completed a private placement of 13,240,000 units at $0.15 per unit for gross proceeds of $1,986,000. Each unit consists of one share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of $0.25 until July 16, 2012. In conjunction with this placement, the Company completed a private placement of 9,760,000 flow-through units at $0.15 per share for gross proceeds of $1,464,000. Each unit consists of one share and one half (1/2) of one share purchase warrant. One full share purchase warrant entitles the holder to purchase one additional common share at a price of $0.25 until July 16, 2012. The flow-through agreements require the Company to incur exploration expenditures and renounce the tax deductions to the flow-through participants.

The Company paid share issue costs consisting of $301,000 in finders' fees and $37,024 in legal fees in connection with the financing. In addition, the Company granted a warrant to the Agent to purchase 2,300,000 units in the capital stock of the Company at a price of $0.15 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrants entitles the holder to acquire one share for 24 months from July 15, 2010 at a price of $0.25. Using the Black-Scholes pricing model, the fair value of these share purchase warrants was estimated to be $417,910.

(iv) In December 2010, the Company completed a private placement of 11,060,000 units at $0.38 per unit for gross proceeds of $4,202,800. Each unit consists of one share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase one additional common share at a price of 65 cents until December 3, 2012. In conjunction with this placement, the Company completed a private placement of 6,680,000 flow-through units at $0.42 per share for gross proceeds of $2,805,600. Each unit consists of one share and one half (1/2) of one share purchase warrant. Each full share purchase warrant entitles the holder to purchase an additional common share at a price of 65 cents per share until December 3, 2012. The flow-through agreements require the Company to incur exploration expenditures and renounce the tax deductions to the flow-through participants.

(v) The Company paid share issue costs consisting of $517,342 in finders' fees and $135,138 in legal fees in connection with the financing. In addition, the Company granted a warrant to the Agent to purchase 1,419,200 units in the capital stock of the Company at a price of $0.65 per unit. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one share for 24 months from December 3, 2010 at a price of $0.65. Using the Black-Scholes pricing model, the fair value of these share purchase warrants was estimated to be $421,517.

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the year ended December 31, 2011 was based on the loss attributable to common shareholders of $2,953,537 (2010 - $1,586,874) and the weighted average number of common shares outstanding of 68,786,495 (2010 – 32,189,379).

Diluted loss per share did not include the effect of 5,718,667 stock options and 35,124,200 share purchase warrants as the effect would be anti-dilutive.

(Expressed in Canadian dollars)

11. **Share capital** (cont'd)

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees, technical consultants and other participants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 5 years from the date of grant. The exercise price of an option is not less than the closing price on the TSX on the last day of trading preceding the grant date or the minimum price as per the TSX policies.

All options granted under the Plan shall vest and become exercisable on the date of grant, except options granted to consultants performing investor relations activities, which options must vest over twelve months with no more than one quarter of the options vesting in any three month period.

The changes in options during the year ended December 31, 2011 are as follows:

Expiry	Price ($)	Weighted Average Remaining Life (years)	Outstanding January 1, 2010	Granted	Exercised	Cancelled/ Forfeited	Outstanding December 31, 2010
March 30, 2011	0.54	-	56,333	-	-	56,333	-
April 7, 2011	0.54	-	45,000	-	-	45,000	-
June 19, 2011	0.45	-	36,667	-	-	36,667	-
December 6, 2011	0.54	-	203,333	-	-	203,333	-
May 25, 2012	0.54	0.4	200,000	-	-	-	200,000
November 9, 2012	0.60	0.9	212,667	-	-	-	212,667
July 18, 2013	0.39	1.6	146,000	-	-	-	146,000
June 1, 2015	0.20	3.4	660,000		-	-	660,000
July 30, 2015	0.25	3.6	2,200,000		600,000	-	1,600,000
February 4, 2016	0.37	4.1	-	2,900,000	-	-	2,900,000
			3,760,000	2,900,000	600,000	341,333	5,718,667
Weighted average exercise price			0.30	0.37	0.25	0.49	0.33
Exercisable							5,718,667

The weighted average contractual life remaining of all stock options at December 31, 2011 is 3.57 years.

The weighted average share price at the date of exercise of options during the year end December 31, 2011 was $0.38 per share .

(Expressed in Canadian dollars)

11. **Share capital** (cont'd)

Stock options *(cont'd)*

The changes in options during the year ended December 31, 2010 are as follows:

Expiry	Price ($)	Weighted Average Remaining Life (years)	Outstanding January 1, 2010	Granted	Exercised	Cancelled/ Forfeited	Outstanding December 31, 2010
March 30, 2011	0.54	0.2	56,333	-	-	-	56,333
April 7, 2011	0.54	0.3	45,000	-	-	-	45,000
June 19, 2011	0.45	0.5	36,667	-	-	-	36,667
December 6, 2011	0.54	1.0	203,333	-	-	-	203,333
May 25, 2012	0.54	1.5	200,000	-	-	-	200,000
November 9, 2012	0.60	1.9	212,667	-	-	-	212,667
July 18, 2013	0.39	2.6	146,000	-	-	-	146,000
June 1, 2015	0.20	4.5	-	1,080,000	420,000	-	660,000
July 30, 2015	0.25	4.5	-	2,300,000	100,000	-	2,200,000
			900,000	3,380,000	520,000	-	3,760,000
Weighted average exercise price			0.51	0.23	0.21	-	0.30
Exercisable							3,760,000

The weighted average contractual life remaining of all stock options at December 31, 2010 is 3.80 years.

The weighted average share price at the date of exercise of options during the year end December 31, 2010 was $0.43 per share.

During the year ended December 31, 2011, the Company granted a total of 2,900,000 incentive stock options and stock-based compensation expense of $1,022,514 was recorded. The weighted average grant date fair value of options granted during the year ended December 31, 2011 was $0.35 (2010 - $0.26). The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions:

	Year ended December 31, 2011	**Year ended December 31, 2010**
Expected life of options	5 years	5 years
Annualized volatility	175%	175%
Risk-free interest rate	2.75%	2.75%
Dividend rate	0%	0%

Based on the Company's option history, the forfeiture rate is nil and the Company expects that 100% of the options will vest.

(Expressed in Canadian dollars)

11. Share capital (cont'd)

Share purchase warrants:

Outstanding share purchase warrants at December 31, 2011 were as follows:

Expiry	Price ($)	Outstanding January 1, 2011	*Issued*	Exercised	Expired	Outstanding December 31, 2011
February 4, 2, 2012 (1)	0.10	850,000	-	700,000	-	150,000
March 16, 2012 (1)	0.15	910,000	-	75,000	-	835,000
July 16, 2012	0.25	17,060,000	-	1,000,000	-	16,060,000
December 3, 2012	0.65	14,400,000	-	-	-	14,400,000
		33,220,000	-	1,775,000	-	31,445,000
Weighted average exercise price		0.42	-	0.19	-	0.43

(1) Expired subsequent to December 31, 2011.

(2) Outstanding share purchase warrants, exclusive of agent warrants, at December 31, 2010 were as follows:

The weighted average contractual life of these warrants at December 31, 2011 is 0.71 years.

The weighted average share price at the date of exercise of options during the year ended December 31, 2011 was $0.35 (2010 - $0.28).

Expiry	Price ($)	Outstanding January 1, 2010	Issued	Exercised	Expired	Outstanding December 31, 2010
January 17, 2010	-	333,333	-	-	333,333	-
January 5, 2010	-	166,667	-	-	166,667	-
February 4, 2012	0.10	-	2,500,000	1,650,000	-	850,000
March 16, 2012	0.15	-	2,487,500	1,577,500	-	910,000
July 16, 2012	0.25	-	18,120,000	1,060,000	-	17,060,000
December 3, 2012	0.65	-	14,400,000	-	-	14,400,000
		500,000	37,507,500	4,287,500	500,000	33,220,000
Weighted average exercise price		0.55	0.39	0.16	0.55	0.42

Agent's warrants

Outstanding agent warrants at December 31, 2011 were as follows:

Expiry	Price ($)	Outstanding January 1, 2011	Issued	Exercised	Expired	Outstanding December 31, 2011
July 16, 2012	0.15	2,300,000	-	40,000	-	2,260,000
December 3, 2012	0.65	1,419,200	-	-	-	1,419,200
		3,719,200	-	40,000	-	3,679,200
Weighted average exercise price		0.46		0.15		0.46

The weighted average contractual life of all agent warrants at December 31, 2011 is 0.45 years.

(Expressed in Canadian dollars)

11. **Share capital** (cont'd)

The weighted average share price at the date of exercise of agent warrants during the year ended December 31, 2011 was $0.43 (2010 - $nil).

Outstanding agent warrants at December 31, 2010 were as follows:

Expiry	Price ($)	Outstanding January 1, 2010	Issued	Exercised	Expired	Outstanding December 31, 2010
July 16, 2012	0.15	-	2,300,000	-	-	2,300,000
December 3, 2012	0.65	-	1,419,200	-	-	1,419,200
		-	3,719,200	-	-	3,719,200
Weighted average exercise price			0.46			0.46

The weighted average contractual life of all agent warrants at December 31, 2010 is 1.67 years.

12. Reserves

Stock option reserve

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

Agent warrant reserve

The fair value of agent option reserve is recognized as a charge to share capital until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

13. Related party transactions

Related party balances

The following amounts due to related parties are included in trade payables and accrued liabilities:

	December 31, 2011	**December 31, 2010**
Directors or companies controlled by directors of the Company	$ -	$ 182,688

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

(Expressed in Canadian dollars)

13. Related party transactions (cont'd)

Related party transactions

The Company had the following transactions in the normal course of operations with directors and companies with common directors:

	Year ended December 31, 2011	Year ended December 31, 2010
Consulting (b)	$ 59,000	$ 102,000
Director fees (c)	60,000	11,300
Management fees (a)	90,000	222,000
Mineral property – exploration expenditures (a)	145,700	237,025
Professional fees (a)	69,500	65,700
Office rent and supplies (c)	38,600	21,600
Stock-based compensation	599,420	670,525
	$ 1,062,220	$ 1,330,150

a. The Company paid $90,000 (2010 - $222,200) in management fees to the President of the Company; $69,500 (2010 - $65,700) in professional fees to the CFO of the Company; and $145,700 (2010 - $237,025) in mineral property exploration consulting to the VP of Exploration.

b. $59,000 (2010 - $102,000) in consulting fees for administration to a private company controlled by two directors of the Company;

c. $60,000 (2010 – $11,300) to the directors of the Company as director fees;
$38,600 (2010 - $21,600) in rent to a private company controlled by two directors of the Company

14. Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents. The majority of cash is deposited in bank accounts held at a major bank in Canada. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is considered a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk is on its other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

14. Financial risk management (cont'd)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at December 31, 2011:

	Within one year	Between one and five years	More than five years
Trade payables	90,864	-	-
	$ 90,864	$ -	$ -

Foreign exchange risk

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. As at December 31, 2011, all of the Company's cash is held in Canadian dollars, the Company's functional currency. The Company has no operations in foreign jurisdictions outside of Canada at this time and as such has no currency risk associated with its operations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments are exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Company's net loss of $31,000.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, net of cash and cash equivalents.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian dollars)

14. Financial risk management (cont'd)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Cash and cash equivalents	$ 3,566,568	$ 7,982,719	$ 28,081
Reclamation deposits	15,000	15,000	15,000
Loans and receivables:			
Other receivables	368,238	188,013	21,480
	$ 3,949,806	$ 8,185,732	$ 64,561

Financial liabilities included in the statement of financial position are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Non-derivative financial liabilities:			
Trade payables	$ 90,864	$ 279,881	$ 175,135

15.

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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 that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company's financial assets measured at fair value as at December 31, 2011 and December 31, 2010:

	As at December 31, 2011		
	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 3,566,568	$ -	$ -
Reclamation deposits	15,000	-	-
	$ 3,581,568	$ -	$ -

	As at December 31, 2010		
	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 7,857,719	$ -	$ -
Reclamation deposits	15,000	-	-
	$ 7,872,719	$ -	$ -

(Expressed in Canadian dollars)

15. Segmented information

Operating segments

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties.

Geographic segments

All Company's non-current assets are located in Canada.

16. Non-cash transactions

During the year ended December 31, 2011, the Company incurred the following non-cash transactions that are not reflected in the statement of cash flows:

	Years ended	
	December 31, 2011	December 31, 2010
Fair value of shares issued on acquisition of exploration and evaluation assets	$ 154,000	$ 836,000

17. Transition to IFRS

As result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making them the first annual financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", January 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which has been accounted for in accordance with Canadian GAAP.

- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" has been applied prospectively to all provisions for restoration and environmental obligations that are within the scope of International Financial Reporting Interpretations Committee ("IFRIC") "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

The Company has:

- re-measured the liabilities as at January 1, 2010 in accordance with IAS 37;
- estimated the amount that would have been included in the cost of the related asset when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rates that would have applied for that liability over the intervening period; and
- calculate the accumulated depreciation on that amount, as at January 1, 2010, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity.

The Company determined that there was no restoration and environmental obligation at January 1, 2010.

Estimates

IFRS 1 requires that estimates made in accordance with IFRS at the date of transition and other comparative periods shall be consistent with estimates made for the same date in accordance with Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 and December 31, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliation of assets

		As at January 1, 2010		
	Notes	**Canadian GAAP**	**Effect of Transition**	**IFRS**
ASSETS				
Current assets				
Cash and cash equivalents		$ 28,081	$ -	$ 28,081
Accounts receivable		21,480	-	21,480
Prepaid expenses		-	-	-
		49,561	-	49,561
Non-current assets				
Reclamation deposits		15,000	-	15,000
Equipment		796	-	796
Exploration and evaluation assets		4,200,003	-	4,200,003
		4,215,799	-	4,215,799
TOTAL ASSETS		**$ 4,265,360**	**$ -**	**$ 4,265,360**

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

	Notes	As at December 31, 2010 Canadian GAAP	Effect of Transition	IFRS
ASSETS				
Current assets				
Cash and cash equivalents		$ 7,982,719	$ -	$ 7,982,719
Accounts receivable		188,013	-	188,013
Prepaid expenses		10,054	-	10,054
		8,180,786	-	8,180,786
Non-current assets				
Reclamation deposits		15,000	-	15,000
Equipment		-	-	-
Exploration and evaluation assets		7,020,079	-	7,020,079
		7,035,079	-	7,035,079
TOTAL ASSETS		**$ 15,215,865**	**$ -**	**$ 15,215,865**

18.

Reconciliation of liabilities and equity

	Notes	As at January 1, 2010 Canadian GAAP	Effect of Transition	IFRS
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities		$ 178,135	$ -	$ 178,135
Non-current liabilities				
Deferred tax liabilities		472,000	-	472,000
TOTAL LIABILITIES		**650,135**	**-**	**650,135**
SHAREHOLDERS' EQUITY				
Share capital	17 (a)	4,848,026	557,042	5,405,068
Contributed surplus	17 (b)	770,929	(770,929)	
Reserves	17 (b)	-	770,929	770,929
Deficit	17 (a)	(2,003,730)	(557,042)	(2,560,772)
TOTAL EQUITY		**3,615,225**	**-**	**3,615,225**
TOTAL LIABILITIES AND SHARESHOLDER'S EQUITY		**$ 4,265,360**	**$ -**	**$ 4,265,360**

(Expressed in Canadian dollars)

17. Transition to IFRS (cont'd)

	Notes	As at December 31, 2010 Canadian GAAP	Effect of Transition	IFRS
LIABILITIES				
Current liabilities				
Trade payables and accrued liabilities	17 (a)	$ 279,881	$ 267,200	$ 547,081
Non-current liabilities				
Deferred tax liabilities		297,712	-	297,712
TOTAL LIABILITIES		**577,593**	**267,200**	**844,793**
SHAREHOLDERS' EQUITY				
Share capital	17 (a)	15,857,415	304,542	16,161,957
Contributed surplus	17 (b)	2,356,761	(2,356,761)	-
Reserves	17 (b)	-	2,356,761	2,356,761
Deficit	17 (a)	(3,575,904)	571,742	(4,147,646)
TOTAL EQUITY		**14,638,272**	**(267,200)**	**14,371,072**
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		**$ 15,215,865**	**$ -**	**$ 15,215,865**

Reconciliation of loss and comprehensive loss for the year ended December 31, 2010

	Notes	Canadian GAAP	Effect of Transition	IFRS
Expenses				
Amortization		$ 796	$ -	$ 796
Consulting fees		177,500	-	177,500
Director fees		11,300	-	11,300
Investor relations		11,220	-	11,220
Management fees		222,000	-	222,000
Office and miscellaneous		61,603	-	61,603
Professional fees		110,290	-	110,290
Research grant		35,000	-	35,000
Shareholders information and transfer agent fees		90,914	-	90,914
Stock-based compensation		873,735	-	873,735
Travel and promotion		156,142	-	156,141
Website costs		10,603	-	10,603
		1,761,163	-	1,761,162
Loss before income taxes		**(1,761,163)**	**-**	**(1,761,162)**
Income tax recovery	17 (a)	188,989	(14,700)	174,289
Net loss and comprehensive loss for the year		**$ (1,572,174)**	**$ (14,700)**	**$ (1,586,873)**
Loss per share – basic and diluted		**$ (0.05)**	**$ -**	**$ (0.05)**

17. **Transition to IFRS** (cont'd)

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive income as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

Notes to reconciliations

(a) Flow-through shares

Flow-through shares are a unique Canadian tax incentive which is the subject of specific guidance under Canadian GAAP. Under Canadian GAAP the Company accounted for the issue of flow-through shares in accordance with the provisions of CICA Emerging Issues Committee Abstract 146 "Flow-through Shares". At the time of issue, the funds received are recorded as share capital. At the time of the filing of the renunciation of the qualifying flow-through expenditures to investors, the Company recorded a future income tax liability with a charge directly to shareholders' equity. Also under Canadian GAAP the Company recorded any previously unrecognized future tax assets eligible to be recognized to offset the future tax liability recorded, with the recovery reported in the statement of operations.

IFRS does not contain explicit guidance pertaining to this tax incentive. Therefore, the Company has adopted a policy whereby the premium paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is initially recorded as a flow-through tax liability and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, the flow-through tax liability is reduced and a deferred tax liability is recognized. The reduction of the flow through liability is recognized in profit and loss as other income.

To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

(b) Reserves

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and broker warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as reserves.

18. **Events after the reporting period**

i. Subsequent to December 31, 2011, the Company decided not to continue with the Dan Property and according wrote off the associated costs. See note 8.

ii. Subsequent to year ended December 31, 2011, 985,000 warrants expired unexercised

iii. On March 2, 2012, the Company completed its third option payment on the Rose Bute Property by issuing 200,000 common shares and cash payment of $75,000. See note 8.