LORNEX CAPITAL INC.

Consolidated Financial Statements

Years Ended December 31, 2011 and 2010

(Expressed in Canadian Dollars)

To the Shareholders of Lornex Capital Inc.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management, and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of Lornex Capital Inc.'s external auditors.

We draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, the Board of Directors, Audit Committee and management to discuss their audit findings.

April 27, 2012

" Marc Levy "
Marc Levy, CEO

" Nilda Rivera "
Nilda Rivera, CFO

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lornex Capital Inc.:

We have audited the accompanying consolidated financial statements of Lornex Capital Inc., which comprise the statement of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the statements of comprehensive loss, changes in equity, and cash flows for the years ended December 31, 2011 and 2010, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Lornex Capital Inc. as at December 31, 2011, December 31, 2010, and January 1, 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 of these financial statements, which states that Lornex Capital Inc. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters described in Note 1, indicates the existence of a material uncertainty which may cast doubt about the ability of Lornex Capital Inc. to continue as a going concern.

April 27, 2012

Vancouver, British Columbia

Chartered Accountants

LORNEX CAPITAL INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	December 31, 2011	December 31, 2010 (Note 11)	January 1, 2010 (Note 11)
	$	$	$
Assets			
Current:			
Cash and cash equivalents	1,111,857	929,443	294,915
Amounts receivable	15,664	13,791	4,513
Prepaid expenses and deposits	2,000	58,932	2,000
	1,129,521	1,002,166	301,428
Equipment (Note 4)	4,177	4,134	-
Reclamation deposit (Note 5)	-	-	5,000
Exploration and evaluation assets (Note 6)	88,957	35,168	25,000
	1,222,655	1,041,468	331,428
Liabilities			
Current:			
Accounts payable and accrued liabilities	15,214	24,255	21,630
Shareholders' equity			
Share capital (Note 7)	4,175,770	3,619,811	2,633,874
Reserves (Note 7)	121,963	118,374	87,007
Deficit	(3,090,292)	(2,720,972)	(2,411,083)
	1,207,441	1,017,213	309,798
	1,222,655	1,041,468	331,428

Nature of Operations (Note 1)
Subsequent Events (Note 12)

The consolidated financial statements were approved by the Board of Directors on 27 April 2012 and were signed on its behalf by:

"Marc Levy"
____
Director

"Marc Morin"
____
Director

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

LORNEX CAPITAL INC.

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year Ended 31 December 2011	Year Ended 31 December 2010
	$	$
Administrative Expenses:		
Consulting fees	18,250	40,250
Depreciation	1,358	730
Management fees	64,800	73,800
Office, rent and administration (Note 8)	82,618	88,863
Professional fees (Note 8)	28,200	22,579
Regulatory fees	11,295	16,053
Share-based payments (Note 7)	26,222	38,876
Transfer agent	7,959	6,044
Travel, promotion and shareholder communication	153,641	27,015
	394,343	314,210
Loss before other items	(394,343)	(314,210)
Other items:		
Finance costs	(620)	(430)
Finance income	8,465	6,774
Write-off of reclamation deposit	-	(5,000)
	7,845	1,344
Loss and comprehensive loss for the year	(386,498)	(312,866)
Basic and diluted loss per share (Note 7(f))	(0.08)	(0.08)

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

LORNEX CAPITAL INC.

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

		Share capital		Reserves			Deficit	Total shareholders' equity
	Note	Common shares	Amount	Stock options	Warrants	Total		
		#	$	$	$	$	$	$
Balance, January 1, 2010	11	**2,957,500**	**2,633,874**	**87,007**	-	**87,007**	**(2,411,083)**	**309,798**
Comprehensive loss for the year		-	-	-	-	-	(312,866)	(312,866)
Private placement		1,142,222	1,028,000	-	-	-	-	1,028,000
Share issue costs		-	(80,548)	-	-	-	-	(80,548)
Finder's fees		17,772	15,995	-	-	-	-	15,995
Finder's warrants issued		-	(6,666)	-	6,666	6,666	-	-
Exercise of options		54,418	17,958	-	-	-	-	17,958
Share-based payments		-	-	38,876	-	38,876	-	38,876
Fair value of stock options transferred to share capital upon exercise		-	11,198	(11,198)	-	(11,198)	-	-
Expired options		-	-	(2,977)	-	(2,977)	2,977	-
Balance, December 31, 2010		**4,171,912**	**3,619,811**	**111,708**	**6,666**	**118,374**	**(2,720,972)**	**1,017,213**
Comprehensive loss for the year		-	-	-	-	-	(386,498)	(386,498)
Exercise of options		8,333	2,750	-	-	-	-	2,750
Exercise of warrants		616,667	185,000	-	-	-	-	185,000
Share-based payments		-	-	26,222	-	26,222	-	26,222
Private placement		2,293,750	367,000	-	-	-	-	367,000
Share issue costs		-	(4,246)	-	-	-	-	(4,246)
Fair value of stock options transferred to share capital upon exercise		-	5,455	(5,455)	-	(5,455)	-	-
Expired options		-	-	(17,178)	-	(17,178)	17,178	-
Balance, December 31, 2011		**7,090,662**	**4,175,770**	**115,297**	**6,666**	**121,963**	**(3,090,292)**	**1,207,441**

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

LORNEX CAPITAL INC.

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year Ended 31 December 2011	Year Ended 31 December 2010
	$	$
Operating activities:		
Loss for the year	(386,498)	(312,866)
Adjustments for non-cash items:		
Depreciation	1,358	730
Share-based payments	26,222	38,876
Write-off of reclamation deposit	-	5,000
Changes in non-cash working capital items:		
Amounts receivable	3,770	(9,278)
Prepaid expenses and deposits	4,268	(56,932)
Accounts payable and accrued liabilities	(9,041)	2,625
	(359,921)	(331,845)
Investing activities:		
Purchase of equipment	(1,401)	(4,864)
Exploration and evaluation assets	(6,768)	(10,168)
	(8,169)	(15,032)
Financing activities:		
Shares issued for cash	554,750	1,045,958
Share issue costs	(4,246)	(64,553)
	550,504	981,405
Increase in cash	182,414	634,528
Cash, beginning of year	929,443	294,915
Cash, end of year	1,111,857	929,443
Supplemental cash flow information:		
Non-cash financing activities:		
Fair value of finders’ shares and warrants issued (Note 7)	-	22,661
Fair value of stock options transferred to share capital upon exercise (Note 7)	5,455	11,198

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

1. Nature of Operations and Going Concern

The Company was incorporated on July 26, 2000 under the Canada Business Corporations Act and is engaged in the acquisition, exploration and development of mineral properties in Canada. The Company's common shares are traded on the TSX Venture Exchange ("Exchange") under the symbol "LOM". On August 29, 2011, the Company consolidated its capital stock on a three-for-one-basis (Note 7(b)).

The head office, principal address and records office of the Company are located at Suite 507 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's registered office address is Suite 1780 - 400 Burrard Street, Vancouver, British Columbia, Canada, V6C 3A6.

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts capitalized for mineral properties and related deferred exploration expenditures are dependent upon the ability of the Company to raise additional financing in order to complete the exploration and development of its resource properties, the discovery of economically recoverable reserves, the attainment of future profitable production or proceeds from disposition of the Company's resource properties. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to achieve any of the foregoing and continue as a going concern. Any adjustment required to the amounts and reclassification of assets and liabilities may be significant. At December 31, 2011, the Company had not yet achieved profitable operations and has accumulated losses of $3,090,292 (2010-$2,720,972).

Management has estimated that the Company will have adequate funds from existing working capital to meet corporate, administrative and other obligations during the year ending December 31, 2012. The Company will require additional financing as it determines to acquire additional properties or accelerate its work programs. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

2. Significant Accounting Policies

The financial statements were authorized for issue on April 27, 2012 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Statement of compliance and adoption of International Financial Reporting Standards

The consolidated financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The disclosures related to the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in note 11 to these consolidated financial statements. Note 11 contains reconciliations and descriptions of the effect of the transition from GAAP to IFRS on equity, loss and comprehensive loss, along with reconciliations of the consolidated statements of financial position as at December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss for the year ended December 31, 2010. The first date at which IFRS was applied was January 1, 2010.

(b) Basis of presentation and consolidation

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rosswoll Industries Inc., incorporated in British Columbia. All significant intercompany balances and transactions were eliminated on consolidation.

The consolidated financial statements of the Company were prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in note 2(n).

2. Significant Accounting Policies – continued

(c) Use of estimates and judgments

The preparation of the Company's consolidated 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 consolidated 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. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments and the estimated useful life and recoverability of equipment. Actual results may differ from those estimates and judgments.

(d) Functional and presentation of foreign currency

The consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the parent. Each entity determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency, both the parent and subsidiary use the Canadian dollar as their functional currency.

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the end of reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences and other changes in the carrying amount of the security. Translation differences are recognised in the income statement and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets, such as investments in equity securities, classified as available-for-sale are reported as part of the fair value gain or loss and are included in equity.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, Guaranteed Investment Certificates (GICs), deposits in banks and highly liquid investments with an original maturity of three months or less. GICs have an original maturity term of more than three months and less than a year and can be withdrawn on demand.

(f) Equipment

Equipment is carried at acquisition cost less accumulated depreciation. Depreciation is determined at rates which will reduce original cost to estimated residual value over the expected useful life of each asset. The annual rate used to compute depreciation is as follows:

Computer hardware	declining-balance basis	30%
Office equipment	declining-balance basis	20%

The depreciation method, useful life and residual values are assessed annually.

2. Significant Accounting Policies – continued

(f) Equipment - continued

Subsequent costs

The cost of replacing part of an item within property, plant and equipment is recognised when the cost is incurred if it is probable that the future economic benefits will flow to the Company and the cost of the item can be measured reliably. All other costs are recognised as an expense as incurred.

(g) Exploration and evaluation assets

These assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are in the exploration or pre-development stage.

Once a right to explore a mineral property has been secured, exploration and evaluation expenditures are capitalized and include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs incurred before the Company has obtained the legal rights to explore a mineral property are expensed as incurred.

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 mineral property are reclassified to mining property and development assets within property, plant and equipment. Upon transfer to property, plant and equipment, the relevant costs will be analyzed for impairment. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings as exploration and evaluation expense.

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 mineral properties.

(h) Decommissioning obligations

The liability for a decommissioning obligation, such as site reclamation costs, is recorded when a legal or constructive obligation exists and is recognized in the period in which it is incurred. The Company records the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized decommissioning costs will be amortized to expense over the life of the related assets using the units-of-production method. The liability is accreted to reflect the passage of time and adjusted to reflect changes in the timing and amount of estimated future cash flows.

As at December 31, 2011, December 31, 2010 and January 1, 2010, the Company determined that it did not have material decommissioning obligations.

(i) Impairment of non-financial assets

The carrying amount of the Company's non-financial 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.

2. Significant Accounting Policies - continued

(i) Impairment of non-financial assets - continued

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.

(j) Share capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of issue.

(k) 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.

(l) Loss per share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

Due to the losses for the years ended December 31, 2011 and 2010, basic loss per share was equal to dilutive loss per share for the periods presented.

(m) Comprehensive profit (loss)

Comprehensive profit (loss) is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that would not normally be included in net profit such as unrealized gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive profit (loss), components of other comprehensive income are presented in the Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Changes in Equity.

2. Significant Accounting Policies - continued

(n) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. 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 at amortized cost.

(i) Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at fair value through profit and loss are either 'held-for-trading' or classified at fair value through profit or loss. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period. The Company does not have any financial assets at fair value through profit and loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Company has classified cash and cash equivalents and amounts receivable as loans and receivables.

(iii) Held-to-maturity

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 initially recorded at fair value and subsequently measured at amortized cost. The Company currently holds no held-to-maturity investments.

(iv) Available-for-sale

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. The Company currently holds no available-for-sale assets.

(v) Financial liabilities at amortized cost

Non-derivative financial liabilities (excluding financial guarantees) are recorded at the date of obligation at fair value and are subsequently measured at amortized cost using the effective interest method. The Company has classified accounts payable and accrued liabilities as other liabilities.

The Company has no financial instruments that give rise to other comprehensive income. Instruments are classified as current if they are assumed to be settled within one year, otherwise, they are classified as non-current. The Company will assess at each reporting period whether there is any objective evidence that a financial asset, other than those measured at fair value, is impaired. When assessing impairment, the carrying value of financial assets carried at amortized cost is compared to the present value of estimated future cash flows, discounted using the instrument's original effective interest rate. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in income or loss.

2. Significant Accounting Policies - continued

(o) Income taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

Current income tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax

Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred income tax liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred income tax assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

(p) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2. Significant Accounting Policies - continued

(p) Provisions - continued

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

3. Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the International Accounting Standards Board ("IASB"): The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

(a) IFRS 9, Financial Instruments

The Standard is effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted. The standard is the first part of a multi-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The Company has not early-adopted the standard and is currently assessing the impact it will have on the consolidated financial statements.

(b) IFRS 10, Consolidated Financial Statements

In 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. The guidance applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning January 1, 2013. Earlier application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

(c) IFRS 11, Joint Arrangements

In 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning January 1, 2013. Earlier application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

(d) IFRS 12, Disclosure of Interests in Other Entities

In 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning January 1, 2013. Earlier application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

(e) IFRS 13, Fair value measurement

In 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning January 1, 2013. Earlier application is permitted. The Company does not expect the standard to have a material impact on its consolidated financial statements.

3. Recent Accounting Pronouncements - continued

(f) IAS 1, Presentation of Items of Other Comprehensive Income

In 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are reclassed to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012. The amendments are to be applied effective July 1, 2012 and may be early adopted. The amendments are to be applied retroactively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. The Company is currently evaluating the impact of the amendments on its consolidated financial statements.

(g) IAS 27, Separate Financial Statements

The IASB issued amendments to IAS 27 Separate Financial Statements to coincide with the changes made in IFRS 10, but retains the current guidance for separate financial statements. The amendments to IAS 27 are effective for annual periods beginning on or after January 1, 2013. The standard does not impact the consolidated financial statements.

(h) IAS 28, Investments in Associates and Joint Ventures

The IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11.

(i) IFRS 7, Financial Instruments: Disclosures

In 2011, IASB issued amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosure requirements for the offsetting of financial assets and liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

(j) IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 is a new interpretation on the accounting for waste removal activities. The interpretation considers when and how to account separately for the benefits arising from a stripping activity, as well as how to measure such benefit. The interpretation generally requires that costs from a stripping activity which improve access to ore to be recognized as a non-current asset when certain criteria are met and should be accounted as an addition to the related asset. The Company does not expect the standard to impact its consolidated financial statements.

4. Property, Plant and Equipment

	Computer hardware	Office equipment
	$	$
Costs:		
Balance, January 1, 2010	-	-
Additions	4,864	-
Disposals	-	-
Balance, December 31, 2010	4,864	-
Additions	911	490
Disposals	-	-
Balance, December 31, 2011	5,775	490

4. Property, Plant and Equipment - continued

	Computer hardware	Office equipment
	$	$
Depreciation:		
Balance, January 1, 2010	-	-
Charge for the period	730	-
Eliminated on disposal	-	-
Balance, December 31, 2010	730	-
Charge for the period	1,309	49
Balance, December 31, 2011	2,039	49
Carrying amounts:		
January 1, 2010	-	-
December 31, 2010	4,134	-
December 31, 2011	3,736	441

5. Reclamation Deposits

	$
Balance, January 1, 2010	5,000
Write-down of reclamation deposit	(5,000)
Balance, December 31, 2011 and 2010	-

As at December 31, 2011, the Company had reclamation deposits with the Province of British Columbia totalling $Nil (December 31, 2010 - $Nil; January 1, 2010 - $5,000) with regard to the Rosswoll Property.

During the year ended December 31, 2007, the Company terminated the option on the Rosswoll Property. The Company determined that it will not carry out any reclamation work on the property and wrote-off reclamation deposit of $5,000 during the year ended December 31, 2010.

6. Exploration and Evaluation Assets

A summary of exploration expenditures of the year ended 30 December 2011 and the year ended 31 December 2010 are as follows:

	$
Balance, January 1, 2010	25,000
Exploration:	
Consulting and geological fees	982
Equipment and related costs	2,609
Wages and contract work	5,577
Property maintenance costs	1,000
	10,168
Balance, December 31, 2010 carried forward	35,168

6. Exploration and Evaluation Assets – continued

	$
Balance, December 31, 2010 brought forward	35,168
Exploration:	
Consulting and geological fees	47,444
Wages and contract work	3,388
Property maintenance costs	2,957
	53,789
Balance, December 31, 2011	88,957

The Company acquired a 100% interest in the AMI claims by staking and purchase by way of the issuance of 300,000 common shares of the Company valued at $75,000 and a cash payment of $77,030. The property is subject to a 1% NSR royalty.

7. Share Capital and Reserves

(a) Authorized

An unlimited number of common shares without par value.

(b) Issued share capital

On August 29, 2011, the Company consolidated its share capital on a 3 for 1 basis and the 14,390,739 outstanding common shares as at August 29, 2011 were reduced to 4,796,912 common shares. All share and per share information contained in these consolidated financial statements reflect the post-consolidated share numbers. As at December 31, 2011, there were 7,190,622 issued and fully paid common shares (December 31, 2010 - 4,171,912; January 1, 2010 – 2,957,500).

(c) Shares issuances

On November 8, 2011, the Company closed a non-brokered private placement of 2,293,750 units at a price of $0.16 per unit for gross proceeds of $367,000. Each unit consists of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of $0.25 per common share expiring November 8, 2013. The warrants are subject to an acceleration provision whereby if at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds $0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice. The Company incurred regulatory expenses of $4,246 with respect to the private placement.

During the year ended December 31, 2011, 8,333 common shares of the Company were issued upon the exercise of stock options at $0.33 per share for proceeds of $2,750. As a result of this exercise, $5,455 was transferred from stock options reserve for equity settled share based transactions to share capital.

During the year ended December 31, 2011, 616,667 common shares were issued for gross proceeds of $185,000 on the exercise of 616,667 warrants at $0.30 per share.

On March 5, 2010, the Company completed a non-brokered private placement of 1,142,222 units at a price of $0.90 per unit for gross proceeds of $1,028,000. Each unit consists of one common share and one-half of a common share purchase warrant. Each whole share purchase warrant entitles the holder to purchase an additional common share of the Company at a price of $1.50 per common share expiring March 5, 2012. The share purchase warrants are subject to an acceleration provision whereby if the trading price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds $2.25, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 days after the date of such notice.

7. Share Capital and Reserves - continued

(c) Shares issuances - continued

Share issue costs with respect to the private placement totaled $80,548, which included finders' fees of $55,965, 17,772 common shares at a fair value of $15,995 and regulatory expenses of $8,588. In addition, 8,886 finders' warrants were issued at a fair value of $6,666. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $1.50 per share expiring March 5, 2012.

The fair value of the finders' warrants of $6,666 has been charged to share issue costs with a corresponding increase to warrants reserve. The fair value of these finders' warrants was determined using the Black-Scholes option pricing model using the following weighted average assumptions: expected dividend yield - 0%; expected stock price volatility – 127.32%; risk free interest rate – 1.41%; expected life - 2 years. The weighted average fair value of the finders' warrants issued during the year ended December 31, 2010 was $0.75 per share.
During the year ended December 31, 2010, 54,418 common shares of the Company were issued upon the exercise of stock options at $0.33 per share for proceeds of $17,958. As a result of this exercise, $11,198 was transferred from stock options reserve for equity settled share based transactions to share capital.

(d) Warrants

The continuity of share purchase warrants issued and outstanding is as follows:

	Warrants	Weighted Average Exercise Price
	#	$
Balance, January 1, 2010	1,777,778	0.48
Private placement	579,997	1.50
Expired	(444,444)	0.99
Balance, December 31, 2010	1,913,331	0.66
Private placement	1,146,875	0.25
Exercised	(616,667)	0.30
Expired	(716,667)	0.30
Balance, December 31, 2011	1,726,872	0.67

Share purchase warrants outstanding at December 31, 2011 are as follows:

Warrants	Exercise Price	Expiry Date
#	$	
579,997	1.50	March 5, 2012
1,146,875	0.25	November 8, 2013

(e) Stock options

The Company has 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 and consultants, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Options granted under the plan have a term not to exceed 10 years and vesting periods that range from zero to 18 months.

7. Share Capital and Reserves - continued

(e) Stock options - continued

The continuity of stock options issued and outstanding is as follows:

	Options Outstanding	Weighted Average Exercise Price
	#	$
Balance, January 1, 2010	295,667	0.33
Granted	78,333	0.93
Exercised	(54,418)	0.33
Forfeited	(20,582)	0.33
Balance, December 31, 2010	299,000	0.43
Granted	214,000	0.21
Exercised	(8,333)	0.33
Forfeited	(33,333)	0.33
Balance, December 31, 2011	471,334	0.21

Stock options outstanding at December 31, 2011 are as follows:

Exercise Price	Options Outstanding	Expiry Date	Options Exercisable
$	#		#
0.21	117,333[1]	Sept. 26, 2013	117,333
0.21	86,667[1]	April 17, 2019	86,667
0.21	53,334[2]	June 14, 2020	53,334
0.21	214,000	October 5, 2016	53,500
	471,334		310,834

(1) On October 31, 2011, the exercise price of these stock options was amended from $0.33 to $0.21 per share.

(2) On October 31, 2011, the exercise price of these stock options was amended from $0.90 to $0.21 per share.

The Company uses the fair value method of accounting for all stock-based payments to directors, officers, employees and consultants providing similar service. During the year ended December 31, 2011, the Company recorded share-based compensation of $24,366 (2010 - $38,876) for stock options granted and vested during the year. As at December 31, 2011, the fair value of forfeited options of $17,178 was reclassified from reserves to deficit.

During the year ended December 31, 2011, the Company modified the terms of 257,335 stock options previously granted to certain directors, officers, employees and consultants of the Company. These options had original exercise prices between $0.33 and $0.90 per share with expiry dates between 2013 and 2020 and were re-priced to have an exercise price of $0.21 per share. All other terms of the stock options remain the same. The repricing of insiders' options is subject to the approval of disinterested shareholders and acceptance by the Exchange. The repricing of non-insider options resulted in the recognition of approximately $1,856 of additional share-based compensation during the year ended December 31, 2011.

7. Share Capital and Reserves - continued

(e) Stock options - continued

The fair values of the stock options granted were estimated on the respective grant dates using the Black-Scholes option pricing model, with the following weighted average assumptions:

	2011	2010
Risk free interest rate	0.96%	1.77%
Expected dividend yield	0%	0%
Expected stock price volatility	118%	114%
Expected life	3.17 years	3.38 years

The weighted average fair value of options granted during the year ended December 31, 2011 was $0.15 (2010 - $0.17) per option.

(f) Loss per share

Basic loss per share is computed by dividing net loss for the year, applicable to common shareholders, by the weighted average number of common shares outstanding for the year, including contingently issuable shares when the conditions necessary for the issuance have been met. Diluted loss per share is calculated in a similar number except that the weighted average number of common shares outstanding is increased to include potential common shares from the assumed exercise of options, warrants and convertible securities, if dilutive.

	2011	2010
	$	$
Loss per share - basic and diluted	0.08	0.08
Loss for the period	386,498	312,866
	#	#
Weighted average number of shares outstanding:		
Issued common shares, beginning of period	4,171,912	2,957,500
Options exercised	7,808	28,476
Warrants exercised	454,146	-
Private placement	339,349	959,776
Weighted average number of shares - basic and diluted	4,973,215	3,945,752

8. Related Party Balances and Transactions

(a) Related party transactions

The Company incurred the following transactions with a company that is controlled by an officer of the Company and with companies having directors in common:

	2011	2010
	$	$
Office, rent and administration	65,200	65,500
Legal fees	7,609	7,225
	72,809	72,725

8. Related Party Balances and Transactions – continued

(b) Compensation of key management personnel

	2011	2010
	$	$
Short-term benefits - management fees	64,800	73,800
Share-based compensation	18,845	28,832
	83,645	102,632

The Company's key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and consist of its Directors, Chief Executive Officer and Chief Financial Officer.

(c) Related party balances

The following related party amounts are included in *(i)* accounts payable and accrued liabilities and *(ii)* prepaid expenses and deposits:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Companies controlled by a director and officers of the company *(i)*	-	6,048	8,400
Company having directors in common *(ii)*	2,000	2,000	2,000

These transactions are in the normal course of operations and are measured at the fair value amount of consideration established and agreed to by the related parties. Any amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

9. Financial Instruments and Risk Management

(a) Fair value of financial instruments

The Company's financial instruments consist of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities. Cash and cash equivalents and amounts receivable are classified as loans and receivables and are carried at their amortized costs. Accounts payable and accrued liabilities are classified as other financial liabilities and are carried at their amortized cost.

The carrying value of the Company's financial assets and liabilities approximates their fair value due to the relatively short periods to maturity of these investments. Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. These estimates are subjective and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Financial instruments measured at fair value are classified into one of the three levels in the fair value hierarchy according to the relative reliability of the inputs used 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.

9. Financial Instruments and Risk Management – continued

(a) Fair value of financial instruments - continued

	Category	Carrying value	December 31, 2011 Amount	Fair value hierarchy
			$	
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	1,111,857	N/A
Amounts receivables	Loans and receivables	Amortized cost	15,664	N/A
			1,127,521	
Financial liabilities				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	15,214	N/A

	Category	Carrying value	December 31, 2010 Amount	Fair value hierarchy
			$	
Financial assets				
Cash and cash equivalents	Loans and receivables	Amortized cost	929,443	N/A
Amounts receivables	Loans and receivables	Amortized cost	13,791	N/A
			943,234	
Financial liabilities				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	24,255	N/A

(b) Financial instruments risk

The Company is exposed in varying degrees to a variety of financial instrument related to risks. The Board approves and monitors the risk management processes:

(i) Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term bank guaranteed investment certificates and amounts receivable. Cash and cash equivalents consisting of Guaranteed Investment Certificates (“GICs”) have been invested with Schedule 1 banks or equivalents, with its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The receivables consist primarily of GST/HST recoverable of $5,167 and interest receivable of $4,854.

9. Financial Instruments and Risk Management – continued

(b) Financial instruments risk - continued

(ii) Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at December 31, 2011, the Company had cash and cash equivalents of $1,111,857 to settle current liabilities of $15,214 which mainly consist of accounts payable that are considered short term and settled within 30 days. The Company has sufficient capital to meet its requirements for fiscal 2012.

(iii) Market risk

a) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's cash attract interest at floating rates and have maturities of 90 days or less. The Company's short-term investments are invested in GICs with greater than 90 day terms but not greater than one year. These GICs have a fixed interest rate for the term of the deposit. The interest on cash and GICs is typical of Canadian banking rates, which are low at present and the conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

b) Commodity Price Risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its mineral properties described in note 6 to these consolidated financial statements of which production is not expected in the near future.

10. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares or debt or sell assets to settle liabilities.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

The Company has no debt and is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the year ended December 31, 2011.

11. Transition to IFRS

The Company adopted IFRS on January 1, 2011, with the transition date of January 1, 2010, representing the Company's opening IFRS balance sheet. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with GAAP. The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the years ended December 31, 2011 and 2010 and in the preparation of the opening IFRS balance sheet as at January 1, 2010.

The Company applied IFRS 1, *First-time Adoption of IFRS*, in preparing these first IFRS consolidated financial statements. In preparing the opening IFRS statement of financial position, the Company adjusted amounts previously reported in the consolidated financial statements prepared in accordance with GAAP. This note explains the principal adjustments made by the Company in restating its GAAP balance sheet as at January 1, 2010 and its previously published GAAP consolidated financial statements for the year ended December 31, 2010.

Elected exemptions from full retrospective application:

IFRS generally requires first-time adopters to retrospectively apply all IFRS standards and interpretations currently in effect. However, IFRS 1 provides certain exceptions and exemptions to this general principle. On adoption of IFRS 1, the Company elected to apply the following transition exemptions to full retrospective application of IFRS:

(a) IFRS 3 - Business Combinations

IFRS 1 allows a first-time adopter to elect not to apply IFRS 3, Business Combinations, retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken this election and has not applied IFRS 3 to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred prior to January 1, 2010.

(b) IFRS 2 - Share-based Payments

IFRS 1 provides an exemption that allows first-time adopters to not apply standards for share-based payments under IFRS for equity instruments that were granted prior to November 7, 2002 and to equity instruments that were granted after November 7, 2002 that have vested prior to transition to IFRS. The Company has elected to utilize this exemption and did not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with GAAP.

Mandatory exception to retrospective application:

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated January 1, 2010:

(a) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as at January 1, 2010 are consistent with its previous estimates under GAAP for the same date.

11. Transition to IFRS - continued

Reconciliation between GAAP and IFRS:

IFRS 1 requires reconciliation disclosures that explain how the transition from GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous GAAP for the year ended December 31, 2010. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position, equity, statement of loss and comprehensive loss is set out in the following notes and accompanying tables:

(a) Reserves

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

(b) Share-based payments

Under GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple on the grant date. Forfeitures of awards were recognized as they occurred.

Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. Accordingly, upon transition to IFRS, the Company recorded a fair value adjustment of $4,095 as at January 1, 2010 to increase reserves with a corresponding increase in deficit. In addition to the January 1, 2010 adjustment, the IFRS adjustment subsequent to transition decreased reserves and loss by $650 for the year ended December 31, 2010.

(c) Forfeited or expired options and warrants

Under GAAP, the Company's policy was to leave the value recorded for forfeited or expired unexercised stock options and warrants in contributed surplus.

On transition to IFRS, the Company elected to change its accounting policy for the treatment of forfeited or expired unexercised options and warrants whereby amounts recorded for forfeited or expired unexercised stock options and warrants are transferred to deficit or share capital, respectively.

Accordingly, upon conversion to IFRS, the value assigned to forfeited options of $224,951 has been reclassified from reserves to deficit as at January 1, 2010 and the value assigned for forfeited options of $2,977 has been reclassified from reserves to deficit as at December 31, 2010.

11. Transition to IFRS - continued

Reconciliation of the Statements of Financial Position:

		As at January 1, 2010			As at December 31, 2010		
	Notes	GAAP	Effect of Transition to IFRS	**IFRS**	GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Assets							
Current:							
Cash		19,915	-	**19,915**	29,443	-	**29,443**
Short-term investments		275,000	-	**275,000**	900,000	-	**900,000**
Accounts receivable		4,513	-	**4,513**	13,791	-	**13,791**
Prepaid expenses and deposits		2,000	-	**2,000**	58,932	-	**58,932**
		301,428	-	**301,428**	1,002,166	-	**1,002,166**
Reclamation deposits		5,000	-	**5,000**	-	-	**-**
Exploration and evaluation assets		25,000	-	**25,000**	35,168	-	**35,168**
Property, plant and equipment		-	-	**-**	4,134	-	**4,134**
		30,000	-	**30,000**	39,302	-	**39,302**
		331,428	-	**331,428**	1,041,468	-	**1,041,468**
Liabilities							
Current:							
Accounts payable and accrued liabilities		21,630	-	**21,630**	24,255	-	**24,255**
Shareholders' equity							
Share capital		2,633,874	-	**2,633,874**	3,619,811	-	**3,619,811**
Reserves:							
Stock options	(a)(b)	-	87,007	**87,007**	-	111,708	**111,708**
Warrants	(a)(b)	-	-	**-**	-	6,666	**6,666**
Contributed surplus	(a)(b)(c)	307,863	(307,863)	**-**	342,857	(342,857)	**-**
Deficit	(b)(c)	(2,631,939)	220,856	**(2,411,083)**	(2,945,455)	224,483	**(2,720,972)**
		309,798	-	**309,798**	1,017,213	-	**1,017,213**
		331,428	-	**331,428**	1,041,468	-	**1,041,468**

11. Transition to IFRS - continued

The transition from GAAP to IFRS did not have a significant impact on the Company's previously reported consolidated statements of loss and comprehensive loss and consolidated statement of cash flows for the year ended December 31, 2010. As a result, no quantitative reconciliation was performed.

12. Subsequent Events

Subsequent to December 31, 2011, the Company completed a non-brokered private placement of 100,000 units at a price of $0.17 per unit for gross proceeds of $17,000. Each unit consists of one common share and one-half of one transferable common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of $0.25 per common share for a period of two years expiring January 3, 2014. The warrants are subject to an acceleration provision whereby If at any time from four months and one day after the closing of the financing, the closing price of the Company's common shares on the Exchange over a period of 10 consecutive trading days exceeds $0.35, the Company may, at its option, provide notice to the warrant holders that the warrants will expire on the date which is 30 calendar days after the date of such notice.

Subsequent to December 31, 2011, the Company granted 185,000 stock options to certain directors, officers, employees and consultants of the Company. Each option is at a price of $0.245 and exercisable until January 5, 2017.

13. Income taxes

The income tax provision differs from income taxes, which would result from applying the expected tax rate to net loss before income taxes. The difference between the "expected" income tax expense and the actual income tax provision are summarized as follow:

		2011		2010
Income (loss) before income taxes	$	(386,498)	$	(312,866)
Canadian statutory income tax rate		26.50%		28.50%
Computed "expected" income tax expense		(102,422)		(89,167)
Differences resulting from:				
Expiry of loss-carry forwards		-		36,906
Share-based payments		6,949		-
Tax effect of share issuance costs		(1,062)		(18,471)
Change in enacted rate and other		5,245		9,353
Non-deductible items		2,805		13,010
Change in prior year estimates		1,866		50,574
Increase in deferred tax assets not recognized		86,619		(2,205)
Provision for income taxes	$	-	$	-

13. Income taxes - continued

The tax effects of deductible and taxable temporary differences that give rise to the Company's deferred tax assets are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred income tax assets			
Non-capital loss carry forwards	**$ 384,431**	$ 293,526	$ 312,124
Share issue costs	**11,007**	15,633	-
Exploration and evaluation assets	**314,544**	314,544	311,200
Property and equipment	**8,056**	7,716	10,300
Deferred income tax asset not recognized	**718,038**	631,419	633,624

The Company has non-capital loss carry forwards which expire as follows:

2014	$ 145,882
2015	159,744
2026	126,327
2027	45,664
2028	199,093
2029	214,600
2030	282,792
2031	363,624
Total	$ 1,537,726

14. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period. Short term investments of $750,000 (2010-$900,000) were reclassified to cash and cash equivalents as the nature of these investments comply with the accounting policy.