NEWTON GOLD CORP.

(formerly New High Ridge Resources Inc.)

CONDENSED INTERIM FINANCIAL STATEMENTS

For The Nine Months Ended September 30, 2011

(Unaudited Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim financial statements; they must be accompanied by a notice indicating that the condensed financial statements have not been reviewed by an auditor. The Company's independent auditor has not performed a review of these condensed financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditor.

NEWTON GOLD CORP.
(formerly New High Ridge Resources Inc.)

Condensed Interim Financial Statements
For The Nine Months Ended September 30, 2011

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FINANCIAL STATEMENTS

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

As at		**September 30, 2011**		December 31, 2010 (Note 13)
ASSETS				
Current assets				
Cash and cash equivalents		**10,033**		2,935
Accounts receivable		**19,475**		4,693
Exploration advance to joint venture partner (Note 4)		**456,834**		-
Prepaid expenses		**7,015**		2,500
		493,357		10,128
Non-current assets				
Exploration and evaluation assets (Note 4)	**$**	**940,163**	$	45,536
TOTAL ASSETS	**$**	**1,433,520**	$	55,664
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**123,708**	$	135,259
Other liabilities (Note 9)		**178,924**		-
		302,632		135,259
SHAREHOLDERS' EQUITY (DEFICIT)				
Share capital (Note 5)		**10,359,841**		8,991,059
Reserves		**343,571**		139,850
Deficit		**(9,572,524)**		(9,210,504)
		1,130,888		(79,595)
TOTAL EQUITY (DEFICIT) AND LIABILITIES	**$**	**1,433,520**	$	55,664

These condensed interim financial statements were authorized for issue by the board of directors on November 28, 2011. They are signed on the Company's behalf by:

"Mark McLeary"

Mark McLeary
Director

"Ian Foreman"

Ian Foreman
Director

Newton Gold Corp.

(formerly New High Ridge Resources Inc.)

Condensed Interim Statements of Comprehensive Loss (Unaudited)

(Expressed in Canadian Dollars)

	For the three months ended		For the nine months ended	
	September 30, 2011	September 30, 2010 (Note 13)	**September 30, 2011**	September 30, 2010 (Note 13)
EXPENSES				
Accounting and audit	**$ 10,754**	5,865	**$ 34,370**	$ 30,930
Consulting and management	**32,969**	12,858	**96,969**	72,983
Directors' fees (Note 7(b))	**-**	-	**7,015**	-
Insurance	**2,250**	4,623	**7,750**	9,563
Investor communication	**9,644**	1,169	**46,991**	1,169
Legal	**61,610**	32,037	**92,839**	61,424
Office and sundry	**2,999**	4,630	**19,481**	5,095
Regulatory and transfer agent fees	**4,638**	4,424	**18,741**	20,694
Salaries and benefits	**-**	-	**-**	33,932
Share-based compensation (Note 5(d))	**-**	-	**236,401**	133,482
Travel and business development	**1,027**	-	**2,281**	2,326
	125,891	65,606	**562,838**	371,598
OTHER EXPENSES (INCOME)				
Deferred income tax recovery (Note 4)	**-**	-	**-**	-
Foreign exchange loss	**-**	470	**-**	470
Mining exploration tax credit disallowed	**-**	-	**11,817**	-
Proposed transaction costs	**-**	112,456	**-**	112,456
Recovery on settlement of accounts payable	**-**	(2,109)	**-**	(13,753)
Recovery of reclamation deposit	**-**	-	**-**	(20,000)
	-	110,817	**11,817**	79,173
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	**125,891**	176,423	**$ 574,655**	$ 450,771
Basic and diluted loss per common share (Note 6)	**$ 0.01**	$ 0.01	**$ 0.03**	$ 0.03
Weighted average number of common shares outstanding - basic and diluted (note 6)	**23,504,214**	15,444,268	**21,074,872**	13,215,697

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

Newton Gold Corp.
(formerly New High Ridge Resources Inc.)
Condensed Interim Statement of Changes in Equity (Deficit) (Unaudited)
(Expressed in Canadian Dollars)

			Reserves				
	Number Of Common Shares	**Share capital**	**Equity settled share-based payment**	**Reserve for warrants**	**Total**	**Deficit**	**Total Shareholders' Equity (Deficit)**
Balance, December 31, 2010 (note 13)	15,444,268	8,991,059	139,850	-	139,850	(9,210,504)	(79,595)
Net loss for the period	-	-	-	-	-	(549,579)	(549,579)
Private placement - non-flow through shares (note 5(b))	5,525,000	744,500	-	10,500	10,500	-	755,000
Private placement - flow through shares (note 5(b))	4,080,000	734,400	-	81,600	81,600	-	816,000
Share issuance costs, cash	-	(91,089)	-	-	-	-	(91,089)
Share issuance costs; agent options (note 5(e))	-	(25,600)	25,600	-	25,600	-	-
Share issuance costs; agent warrants	-	(37,179)	-	37,179	37,179	-	-
Shares issued on exercise of warrants	175,000	43,750	-	-	-	-	43,750
Fair value of cancelled options	-	-	(187,559)	-	(187,559)	187,559	-
Share-based compensation	-	-	236,401	-	236,401	-	236,401
Balance, September 30, 2011	**25,224,268**	**$ 10,359,841**	**$ 214,292**	**$ 129,279**	**$ 343,571**	**$ (9,572,524)**	**$ 1,130,888**

Balance, January 1, 2010 (note 13)	10,244,268	$ 8,391,614	$ 44,661	$ -	$ 44,661	$ (8,710,419)	$ (274,144)
Net loss for the period	-	-	-	-	-	(450,771)	(450,771)
Shares issued for cash	5,000,000	650,000	-	-	-	-	650,000
Shares issued for finder fees	200,000	26,000	-	-	-	-	26,000
Share issuance costs, cash	-	(50,555)	-	-	-	-	(50,555)
Share issuance costs, agent warrants	-	(26,000)	-	-	-	-	(26,000)
Fair value of cancelled options	-	-	(23,172)		(23,172)	23,172	-
Share-based compensation	-	-	133,482	-	133,482	-	133,482
Balance, September 30, 2010	15,444,268	$ 8,991,059	$ 154,971	$ -	$ 154,971	$ (9,138,018)	$ 8,012

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

Newton Gold Corp.
(formerly New High Ridge Resources Inc.)
Condensed Interim Statements of Cash Flows (unaudited)
(Expressed in Canadian Dollars)

	For the nine months ended **September 30, 2011**	September 30, 2010 (Note 13)
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the period	**$ (549,579)**	$ (450,771)
Items not (providing) requiring cash:		
Deferred income tax recovery	**(25,076)**	-
Share-based compensation	**236,401**	133,482
Recovery on settlement of accounts payable	**-**	(11,644)
	(338,254)	(328,933)
Net change in non-cash working capital items:		
Accounts receivable	**(14,782)**	(5,766)
Exploration advance to joint venture partner	**(456,834)**	-
Prepaid expenses	**(4,515)**	-
Accounts payable and accrued liabilities	**(11,551)**	(243,094)
CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	**(825,936)**	(577,793)
FINANCING ACTIVITIES		
Issuance of common shares for cash, net of share issue costs	**1,683,911**	599,445
Exercise of warrants	**43,750**	-
CASH PROVIDED BY FINANCING ACTIVITIES	**1,727,661**	599,445
INVESTING ACTIVITIES		
Expenditure on exploration and evaluation assets	**(894,627)**	(30,037)
Cost recoveries on exploration and evaluation assets	**-**	9,501
CASH USED FOR INVESTING ACTIVITIES	**(894,627)**	(20,536)
INCREASE IN CASH	**7,098**	1,116
CASH, BEGINNING OF PERIOD	**2,935**	27,462
CASH, END OF THE PERIOD	**$ 10,033**	$ 28,578

Supplemental disclosure with respect to cash flows (note 8)

1. NATURE OF OPERATIONS AND GOING CONCERN

Newton Gold Corp. (the "Company") was incorporated on June 24, 2004 pursuant to the Business Corporations Act (British Columbia) and is listed on the TSX Venture Exchange ("TSX-V"). The Company's primary business is the acquisition and exploration of mineral properties. The Company is considered to be in the exploration stage. On February 9, 2011, the name of the Company was changed from New High Ridge Resources Inc. to Newton Gold Corp. The Company's corporate office is located at Suite 400, 409 Granville Street, Vancouver, British Columbia V6C 1T2.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. The Company has not yet determined whether its mineral interests contain economically recoverable resources. The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves. As at September 30, 2011 the Company had a net working capital of $190,725 (December 31, 2010 – deficiency of $125,131) and an accumulated deficit of $9,572,524 (December 31, 2010 - $9,210,504).

The Company does not generate cash flow from operations to fund its exploration activities, and has therefore relied upon the issuance of securities for financing. The Company intends to continue relying upon the issuance of securities to finance its operations and exploration activities to the extent such instruments are issuable under terms acceptable to the Company. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities and the balance sheet classifications used. These financial statements do not include any adjustments relating to the recovery of assets and classification of assets and liabilities that may arise should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

(a) Statement of compliance and conversion to International Financial Reporting Standards

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Condensed Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards (IFRS).

These are the Company's third IFRS condensed interim financial statements for part of the period covered by the Company's first IFRS annual financial statements for the year ending December 31, 2011. Previously, the Company prepared its annual and condensed interim financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting policies previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 13 contains reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the statements of financial position as at January 1, 2010, September 30, 2010 and December 31, 2010, the statements of comprehensive loss and the statements of cash flows for the nine months ended September 30, 2010.

2. BASIS OF PREPARATION (continued)

(b) Basis of preparation

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit and loss, which are measured at fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These condensed interim financial statements do not include all of the information required for full annual financial statements.

As these condensed interim financial statements are for part of the period covered by the Company's first IFRS annual financial statements, the Company's disclosures exceed the minimum requirements under IAS 34. The Company has elected to exceed the minimum requirements in order to present the Company's accounting policies in accordance with IFRS and some additional disclosures required under IFRS, which also highlight the changes from the Company's 2010 annual financial statements prepared in accordance with Canadian GAAP. In 2012 and beyond, the Company may not provide the same amount of disclosure in the Company's condensed interim financial statements under IFRS as the reader will be able to rely on the annual financial statements, which will be prepared in accordance with IFRS.

These condensed interim financial statements, including comparatives, have been prepared using accounting policies consistent with IFRS as is expected to be effective on December 31, 2011, the Company's first IFRS annual reporting date.

The standards that will be effective or available for voluntary early adoptions in the annual financial statements for the year ending December 31, 2011 are subject to change and may be affected by additional interpretation(s). Accordingly, the accounting policies for the annual period that are relevant to these condensed interim financial statements will be determined only when the first IFRS financial statements are prepared for the year ending December 31, 2011.

The preparation of these condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under GAAP. The accounting policies set out below have been applied consistently to all periods presented in these condensed interim financial statements. They have also been applied in preparing an opening IFRS statement of financial position at January 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards* (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 13.

(c) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian dollar.

(d) Significant accounting judgments and estimates

The preparation of the condensed interim financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. The preparation of the condensed interim financial statements also requires management to exercise judgment in the process of applying the accounting policies.

<u>Critical accounting estimates</u>

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

2. BASIS OF PREPARATION (continued)

(d) Significant accounting judgments and estimates (continued)

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the nine months ended September 30, 2011 (September 30, 2010 – $nil).

Useful life of property, plant and equipment

Property, plant and equipment is depreciated over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year and the carrying value of property, plant and equipment. Total carrying value of property, plant and equipment at September 30, 2011 was $nil (March 31, 2011 - $nil).

Share-based compensation

Management is required to make certain estimates when determining the fair value of share options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's condensed interim statement of comprehensive loss. For the nine months ended September 30, 2011 the Company recognized $236,401 share-based compensation expense (September 30, 2010 - $133,482).

<u>Critical judgments used in applying accounting policies</u>

In the preparation of these condensed interim financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the condensed interim financial statements.

Exploration and evaluation assets

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its exploration and evaluation assets. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from exploration and evaluation assets and subject to different accounting treatment. As at September 30, 2011 and December 31, 2010 management had determined that no reclassification of mineral properties was required.

Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only become final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the condensed interim financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss (FVTPL) - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement. Cash is classified as FVTPL financial assets.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Accounts receivable and exploration advance to joint venture partner are classified as loans and receivables.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the income statement. At September 30, 2011, the Company has no held-to-maturity investments.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for- sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statement of loss. At September 30, 2011, the Company has no available-for-sale assets.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was incurred. The Company's accounting policy for each category is as follows:

Fair value through profit or loss (FVTPL) - This category comprises derivatives, or financial liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the income statement. At September 30, 2011, the Company has no FVTPL liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

Financial liabilities (continued)

Other financial liabilities: This category includes accounts payables and accrued liabilities, and liability on flow-through share premium, all of which are recognized at amortized cost.

(b) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

For the purpose of the condensed statement of cash flows for the nine months ended September 30, 2011 and 2010, cash and cash equivalents consist of cash and cash equivalents as defined above.

(c) Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all proceeds received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling.

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. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves.

The aggregate costs related to abandoned mineral claims are charged to comprehensive loss at the time of any abandonment, or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to an exploration and evaluation assets is subsequently reversed if new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount, but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

If the Company recognizes in comprehensive income costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount, then the Company recognizes this as a gain on sale of mineral rights.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditures are not expected to be recovered, they will be charged to the statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

(e) Foreign currency translation

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency gains and losses are reported on a net basis.

(f) Share Capital

Common shares
Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Equity Units
Proceeds received on the issuance of units, comprised of common shares and warrants, are allocated on the residual value method; proceeds are allocated to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the reserve for warrants.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Share Capital (continued)

Flow-through Shares

The Company will from time to time, issue flow-through common shares to finance its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax benefit of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) share capital, equal to the market value of the shares, ii) a flow-through share premium liability, equal to the estimated premium, if any, investors pay for the flow-through feature, and iii) reserve for warrants, equal to the remaining proceeds received.

When qualifying expenses are incurred, the Company recognizes a deferred tax liability and deferred tax expense for the value of the tax benefit renounced to the shareholders. The Company also derecognizes the liability on flow-through share premium, as a reduction of deferred tax expense.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian exploration expenses (as defined in the Tax Act). The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as unspent commitment / other liability (liability on flow-through share premium).

(g) Share-based payment

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Where the share options are awarded to employees, the fair value is measured at grant date, and each tranche is recognized on the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Where share options are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

All share-based payments are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

(h) Income taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income or loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Income taxes (continued)

Deferred tax is provided using the balance sheet liability method, providing for unused tax loss carry forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(i) Rehabilitation Provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight-line method. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

(j) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) New accounting standards and interpretations not yet adopted

The following accounting pronouncements have been released but have not yet been adopted by the Company.

IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

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. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's financial statements.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company's financial statements.

Other

In June 2011, the IASB issued amendments to IFRS 7 Financial Instruments: Disclosures. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 19 Employee Benefits. The Company does not believe the changes resulting from these amendments are relevant to its financial statements.

(Expressed in Canadian Dollars)

4. EXPLORATION AND EVALUATION ASSETS

The Company had accumulated the following acquisition and exploration expenditures:

	Chuchi	Newton Hill	Total
ACQUISITION COSTS			
Balance, January 1, 2010	$ 20,000	$ 5,000	$ 25,000
Acquisition costs	1,261	-	1,261
Balance, December 31, 2010	21,261	5,000	26,261
Acquisition costs	20,000	679,050	699,050
Balance, September 30, 2011	**41,261**	**684,050**	**725,311**
EXPLORATION EXPENDITURES			
Balance, January 1, 2010	$ -	$ -	$ -
Assessment fees	27,876	-	27,876
Geological	900	-	900
Cost recoveries	(9,501)	-	(9,501)
Balance, December 31, 2010	19,275	-	19,275
Assessment, property, permit fees	-	1,701	1,701
Drilling	-	16,671	16,671
Samples, analysis, review	-	7,682	7,682
Wages geological and site	-	35,748	35,748
Enviromental	-	2,718	2,718
Archeology	-	-	-
Site services and supplies	60,000	8,753	68,753
Boarding, lodging and travel	-	4,270	4,270
Socio-economic/native liason	-	1,976	1,976
Office and administration	6,086	24,812	30,898
Consulting	25,160	-	25,160
Geological	-	-	-
Cost recoveries	-	-	-
Balance, September 30, 2011	**110,521**	**104,331**	**214,852**
TOTAL, September 30, 2011	**$ 151,782**	**$ 788,381**	**$ 940,163**

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Chuchi Property

The Company owns a 100% interest in certain mineral claims located in the Omineca Mining Division of British Columbia, referred to as the Chuchi Property. The property is subject to a 3% net smelter return royalty ("NSR"). The Company is required to pay annual advance royalties of $20,000.

The NSR can be reduced to 1% by paying $2,000,000 to the optionors. The Company is required to issue an additional 50,000 common shares upon the commencement of commercial production.

In December 2008 the Company wrote down the recorded cost of the property to $Nil. As at September 30, 2011, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

Newton Hill Property

The Company holds a 20% interest in certain mineral claims located in the Clinton Mining Division of British Columbia, referred to as the Newton Hill Property. Certain claims within the property are subject to a 2% NSR. The NSR can be purchased at any time by the Company for $2,000,000. Under the agreement with Amarc Resources Ltd. ("Amarc") outlined below, Amarc can cause the Company to exercise its option to purchase the NSR and the Company will be required to pay its proportionate share of the purchase price, namely $400,000 to retain its 20% residual interest in the royalty.

On December 31, 2008 the Company wrote down the recorded cost of the property to $Nil. As at September 30, 2011, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

On August 12, 2009, the Company entered into an agreement with Amarc, by which Amarc was granted an option to acquire an 80% interest in the Newton property. Under the terms of the agreement Amarc paid $60,000 to the underlying Newton Hill property owners and agreed to expend a total of $4,940,000 on the property in exploration expenditures over seven years.

Amarc earned an 80% interest in the Newton property and outlying area of interest under the option agreement by funding $5,000,000 in exploration activities. On May 16, 2011 the Company and Amarc entered into a Joint Venture Agreement to further explore the Newton property.

Amarc has agreed to make advanced royalty payments on behalf of the Company, to the original optionor of the property, of $25,000 annually, commencing January 1, 2011. Additionally, the Company issued 25,000 common shares to Amarc at a value of $5,000, as consideration for Amarc agreeing to issue 100,000 shares in the capital of Amarc to the underlying Newton Hill property owners. The option agreement between the Company and Amarc also includes an outlying area of interest.

During the nine months ended September 30, 2011, the Company incurred $679,050 acquisition costs on Newton Hill Property. As at September 30, 2011, the Company has advanced $561,165 (September, 2010 – $nil) to Amarc Resources Ltd., of which $104,331 was utilized for exploration expenditure and $456,834 remained as an advance.

Eligible exploration expenditure

During the nine months ended September 30, 2011, the Company incurred $125,380 (September 30, 2010 – $nil) of flow-through expenditures (funds raised during 2011) and recognized $25,076 deferred income tax recovery as settlement of flow-through share liability on incurring expenditures (note 9).

5. SHARE CAPITAL

(a) Authorized Share Capital

At September 30, 2011, the authorized share capital comprised an unlimited number of common shares. The common shares do not have a par value. All issued shares are fully paid.

(b) Issued

Effective January 1, 2010, the issued and outstanding share capital of the Company was consolidated on a four old, one new basis. All references to share capital, options and warrants are on a post-consolidated basis.

On April 27, 2010 the Company issued 5,000,000 units at a price of $0.13 per unit pursuant to a private placement for gross proceeds of $650,000. Each unit consists of one common share and one share purchase warrant entitling the holder to purchase one additional common share for each warrant held up to April 27, 2011, at a price of $0.20 per share for the first six months and at $0.25 per share for the subsequent six months. The Company incurred cash share issuance costs of $50,555, comprising of finders' fees of $39,058 and legal and regulatory fees of $11,497 and incurred non-cash share issue costs of $26,000 with respect to 200,000 common shares issued to the finder in connection with the offering.

On January 28, 2011, the Company closed a non-brokered private placement of 5,000,000 units at $0.13 per unit. Each unit consists of one common share and one warrant of the Company. Each warrant is exercisable to purchase one common share of the Company until January 28, 2013 at $0.20 per share for the first year and at $0.30 during the second year. As the issue price of each unit was less than the market price of the Company's shares on the day of issue, the full issue price was allocated to share capital. Share issue costs of $61,187 were incurred, which included $36,528 attributable to 163,760 agent warrants issued with an exercise price of $0.20 per share for a period of two years. The fair value of the agent warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.69%; expected life of 2 years; volatility of 150.72%; dividend rate of 0%; and share price on January 28, 2011 of $0.30.

On July 7, 2011, the Company announced the commencement of a non-brokered private placement offering of up to 8,500,000 units consisting of 6,000,000 flow-through units at a price of $0.25 per flow-through unit and 2,500,000 non-flow-through units at a price of $0.20 per non-flow-through unit for gross proceeds of $2,000,000. Each flow-through unit consists of one previously unissued common "flow-through share" and one non-flow-through share purchase warrant of the issuer. Each warrant will entitle the holder, on exercise, to purchase one additional common share of the Company for a period of two years from the date of issue of the warrant. The warrants will be exercisable at a price of $0.40 per share for the first year and at a price of $0.50 per share for the second year. The Company is concurrently offering units consisting of one previously unissued common share and one share purchase warrant of the Company. Each Warrant will entitle the holder, on exercise, to purchase one additional common share of the Company for a period of 2 years from the date of issue of the warrant. The warrants will be exercisable at a price of $0.30 per share for the first year and $0.40 per share for the second year.

On July 21, 2011, the Company closed the first tranche of the private placement announced July 7, 2011 and issued 3,200,000 flow-through units at $0.25 per unit, for gross proceeds of $800,000. $576,000 of the proceeds was allocated to share capital, $160,000 was recognized as a flow-through-share-premium liability (note 9), and $64,000 was allocated to the reserve for warrants.

5. SHARE CAPITAL (continued)

(b) Issued (continued)

Share issue costs of $89,600 were incurred in respect of the private placement, which included $25,600 attributable to 256,000 agent options issued, with an exercise price of $0.25 per unit, exercisable for a period of two years. Each agent option is exercisable for one non-flow through share and one non-flow-through share purchase warrant. The warrants will be exercisable for a period of two years at a price of $0.30 per share for the first year, and $0.40 per share for the second year in issue. The fair value of the agent options was estimated using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.56%; expected life of 2 years; volatility of 150.46%; dividend rate of 0%; and purchase price of a non-flow unit of $0.20.

On September 9, 2011, the Company closed the second tranche of the private placement and issued 880,000 flow-through units at $0.25 per unit and 525,000 non-flow-through units at $0.20 per unit, for gross proceeds of $220,000 and $105,000 respectively. Gross proceeds received for flow-through units was allocated as follows: Share capital-$158,400; flow-through-share-premium liability-$44,000 (note 9) and reserve for warrants-$17,600. Gross proceeds received for non-flow-through units was allocated as follows: Share capital-$94,500 and reserve for warrants-$10,500.

Share issue costs of $2,452 were incurred, which included $652 attributable to 8,400 agent warrants issued. The terms of each agent's warrant are the same as those of the financing. The fair value of the agent warrants was estimated using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.405%; expected life of 2 years; volatility of 107.68%; dividend rate of 0%; and share price on September 8, 2011 and September 9, 2011 of $0.20.

On November 18, 2011, the Company closed the third tranche of the private placement and issued 473,600 flow-through units at $0.25 per unit and 1,265,000 non-flow-through units at $0.20 per unit, for gross proceeds of $371,400. The Company paid $20,112 in finder's fees to and issued 84,688 finder's warrants on a portion of the amount included in the third tranche. The terms of each finder's warrant are the same as those of the financing (note 14).

On November 25, 2011, the Company completed the fourth and final tranche of the private placement and issued 240,000 flow-through units and 500,000 non-flow-through units, receiving gross proceeds of $160,000 which will be applied to qualifying exploration expenses and general working capital. No finder's fees were paid during the fourth tranche.

Since July 2011, the Company raised a total of $1,656,400 in gross proceeds and issued a total of 4,793,600 flow-through units and 2,290,000 non-flow-through units. A total of $86,112 in finder's fees and 291,488 finder's warrants have been issued to certain persons and institutions, who assisted in the placement of subscribers to the offering.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(c) Warrants

A continuity schedule of outstanding warrants for the nine months ended September 30, 2011 and year ended December 31, 2010 is as follows:

	Number Outstanding	Weighted Average Exercise Price
Balance at January 1, 2010	3,142,225	$ 0.95
Issued	5,000,000	0.25
Expired	(1,892,225)	1.32
Balance at December 31, 2010	6,250,000	0.28
Granted	9,777,160	0.29
Exercised	(175,000)	0.25
Expired	(6,075,000)	0.28
Balance at September 30, 2011	9,777,160	$ 0.29

At September 30, 2011 and December 31, 2011, the Company has the following warrants outstanding:

	September 30, 2011			December 31, 2010		
Expiry date	Warrants Outstanding	Exercise price	Remaining contractual life (in years)	Warrants Outstanding	Exercise price	Remaining contractual life (in years)
April 24, 2011	-	$ -	-	1,250,000	$ 0.40	0.31
April 27, 2011[1]	-	$ -	-	5,000,000	$ 0.25	0.32
January 28, 2013[2]	5,163,760	$ 0.20	1.33	-	$ -	-
July 21, 2013[3]	3,200,000	$ 0.40	1.81	-	$ -	-
September 8, 2013[4]	886,720	$ 0.40	1.94	-	$ -	-
September 8, 2013[5]	26,680	$ 0.30	1.94	-	$ -	-
September 9, 2013[6]	500,000	$ 0.30	1.95	-	$ -	-
	9,777,160			6,250,000		

[1] Warrant exercise price was $0.20 for first six months then $0.25 for remainder of term

[2] Warrants exercise price is $0.20 until January 28, 2012, and at $0.30 from then until January 28, 2013.

[3] Warrants exercise price is $0.40 until July 21, 2012, and at $0.50 from then until July 21, 2013.

[4] Warrants exercise price is $0.40 until September 8, 2012, and at $0.50 from then until September 8, 2013.

[5] Warrants exercise price is $0.30 until September 8, 2012, and at $0.40 from then until September 8, 2013.

[6] Warrants exercise price is $0.30 until September 9, 2012, and at $0.40 from then until September 9, 2013.

(d) Employee share options

Employees Share Purchase Option Compensation Plan

On June 30, 2011, the Company approved 2011 Incentive Share Option Plan. Under this plan, the Company may grant options to directors, officers, employees and consultants, Consultant Company or Management Company Employee of the Company, provided that the maximum number of options that are outstanding at any time shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors. The Company is in compliance with the applicable provisions of any federal, provincial or local law relating the withholding of tax or other required deductions relating to the exercise of the options.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(d) Employee share options (continued)

The 2010 Incentive Share Option Plan, permits the Company to grant options to directors, officers, employees and consultants, provided that the maximum number of options that are outstanding at any time shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of grant less applicable discount. The options may be granted for a maximum of five years and vesting is determined by the Board of Directors.

During the nine months ended September 30, 2011, the Company granted stock options to directors and officers to purchase 1,340,000 (year ended December 31, 2010 – 905,000) common shares under the 2010 Incentive Share Option Plan.

The continuity of employees share purchase options is as follows:

	Number Outstanding		Weighted Average Exercise Price
Balance at January 1, 2010	173,750	$	1.35
Granted	1,050,000	$	0.18
Cancelled/Expired	(563,750)	$	0.54
Balance at December 31, 2010	660,000	$	0.17
Granted	1,340,000	$	0.23
Cancelled/Expired	(1,050,000)	$	0.22
Balance at September 30, 2011	**950,000**	**$**	**0.19**

At September 30, 2011 and December 31, 2011, the Company has the following options outstanding:

	September 30, 2011				December 31, 2010			
Expiry date	Options Outstanding and exercisable		Exercise Price	Remaining contractual life (in years)	Options Outstanding and exercisable		Exercise Price	Remaining contractual life (in years)
January 20, 2015	-	$	0.18	3.31	515,000	$	0.18	4.06
November 17, 2015	10,000	$	0.15	4.13	145,000	$	0.15	4.88
January 4, 2016	800,000	$	0.18	4.27	-	$	-	-
January 28, 2016	140,000	$	0.30	4.33	-	$	-	-
	950,000				660,000			

<u>*Share based compensation*</u>

The fair value of share based compensation is measured at the date of grant and recognized over the vesting period. The fair value of stock options granted to directors, employees, and consultants during the nine months ended September 30, 2011 was $236,401 (September 30, 2010 – $133,482) which has been expensed as share based compensation in the Company's condensed interim statement of comprehensive loss.

The fair value of the stock options was estimated using the Black Scholes option pricing model based on the following weighted-average assumptions:

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(d) Employee share options (continued)

<u>*Share based compensation (continued)*</u>

	September 30, 2011	**September 30, 2010**
Share price	0.20	0.17
Exercise price	0.23	0.18
Risk-free interest rate	2.44%	2.54%
Expected annual volatility	133%	157%
Expected life	5 years	5 years
Expected dividend yield	0%	0%

The expected volatility is based on weekly share price history, from the option's grant date, for a period consistent with the assumed option life. The risk free interest rate is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected life is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

(e) Agent Options

On July 21, 2011 the company issued 256,000 agent options at an exercise price of $0.25, exercisable for a period of two years. Each agent option is exercisable for one non-flow through share and one non-flow-through share purchase warrant (note 5(b)).

The fair value of the agent options was estimated using the Black-Scholes option pricing model based on the following assumptions: risk free interest rate of 1.56%; expected life of 2 years; volatility of 150.46%; dividend rate of 0%; and purchase price of a non-flow unit of $0.20.

The continuity of agent options is as follows:

	Number of agents' options outstanding		Weighted Average exercise price
Balance at December 31, 2010	-	$	-
Granted	256,000	$	0.25
Cancelled/Expired	-	$	-
Balance at sSeptember 30, 2011	256,000	$	0.25

6. LOSS PER SHARE

Basic and diluted loss per share

The calculation of basic and diluted loss per share for the nine months ended September 30, 2011 was based on the loss attributable to common shareholders of $549,579 (September 30, 2010 – $450,771) and a weighted average number of common shares outstanding of 21,074,872 (2010 – 13,215,697).

The calculation of basic and diluted loss per share for the three months ended September 30, 2011 was based on the income attributable to common shareholders of $100,815 (September 30, 2010 –$176,423) and a weighted average number of common shares outstanding of 23,504,214 (2010 – 15,444,268).

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

(a) Management transactions

For the nine months ended September30, 2011

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Termination benefits $	Share-based payments $	Total $
McLeary Capital Management, Inc. (i)	58,500	-	-	-	48,077	106,577
Foremost Geological Consulting (ii)	31,500	-	-	-	48,077	79,577
Fehr and Associates (iii)	20,392	-	-	-	23,375	43,766
Michael Withrow	4,000	-	-	-	-	4,000

For the nine months ended September 30, 2010

	Short-term employee benefits $	Post-employment benefits $	Other long-term benefits $	Termination benefits $	Share-based payments $	Total $
Michael Withrow President and CEO	36,000	-	-	-	55,400	91,400
David Clark Consulting Services (iv)	36,000	-	-	-	55,400	91,400
Gary Anderson Former President and CEO	-	-	-	30,000	-	30,000

(i) McLeary Capital Management, Inc., a private company controlled by the President and CEO, Mark McLeary. Mark McLeary was granted 400,000 stock options on January 4, 2011 with a fair value $48,077, which is included in total share-based payments of $200,041 made to directors, as disclosed below.

On January 28, 2011 the Company entered into an indefinite term contract with McLeary Capital Management, Inc. (the "consultant"), for the consultant to continue to act as President and Chief Executive Officer and Director of the Company. A monthly consulting fee of $6,500 is payable to the consultant. The contract may be cancelled by either party on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to two years annual salary. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until January 5, 2016 or for such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant's options, the relationship between the consultant and the Company will cease.

(ii) Foremost Geological Consulting, a private company controlled by a director, Ian Foreman. Ian Foreman was granted 400,000 stock options on January 4, 2011 with a fair value $48,077, which is included in total share-based payments $200,041 made to directors, as disclosed below.

On January 28, 2011 the Company entered into an indefinite term contract with Foremost Geological Consulting (the "consultant"), for the consultant to continue to act as primary technical consultant and Director of the Company. A monthly consulting fee of $3,500 is payable to the consultant. The contract may be cancelled by either party on 30 days written notice and, if cancelled by the Company, by payment of an amount equivalent to two years annual salary. On termination of the contract the consultant will be immediately retained by the Company as a non-paid advisor/consultant to the Company until January 5, 2016 or for such time as the consultant still holds unexercised stock options in the Company. On exercise of the consultant's options, the relationship between the consultant and the Company will cease.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS (continued)

(a) Management transactions (continued)

(iii) Fehr and Associates, a private company controlled by the current CFO, Ann Fehr. Ann Fehr was granted 90,000 stock options on January 28, 2011 with a fair value of $0.26 per option. $23,376 share-based compensation was recognised for these options.

(iv) David Clark Consulting, a private company controlled by the former CFO, David Clark. David Clark was granted 390,000 stock options on January 21, 2010 with a fair value of $55,400, which is included in total share-based payments of $158,557 made to directors, as disclosed below. The options were cancelled 90 days after he ceased to be an officer or director of the Company.

(b) *Director's transactions*

During the nine months ended September 30, 2011 and 2010, the following expenses related to directors were recognized:

		September 30, 2011		September 30, 2010
Share-based payments (v)	$	200,041	$	158,557
Directors' fees (vi)	$	7,015	$	-
Legal fees (vi)	$	17,500	$	-

(v) Arising from options granted pursuant to the company's stock option plan. 800,000 options were granted to two directors on January 4, 2011 with a fair value of $0.12 per option. A further 400,000 options were granted to a director on January 28, 2011 with a fair value of $0.26 per option. Fair value of options was calculated using the Black-Scholes option pricing model. All options vested immediately on grant date. Share based compensation of $158,557 for the nine months ended September 30, 2010 includes share based compensation on the options issued to Michael Withrow.

During nine months end September 30, 2011, 1,050,000 options held by former directors of the Company were cancelled

(vi) During nine months end September 30, 2011, $7,015 directors' fee and $17,500 legal fees were paid to Michael Johnson, a former director of the Company.

Accounts payable and accrued liabilities at September 30, 2011 includes $nil (September 30, 2011 - $10,112 due from) due to directors.

8. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Non-cash financing and investing activities during the nine months ended September 30, 2011 and 2010:

		2011		2010
Fair value of agent warrants issued	$	37,179	$	-
Fair value of agent options issued	$	25,600	$	-
Fair value of cancelled options	$	187,559	$	-
Fair value of warrants attached on shares	$	92,100	$	-
Premium on flow-through shares, net of income tax recovery	$	178,924	$	-

(Expressed in Canadian Dollars)

9. OTHER LIABILITIES

Other liabilities consist of the liability portion of flow-through shares issued by the Company during the nine months ended September 30, 2011. The following is a continuity schedule of the liability portion of the flow-through shares issued:

Date of share issue:	July 21, 2011	September 8, 2011	Total
Flow-through share premium liability reconised on share issue	$ 160,000	$ 44,000	$ 204,000
Settlement of flow-through share liability on qualifiying expenditures	(25,076)	-	-
Balance at September 30, 2011	$ 134,924	$ 44,000	**$ 178,924**

On July 21, 2011, the Company closed the first tranche of a private placement, and issued 3,200,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $800,000 (note 5(b)).

On September 8, 2011, the Company closed the second tranche of a private placement, and issued 880,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $220,000 (note 5(b)).

The Company is committed to incur a total of $1,020,000 in qualifying exploration expenditures pursuant to the private placements in which flow-through proceeds were issued (note 5(b)). During the nine months ended September 30, 2011, the Company incurred qualifying expenditures of $125,380 (note 4). The Company must incur the remaining balance of $894,620 in qualifying expenditures within 24 months following the private placement. If the Company does not spend these funds in compliance with the Government of Canada's flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.

10. CONTINGENT LIABILITIES

On May 18, 2011, the Company received an order granted by a court in Lima, Peru indicating that the Company is responsible for a debt of US$198,933.08 incurred by a former subsidiary of the Company. The Company did not receive notice of the Peruvian legal proceedings and is seeking advice concerning an application to set aside the order. The Company's Peruvian legal counsel advised that the Company is not responsible for this obligation.

11. FINANCIAL INSTRUMENTS

The fair values of the Company's accounts receivable, exploration advance to joint venture partner and accounts payables and accrued liabilities approximate their carrying values because of the short-term nature of these instruments.

The Company's financial instruments are exposed to certain financial risks, credit risk, liquidity risk, interest risk and commodity price risk.

(a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's cash is held in a large Canadian financial institution. The Company's accounts receivable consist of harmonized sales tax due from the federal government of Canada. As such, credit risk is not considered significant.

11. FINANCIAL INSTRUMENTS (continued)

(b) 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 manages liquidity risk through the management of its capital structure.

The Company has cash at September 30, 2011 in the amount of $10,033 (December 31, 2010 - $2,935) in order to meet short-term business requirements. At September 30, 2011, the Company had current liabilities of $302,632 (December 31, 2010 - $135,259).

Accounts payable and accrued liabilities are due within twelve months of the financial position date.

(c) Market risk

Market risk consists of interest rate risk, foreign currency risk and other price risk. These are discussed further below:

Interest rate risk

Interest rate risk consists of two components:

(i) To the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk.

(ii) To the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity, and as they are not interest bearing.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk is considered minimal as its monetary assets and liabilities are not denominated in foreign currencies.

Other price risk

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any mineral products discovered. Mineral prices, particularly gold and silver prices, have fluctuated widely in recent years. The marketability and price of silver and gold which may be produced or acquired by the Company will be affected by numerous factors beyond the control of the Company. These other factors include delivery uncertainties related to the proximity of processing facilities and extensive government regulation relating to price, taxes, royalties, allowable production land tenure and many other aspects of the mining business. Declines in mineral prices may have a negative effect on the Company.

(d) Fair Value of Financial instruments

IFRS 7 'Financial Instruments: Disclosure' establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's cash and cash equivalents and other liabilities are classified at level one of the fair value hierarchy. As the carrying values of the Company's remaining financial instruments approximate their fair values, disclosure is not made of their level in the fair value hierarchy.

12. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes the components of shareholders' equity as well as cash.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, acquire or dispose of assets or adjust the amount of cash. Although the Company has been successful at raising funds in the past through issuance of common shares, it is uncertain whether it will continue to be successful. In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its non-committed cash in highly liquid investments which are readily convertible into cash with maturities of three months or less from the original date of acquisition or when it is needed, selected with regards to the expected timing of expenditures from continuing operations. The Company expects that its current capital resources will not be sufficient to carry out its exploration plans and operations through its current operating period.

13. TRANSITION TO INTERNATIONAL REPORTING STARDARDS

As disclosed in Note 2, these are the Company's third condensed interim financial statements for the period covered by the first annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the condensed interim financial statements for the nine months ended September 30, 2011, the comparative information for the nine months ended September 30, 2010, the statement of financial position as at September 30, 2010 and December 31, 2010 and the preparation of an opening IFRS statement of financial position on the transition date, January 1, 2010.

(a) First time adoption

The guidance for the first time adoption of IFRS is set out in IFRS 1 First-time Adoption of International Financial Reporting Standards'. Under IFRS 1 changes in accounting policies resulting from the adoption of IFRS are applied retrospectively at the transition date with all adjustments taken to retained earnings unless certain optional exemptions are applied. The Company has applied the following optional exemptions to its opening statement of financial position dated January 1, 2010:

Share-based payment

IFRS 1 does not require first-time adopters to apply IFRS 2 Share-based Payment 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 date of transition to IFRS. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010.

Borrowing Costs

IFRS 1 allows first-time adopters to apply IAS 23 Borrowing Costs prospectively from the date of transition to IFRS. The Company has elected to apply IAS 23 prospectively from January 1, 2010. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

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:

13. TRANSITION TO INTERNATIONAL REPORTING STARDARDS (continued)

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, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of January 1, 2010 are consistent with its GAAP estimates for the same date.

(b) Changes in accounting policies

The Company has changed certain accounting policies to be consistent with IFRS as is expected to be effective December 31, 2010, the Company's first annual IFRS reporting date. However, these changes to its accounting policies have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS:

Impairment of (Non-financial) Assets

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP required a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

IFRS also requires the reversal of any previous impairment losses, with the exception of goodwill, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibits the reversal of impairment losses.

The Company has changed its accounting policies related to impairment of assets to be consistent with the requirements under IFRS. The changes in accounting policies related to impairment did not have a significant impact on the Company's financial statements.

Decommissioning Liability (Asset Retirement Obligations)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the condensed interim financial statements.

Share-based Payments

In certain circumstances, IFRS requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires that each tranche (that vests separately) must be treated as a separate grant and that an estimate of forfeitures be included in the determination of the expense associated with stock option grants.

Due to the nature of the Company's stock options, these changes in accounting policy did not have a significant impact on the Company's condensed interim financial statements.

(c) Reconciliation of Canadian GAAP to IFRS

The following provides reconciliations of the statement of financial position at the transition date of January 1, 2010 and at September 30, 2010 and December 31, 2010, and summary reconciliations of the statements of comprehensive income, and statements of cash flows for the nine months ended September 30, 2010 and the year ended December 31, 2010.

A discussion of the adjustments arising from changes in accounting policies and presentation follows the reconciliation.

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL REPORTING STARDARDS (continued)

Reconciliation of Assets, Liabilities and Equity

		January 01, 2010			September 30, 2010			December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS										
Current assets										
Cash		27,462	-	27,462	18,466	-	18,466	2,935	-	2,935
Receivables		7,025	-	7,025	11,567	-	11,567	4,693	-	4,693
Prepaid expenses		-	-	-	1,224	-	1,224	2,500	-	2,500
Due from related party		-	-	-	10,112	-	10,112	-	-	-
		34,487	-	34,487	41,369	-	41,369	10,128	-	10,128
Non-current assets										
Exploration and evaluation assets		$ 25,000	-	$ 25,000	$ 45,536	-	$ 45,536	$ 45,536	-	$ 45,536
TOTAL ASSETS		$ 59,487	-	$ 59,487	$ 86,905	-	$ 86,905	$ 55,664	-	$ 55,664
LIABILITIES										
Current liabilities										
Accounts payable and accrued liabilities		$ 333,631	-	$ 333,631	$ 78,893	-	$ 78,893	$ 135,259	-	$ 135,259
		333,631	-	333,631	78,893	-	78,893	135,259	-	135,259
SHAREHOLDERS' EQUITY (DEFICIT)										
Share capital		8,391,614	-	8,391,614	8,991,059	-	8,991,059	8,991,059	-	8,991,059
Reserves	(a)	775,854	(731,193)	44,661	909,336	(754,365)	154,971	915,704	(775,854)	139,850
Deficit	(a)	(9,441,612)	731,193	(8,710,419)	(9,892,383)	754,365	(9,138,018)	(9,986,358)	775,854	(9,210,504)
		(274,144)	-	(274,144)	8,012	-	8,012	(79,595)	-	(79,595)
TOTAL EQUITY AND LIABILITIES (DEFICIT)		$ 59,487	-	$ 59,487	$ 86,905	-	$ 86,905	$ 55,664	-	$ 55,664

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL REPORTING STARDARDS (continued)

Reconciliation of Statement of Comprehensive Loss

Total comprehensive loss	Nine months ended September 30, 2010	Year ended December 31, 2010
Comprehensive loss per Canadian GAAP	$ 450,771	$ 544,746
Adjustment on adoption of IFRS	-	-
Comprehensive loss per IFRS	$ 450,771	$ 544,746

Reconciliation of Statement of Cash Flows

	Nine months ended September 30, 2010	Year ended December 31, 2010
Operating activities per Canadian GAAP	$ (577,793)	$ (603,436)
Adjustment on adoption of IFRS	-	-
Operating activities per IFRS	$ (577,793)	$ (603,436)
Investing activities per Canadian GAAP	$ 599,445	$ 599,445
Adjustment on adoption of IFRS	-	-
Investing activities per IFRS	$ 599,445	$ 599,445
Financing activities per Canadian GAAP	$ (20,536)	$ (20,536)
Adjustment on adoption of IFRS	-	-
Financing activities per IFRS	$ (20,536)	$ (20,536)

Notes on GAAP – IFRS Reconciliations

(a) IAS 1 requires an entity to present, for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its previously reported contributed surplus and concluded that it was comprised of the fair value of options issued as share-based awards and warrants issued under private placements.

Therefore, at January 1, 2010 the fair value attributable to options and warrants outstanding at that date was transferred from contributed surplus to an "Equity settled share-based payment reserve" and a "Reserve for warrants" accounts, respectively. The remaining balance of contributed surplus, which reflected the fair value of equity instruments no longer outstanding, was transferred to accumulated deficit, as permitted by IFRS 2. For options and warrants subsequently expiring or cancelled, the fair value attributed to those instruments is subsequently transferred from their respective reserve accounts to accumulated deficit.

14. SUBSEQUENT EVENTS

The following events occurred subsequent to September 30, 2011:

- On October 25, 2011, the Company announced that it has granted an aggregate of 800,000 stock options to two directors of the Company. Each option is exercisable at $0.20 per common share and is exercisable at any time until October 24th, 2016. The options vest immediately.

- On November 18, 2011, the Company closed the third tranche of the private placement announced on July 6, 2011 and issued 473,600 flow-through units at $0.25 per unit and 1,265,000 non-flow-through units at $0.20 per unit, for gross proceeds of $371,400 (note 5(b)). The Company paid $20,112.00 in finder's fees and issued 84,688 finder's warrants. The terms of each finder's warrant are the same as those of the financing.

- On November 25, 2011, the Company completed the fourth and final tranche of the private placement and issued 240,000 flow-through units and 500,000 non-flow-through units, receiving gross proceeds of $160,000 which will be applied to qualifying exploration expenses and general working capital. No finder's fees were paid relating to the fourth tranche.

15. COMPARATIVE FINANCIAL STATEMENTS

Certain figures have been reclassified from financial statements previously presented to conform to the presentation of the 2011 financial statements.