NEWTON GOLD CORP.

(formerly New High Ridge Resources Inc.)

FINANCIAL STATEMENTS

For The Year Ended December 31, 2011

(Expressed in Canadian dollars)

CHARTERED ACCOUNTANTS
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Independent Auditor's Report

To the Shareholders of
Newton Gold Corp.

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Newton Gold Corp. as at December 31, 2011, December 31, 2010, and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Newton Gold Corp. to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
April 13, 2012

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

Financial Statements
For The Year Ended December 31, 2011

Table of Contents

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

Newton Gold Corp.
(formerly New High Ridge Resources Inc.)
Statements of Financial Position
(Expressed in Canadian Dollars)

As at		**December 31, 2011**		December 31, 2010 (Note 13)		January 1, 2010 (Note 13)
ASSETS						
Current assets						
Cash	**$**	**58,280**	$	2,935	$	27,462
Accounts receivable		**32,770**		4,693		7,025
Prepaid expenses		**3,536**		2,500		-
		94,586		10,128		34,487
Non-current assets						
Exploration advance to joint venture partner (Note 4)		**228,644**		-		-
Exploration and evaluation assets (Note 4)		**1,585,099**		45,536		25,000
TOTAL ASSETS	**$**	**1,908,329**	$	55,664	$	59,487
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	**$**	**221,298**	$	135,259	$	333,631
Other liabilities (Note 5)		**104,928**		-		-
		326,226		135,259		333,631
SHAREHOLDERS' EQUITY (DEFICIT)						
Share capital (Note 6)		**10,750,362**		8,991,059		8,391,614
Reserves		**526,947**		139,850		44,661
Deficit		**(9,695,206)**		(9,210,504)		(8,710,419)
		1,582,103		(79,595)		(274,144)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT) AND LIABILITIES	**$**	**1,908,329**	$	55,664	$	59,487

Nature of operations and going concern (Note 1)
Contingent liabilities (Note 10)
Subsequent events (Note 14)

These financial statements were authorized for issue by the board of directors on April 13, 2012. They are signed on the Company's behalf by:

"Mark McLeary" *"Ian Foreman"*

Mark McLeary
Director

Ian Foreman
Director

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

Newton Gold Corp.
(formerly New High Ridge Resources Inc.)
Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended	
	December 31, 2011	December 31, 2010 (Note 13)
EXPENSES		
Accounting and audit	**$ 68,999**	$ 72,201
Consulting and management (Note 7(b))	**164,298**	84,981
Directors' fees (Note 7(b))	**1,250**	-
Insurance	**10,386**	12,910
Investor communication	**49,222**	1,071
Legal (Note 7(b))	**74,151**	36,455
Office and sundry	**36,201**	6,340
Regulatory and transfer agent fees	**25,252**	24,834
Salaries and benefits	**-**	33,932
Share-based compensation (Notes 6 (d) and 7 (b))	**361,965**	139,850
Travel and business development	**3,472**	2,326
	795,196	414,900
OTHER EXPENSES (INCOME)		
Other income (Notes 4 & 5)	**(134,752)**	-
Mining exploration tax credit disallowed	**11,817**	-
Proposed transaction costs	**-**	169,409
Recovery on settlement of accounts payable	**-**	(19,563)
Recovery of reclamation deposit	**-**	(20,000)
	(122,935)	129,846
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	**$ 672,261**	$ 544,746
Basic and diluted loss per common share	**$ 0.03**	$ 0.04
Weighted average number of common shares outstanding - basic and diluted	**22,405,346**	13,777,419

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

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

	Number Of Common Shares	Share capital	Reserves: Equity settled share-based payment	Reserves: Reserve for warrants	Reserves: Total	Deficit	Total Shareholders' Equity (Deficit)
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 year	-	-	-	-	-	(544,746)	(544,746)
Private placement - non-flow through shares (note 6(b))	5,000,000	650,000	-	-	-	-	650,000
Shares issued for finder fees	200,000	26,000	-	-	-	-	26,000
Share issuance costs, non-cash	-	(26,000)	-	-	-	-	(50,555)
Share issuance costs, cash	-	(50,555)	-	-	-	-	(26,000)
Fair value of cancelled options	-	-	(44,661)		(44,661)	44,661	-
Share-based compensation	-	-	139,850	-	139,850	-	139,850
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 year	-	-	-	-	-	(672,261)	(672,261)
Private placement - non-flow through shares (note 6(b))	7,290,000	1,062,200	-	45,800	45,800	-	1,108,000
Private placement - flow through shares (note 6(b))	4,793,600	862,848	-	95,872	95,872	-	958,720
Share issuance costs, cash	-	(138,476)	-	-	-	-	(138,476)
Share issuance costs; agent options (note 6(e))	-	(25,600)	25,600	-	25,600	-	-
Share issuance costs; agent warrants	-	(45,419)	-	45,419	45,419	-	-
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	-	-	361,965	-	361,965	-	361,965
Balance, December, 2011	**27,702,868**	**$ 10,750,362**	**$ 339,856**	**$ 187,091**	**$ 526,947**	**$ (9,695,206)**	**$ 1,582,103**

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

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

	For the year ended December 31, 2011	December 31, 2010 (Note 13)
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss for the year	**$ (672,261)**	$ (544,746)
Items not (providing) requiring cash:		
Other income	**(134,752)**	-
Share-based compensation	**361,965**	139,850
Recovery on settlement of accounts payable	**-**	19,563
	(445,048)	(385,333)
Net change in non-cash working capital items:		
Accounts receivable	**(28,077)**	2,332
Prepaid expenses	**(1,036)**	(2,500)
Accounts payable and accrued liabilities	**(34,785)**	(217,935)
CASH USED IN OPERATING ACTIVITIES	**(508,946)**	(603,436)
FINANCING ACTIVITIES		
Issuance of common shares for cash, net of share issue costs	**2,211,674**	599,445
CASH PROVIDED BY FINANCING ACTIVITIES	**2,211,674**	599,445
INVESTING ACTIVITIES		
Expenditure on exploration and evaluation assets	**(1,418,739)**	(30,037)
Exploration advance to joint venture partner	**(228,644)**	-
Cost recoveries on exploration and evaluation assets	**-**	9,501
CASH USED IN INVESTING ACTIVITIES	**(1,647,383)**	(20,536)
INCREASE (DECREASE) IN CASH	**55,345**	(24,527)
CASH, BEGINNING OF THE YEAR	**2,935**	27,462
CASH, END OF THE YEAR	**$ 58,280**	$ 2,935
Interest paid	**$ -**	$ -
Income taxes paid	**$ -**	$ -

Supplemental disclosure with respect to cash flows (Note 9)

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

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 of December 31, 2011 the Company had a working capital deficiency of $231,640 (December 31, 2010 – $125,131, January 1, 2010 - $299,144), and an accumulated deficit of $9,695,206 (December 31, 2010 - $9,210,504, January 1, 2010 - $8,710,419).

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 statement of financial position 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 are the Company's first annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Previously, the Company prepared its annual 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, and December 31, 2010, and the statement of comprehensive loss and the statement of cash flows for the year ended December 31, 2010.

(b) Basis of preparation

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

2. BASIS OF PREPARATION (continued)

(b) Basis of preparation (continued)

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented in these 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 Canadian 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 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 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:

Impairment of exploration and evaluation assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. No impairments of non-financial assets have been recorded for the year ended December 31, 2011 (December 31, 2010 – $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 statement of comprehensive loss. For the year ended December 31, 2011 the Company recognized $361,965 share-based compensation expense (December 31, 2010 - $139,850).

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

In the preparation of these 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 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 December 31, 2011 and December 31, 2010 management had determined that no reclassification of mineral properties was required.

2. BASIS OF PREPARATION (continued)

(d) Significant accounting judgments and estimates (continued)

Critical judgments used in applying accounting policies (continued)

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 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 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 net income (loss). At December 31, 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 other comprehensive income (loss). 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 net income (loss). At December 31, 2011, the Company has no available-for-sale assets.

Transaction 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

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 net income (loss). At December 31, 2011, the Company has no FVTPL liabilities.

Other financial liabilities: This category includes accounts payables and accrued liabilities, and other liabilities, 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.

(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.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. The aggregate costs related to abandoned mineral claims are charged to net income (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 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.

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 included in net income (loss).

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Share Capital (continued)

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 other income.

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.

(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) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

(i) 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)

(i) Income taxes (continued)

Deferred tax is provided using the 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.

(j) 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 legal or constructive 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.

(k) 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)

(l) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2011 reporting period. Management has decided against early adoption of these standards. Management's assessment of the impact of these new standards and interpretations is set out below:

IFRS 7 Financial Instruments Disclosures – Disclosures on Transfers of Financial Assets

These amendments are applicable to annual reporting periods beginning on or after July 1, 2011. These amendments add and amend disclosure requirements about transfers of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments on January 1, 2012 will increase the disclosure requirements when an asset is transferred but is not utilized and new disclosure required when assets are utilized but there is a continuing exposure to the asset after the sale.

IAS 12 Income Taxes Amendments Regarding Deferred Tax: Recovery of Underlying Assets

These amendments are applicable to annual reporting periods beginning on or after January 1, 2012 and a practical approach for the measurement of deferred tax relating to investment properties measured at fair value, property, plant and equipment and intangible assets measured using the revaluation model. The measurement of deferred tax for these specified assets is based on the presumption that the carrying amount of the underlying asset will be recovered entirely through sale, unless the entity has clear evidence that economic benefits of the underlying asset will be consumed during its economic life. These amendments will be adopted on January 1, 2012 but the tax effect, if any, of adopting these amendments is yet to be assessed.

IFRS 9 Financial Instruments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after January 1, 2013. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. This standard will be adopted on January 1, 2013 but the impact of its adoption is yet to be assessed.

IFRS 10 Consolidated Financial Statements

This standard replaces the part of IAS 27: 'Consolidated and Separated Financial Statements' and applies for the annual period beginning January 1, 2013. This new standard introduces a new definition of control that determines which entities are consolidated. This new definition of control may potentially lead to the consolidation of entities that were not previously consolidated resulting in additional assets and liabilities recorded in the financial statements. This standard will be adopted on January 1, 2013 but the impact of its adoption is yet to be assessed.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) New accounting standards and interpretations not yet adopted (continued)

IFRS 11 Joints Arrangements

This standard replaces IAS 31: 'Interest in Joint Ventures' and applies for annual periods beginning on or after January 1, 2013. This new standard introduces new rules which classify joint arrangements as either a joint operation or joint venture. Under the new standard, proportionate consolidation is not allowed and all joint ventures must be equity accounted. All joint arrangements held by the Company will need to be reassessed to determine whether the joint operation or joint venture classification is appropriate, and the potential impacts of a change on the presentation of the Financial Statements. This standard will be adopted on January 1, 2013, but the impact of its adoption is yet to be assessed.

IFRS 12 Disclosure of Interests in other Entities

This new standard is applicable for annual reporting periods beginning on or after January 1, 2013. This standard clarifies the disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will be adopted on January 1, 2013, but the impact of its adoption is yet to be assessed.

IFRS 13 Fair Value Measurement

This new standard is applicable for annual reporting periods beginning on or after January 1, 2013.This standard establishes a single course of guidance for determining the fair value of assets and liabilities. This standard will be adopted on January 1, 2013, but the impact of its adoption is yet to be assessed.

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

The Interpretation is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. This standard will be adopted on January 1, 2013, but the impact of its adoption is yet to be assessed.

(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	40,000	684,550	724,550
Balance, December 31, 2011	**$ 61,261**	**$ 689,550**	**$ 750,811**
EXPLORATION EXPENDITURES			
Balance, January 1, 2010	$ -	$ -	$ -
Assessment fees	27,876	-	27,876
Cost recoveries	(9,501)	-	(9,501)
Geological	900	-	900
Balance, December 31, 2010	19,275	-	19,275
Assessment, property, permit fees	-	15,956	15,956
Boarding, lodging and travel	431	10,113	10,544
Consulting	25,160	-	25,160
Drilling	-	313,694	313,694
Enviromental	-	7,697	7,697
Office and administration	6,087	25,600	31,687
Samples, analysis, review	16,265	39,750	56,015
Site services and supplies	99,778	65,439	165,217
Socio-economic/native liason	-	10,800	10,800
Wages geological and site	-	178,242	178,242
Balance, December 31, 2011	**$ 166,996**	**$ 667,293**	**$ 834,288**
TOTAL, January 1, 2010	**$ 20,000**	**$ 5,000**	**$ 25,000**
TOTAL, December 31, 2010	**$ 40,536**	**$ 5,000**	**$ 45,536**
TOTAL, December 31, 2011	**$ 228,257**	**$ 1,356,843**	**$ 1,585,099**

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 December 31, 2011, mineral property interests represent accumulated costs incurred on the property since January 1, 2009.

4. EXPLORATION AND EVALUATION ASSETS (continued)

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 December 31, 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 Hill 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 Hill 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 year ended December 31, 2011, the Company incurred acquisition costs of $684,550 on the Newton Hill Property. As at December 31, 2011, the Company has advanced $1,580,487 (December 31, 2010 – $nil, January 1, 2010 - $nil) to Amarc Resources Ltd., of which $667,293 was utilized for exploration expenditures, and $228,644 remained as an advance.

Eligible exploration expenditure

During the year ended December 31, 2011, the Company incurred $673,760 (December 31, 2010 – $nil) of flow-through expenditures (funds raised during 2011) and recognized $134,752 other income as settlement of flow-through share liability on incurring expenditures (Note 11).

(Expressed in Canadian Dollars)

5. OTHER LIABILITIES

Other liabilities consist of the liability portion of flow-through shares issued by the Company during the year ended December 31, 2011. The following is a continuity schedule of the liability portion of the flow-through shares issued:

Balance, January 1, 2010 and December 31, 2010	$ -
Flow-through share premium liability recognized on share issue	239,680
Settlement of flow-through share liability on qualifying expenditures	(134,752)
Balance, December 31, 2011	**$ 104,928**

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 6(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 6 (b)).

On November 18, 2011, the Company closed the third tranche of a private placement, and issued 473,600 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $118,400 (Note 6 (b)).

On November 25, 2011, the Company closed the fourth tranche of a private placement, and issued 240,000 flow-through shares at a price of $0.25 per flow-through share for aggregate gross proceeds of $60,000 (Note 6 (b)).

The Company is committed to incur a total of $1,198,400 in qualifying exploration expenditures pursuant to the private placements in which flow-through proceeds were issued (Note 6 b)). During the year ended December 31, 2011, the Company incurred qualifying expenditures of $673,760 (Note 4). The Company must incur the remaining balance of $524,640 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.

6. SHARE CAPITAL

(a) Authorized Share Capital

At December 31, 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. The full issue price was allocated to share capital.

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 announcement, the full issue price was allocated to share capital.

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 common "flow-through share" and one non-flow-through share purchase warrant of the issuer. Each warrant entitles 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 offered units consisting of one common share and one share purchase warrant of the Company. Each Warrant entitles 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 are 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 5), and $64,000 was allocated to the reserve for warrants.

On September 8, 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 were allocated as follows: Share capital-$158,400; flow-through-share-premium liability-$44,000 (Note 5) 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.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(b) Issued (continued)

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 $118,400 and, $253,000 respectively. Gross proceeds received for flow-through units was allocated as follows: Share capital-$85,248; flow-through-share-premium liability-$23,680 (Note 5) and reserve for warrants-$9,472. Gross proceeds received for non-flow-through units was allocated as follows: Share capital-$227,700 and reserve for warrants-$25,300.

On November 25, 2011, the Company completed the fourth and final tranche of the private placement and issued 240,000 flow-through units at $0.25 per unit and 500,000 non-flow-through units at $.20 per unit, receiving gross proceeds of $60,000 and, $100,000 respectively. Gross proceeds received for flow-through units were allocated as follows: Share capital-$43,200; flow-through-share-premium liability-$12,000 (Note 5) and reserve for warrants-$4,800. Gross proceeds received for non-flow-through units was allocated as follows: Share capital-$90,000 and reserve for warrants-$10,000.

During the year ended December 31, 2011, the Company incurred cash share issuance costs of $138,476, comprising of finders' fees of $89,912 and legal and regulatory fees of $48,564 and incurred non-cash share issue costs of $25,600 with respect to 256,000 agent options to purchase units and $45,419 with respect to 256,848 agent warrants issued to the finder in connection with the offering.

The fair value of the agent options and warrants was estimated using the Black-Scholes option pricing model based on the following weighted average assumptions: risk free interest rate of 1.52%; expected life of 2 years; volatility of 126.06%; dividend rate of 0%; and share price of $0.23.

The weighted average share price at date of exercise of warrants was $0.34 per share.

(c) Warrants

A continuity schedule of outstanding warrants for the year ended December 31, 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	12,340,448	0.30
Exercised	(175,000)	0.25
Expired	(6,075,000)	0.28
Balance at December 31, 2011	12,340,448	$ 0.30

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(c) Warrants (continued)

At December 31, 2011 and December 31, 2010, the Company has the following warrants outstanding:

	December 31, 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	1.08	-	$	-	-
July 21, 2013[(3)]	3,200,000	$	0.40	1.56	-	$	-	-
September 8, 2013[(4)]	886,400	$	0.40	1.69	-	$	-	-
September 8, 2013[(5)]	27,000	$	0.30	1.69	-	$	-	-
September 9, 2013[(6)]	500,000	$	0.30	1.69	-	$	-	-
November 18, 2013[(7)]	479,488	$	0.40	1.88	-	$	-	-
November 18, 2013[(8)]	1,343,800	$	0.30	1.88	-	$	-	-
November 25, 2013[(9)]	240,000	$	0.40	1.90	-	$	-	-
November 25, 2013[(10)]	500,000	$	0.30	1.90	-	$	-	-
	12,340,448	$	0.30	1.44	6,250,000	$	0.28	0.32

(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.

(7) Warrants exercise price is $0.40 until November 18, 2012, and at $0.50 from then until November 18, 2013.

(8) Warrants exercise price is $0.30 until November 18, 2012, and at $0.40 from then until November 18, 2013.

(9) Warrants exercise price is $0.40 until November 25, 2012, and at $0.50 from then until November 25, 2013.

(10) Warrants exercise price is $0.30 until November 25, 2012, and at $0.40 from then until November 25, 2013.

(d) Employee share options

Employees Share Purchase Option Compensation Plan

On June 30, 2011, the Company approved the 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.

During the year ended December 31, 2011, the Company granted stock options to directors and officers to purchase 2,140,000 (year ended December 31, 2010 – 1,050,000) common shares.

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(d) Employee share options (continued)

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	2,140,000	$	0.22
Cancelled/Expired	(1,050,000)	$	0.22
Balance at December 31, 2011	**1,750,000**	**$**	**0.20**

At December 31, 2011 and December 31, 2010, the Company has the following options outstanding:

	December 31, 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	-	$	-	-	515,000	$	0.18	4.06
November 17, 2015	10,000	$	0.15	3.88	145,000	$	0.15	4.88
January 4, 2016	800,000	$	0.175	4.01	-	$	-	-
January 28, 2016	140,000	$	0.30	4.08	-	$	-	-
October 24, 2016	800,000	$	0.20	4.82	-	$	-	-
	1,750,000	$	0.20	4.39	660,000	$	0.02	4.24

Share based compensation

The fair value of stock options granted to directors, employees, and consultants during the year ended December 31, 2011 was $361,965 (December 31, 2010 – $139,500) which has been expensed as share based compensation in the Company's 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:

	December 31, 2011	December 31, 2010
Share price	0.20	0.16
Exercise price	0.22	0.18
Risk-free interest rate	2.16%	2.24%
Expected annual volatility	134%	122%
Expected life	5 years	5 years
Expected dividend yield	0%	0%

(Expressed in Canadian Dollars)

6. SHARE CAPITAL (continued)

(d) Employee share options (continued)

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 6(b)).

The fair value of the agent options of $0.10 per option 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 $0.20.

The continuity of agent options is as follows:

	Number of agents' options outstanding		Weighted Average exercise price
Balance at January 1, 2010 and December 31, 2010	-	$	-
Granted	256,000	$	0.25
Cancelled/Expired	-	$	-
Balance at December 31, 2011	256,000	$	0.25

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS

(a) Key management compensation

For the year ended December 31, 2011	Short-term employee benefits $	Termination benefits $	Share-based payments $	Total $
McLeary Capital Management, Inc. (i)	78,000	-	48,077	126,077
Fehr and Associates (ii)	40,522	-	23,375	63,896

For the year ended December 31, 2010	Short-term employee benefits $	Termination benefits $	Share-based payments $	Total $
Michael Withrow				
President and CEO	48,000	-	56,958	104,958
Fehr and Associates (iv)	8,987	-	779	9,766
David Clark Consulting Services (viii)	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 of $48,077.

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) Fehr and Associates, private company controlled by the current Chief Financial Officer, Ann Fehr. At December 31, 2011 $20,303 (December 31, 2010 - $4,700) of fees owed to Fehr and Associates was included in accounts payable and accrued liabilities. Ann Fehr was granted 90,000 stock options on January 28, 2011 with a fair value of $23,375.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with other related parties

For the year ended December 31, 2011	Short-term employee benefits $	Termination benefits $	Share-based payments $	Total $
Foremost Geological Consulting (i)	42,000	-	48,077	90,077
Tom Kordyback (ii)	-	-	64,000	64,000
Timeline Filing Services ltd. (iii)	3,000	-	-	3,000
Tim McLeary (iv)	8,800	-	-	8,800
Michael Withrow (v)	4,000	-	-	4,000
Lindsay Bottomer (vi)	2,250	-	64,000	66,250
Michael Johnson (vii)	24,515	-	103,887	128,402

(i) 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 of $48,077.

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.

(ii) During the year ended December 31, 2011, Tom Kordyback was granted 400,000 stock options with fair value of $64,000.

(iii) Timeline Filing Services Ltd., a private company controlled by the Corporate Secretary, Laara Shaafer.

(iv) Tim McLeary, related to the President and CEO, Mark McLeary.

(v) Michael Withrow, former President and CEO. At December 31, 2011 $nil (December 31, 2010 $1,797) was included in Accounts payable and accrued liabilities.

(vi) During the year end December 31, 2011, $1,250 directors' fees and $1,000 consulting fees were paid to and 400,000 options with fair value of $64,000 were granted to Lindsay Bottomer, a director of the Company. At December 31, 2011 $2,250 due to Lindsay Bottomer was included in accounts payable and accrued liabilities.

(vii) During the year end December 31, 2011, $24,515 consulting fees were paid to and 400,000 options with fair value of $103,887 were granted to Michael Johnson, a former director of the Company.

(Expressed in Canadian Dollars)

7. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with other related parties (continued)

(viii) During the year ended December 31, 2010, David Clark Consulting, a private company controlled by the former CFO, 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 $140,630 made to all directors. The options were cancelled 90 days after he ceased to be an officer or director of the Company.

During the year ended December 31, 2011 rental costs of $9,231 were paid to Yale Resources Ltd., a public company trading on the TSX-Venture Exchange with two directors in common with the Company.

8. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

		2011		2010
Statutory tax rate		26.50%		28.50%
Loss for the year	$	(672,261)	$	(544,746)
Income tax recovery at Canadian statutory rate		(178,149)		(155,253)
Items not recognized for tax purposes		60,629		39,956
Effect of changes in tax rate		6,652		14,159
Unrecognized non-capital loss carry forward		110,868		101,138
Total income tax recovery	**$**	**-**	**$**	**-**

Significant components of future tax assets and (liabilities) as of December 31 are as follows:

		December 31, 2011		December 31, 2010		January 1, 2010
Future income tax assets:						
Share issuance costs	$	54,409	$	54,843	$	82,000
Mineral Property		277,578		577,178		577,000
Capital tax loss carry forward		371,706		371,706		371,000
Non-capital tax loss carry forward		1,186,152		1,040,232		899,000
Total deferred income tax assets		1,889,845		2,043,959		1,929,000
Unrecognized deferred tax assets		(1,889,845)		(2,043,959)		(1,929,000)
Net deferred tax assets (liabilities)	$	-	$	-	$	-

(Expressed in Canadian Dollars)

8. INCOME TAXES (continued)

At December 31, 2011, the Company had available non-capital losses for Canadian income tax purposes of approximately $4,744,000 which may be carried forward and applied against taxable income in future years, if not utilized, expiring as follows:

Year	Amount
2014	$ 22,000
2015	87,000
2026	526,000
2027	1,165,000
2028	1,296,000
2029	500,000
2030	564,000
2031	584,000
	$ 4,744,000

The Company also has available capital losses of approximately $2,974,000 which may be carried forward indefinitely and applied against taxable income in future years.

The realization of income tax benefits related to these potential tax deductions is uncertain and cannot be viewed as probable. Accordingly, no deferred tax assets have been recognized for accounting purposes.

Flow-through shares
The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the year end is disclosed separately as other liabilities.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Lookback Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

(Expressed in Canadian Dollars)

9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Non-cash financing and investing activities during the years ended December 31, 2011 and 2010:

	2011	2010
Fair value of agent warrants issued	$ 45,419	$ -
Fair value of agent options issued	$ 25,600	$ -
Fair value of agent shares issued	$ -	$ 26,000
Premium on flow-through shares, net of income tax recovery	$ 120,824	$ -

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 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.

No amount has been recorded at December 31, 2011.

11. FINANCIAL INSTRUMENTS

The fair values of the Company's cash, accounts receivable, accounts payables and accrued liabilities, and other 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.

(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 December 31, 2011 in the amount of $58,280 in order to meet short-term business requirements. At December 31, 2011, the Company had current liabilities of $326,226. The Company subsequently completed a private placement and raised $170,100 gross proceeds.

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

11. FINANCIAL INSTRUMENTS (continued)

(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.

The Company is not exposed to significant interest rate risk.

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 is classified at level one of 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. The Company intends to raise money through private placements.

The Company is not exposed to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended December 31, 2011.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STARDARDS

As disclosed in Note 2, these are the Company's first annual financial statements prepared in accordance with IFRS.

The accounting policies in Note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, the statement of financial position as at 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:

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.

Business combinations

IFRS1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combination retrospectively to a business combination that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 to only those business combinations that occurred on or after the Transition Date and any prior business combinations have not been restated. As a result of this election, no adjustments were required to the Company statement of financial position as at the Transition Date.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STARDARDS (continued)

(a) First time adoption (continued)

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.

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:

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. These changes have not resulted in any significant change to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its 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 December 31, 2010, and summary reconciliations of the statements of comprehensive loss, and cash flows for 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 FINANCIAL REPORTING STARDARDS (continued)

(c) Reconciliation of Canadian GAAP to IFRS (continued)

Reconciliation of Assets, Liabilities and Equity

		January 1, 2010			December 31, 2010		
	Note	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current assets							
Cash		$ 27,462	$ -	$ 27,462	$ 2,935	$ -	$ 2,935
Receivables		7,025	-	7,025	4,693	-	4,693
Prepaid expenses		-	-	-	2,500	-	2,500
		34,487	-	34,487	10,128	-	10,128
Non-current assets							
Exploration and evaluation assets		25,000	-	25,000	45,536	-	45,536
TOTAL ASSETS		$ 59,487	$ -	$ 59,487	$ 55,664	$ -	$ 55,664
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities		$ 333,631	$ -	$ 333,631	$ 135,259	$ -	$ 135,259
		333,631	-	333,631	135,259	-	135,259
SHAREHOLDERS' EQUITY (DEFICIT)							
Share capital		8,391,614	-	8,391,614	8,991,059	-	8,991,059
Reserves	(a)	775,854	(731,193)	44,661	915,704	(775,854)	139,850
Deficit	(a)	(9,441,612)	731,193	(8,710,419)	(9,986,358)	775,854	(9,210,504)
		(274,144)	-	(274,144)	(79,595)	-	(79,595)
TOTAL EQUITY AND LIABILITIES (DEFICIT)		$ 59,487	$ -	$ 59,487	$ 55,664	$ -	$ 55,664

(Expressed in Canadian Dollars)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STARDARDS (continued)

(c) Reconciliation of Canadian GAAP to IFRS (continued)

Reconciliation of Statement of Comprehensive Loss

Total comprehensive loss		Year ended December 31, 2010
Comprehensive loss per Canadian GAAP	$	544,746
Adjustment on adoption of IFRS		-
Comprehensive loss per IFRS	$	544,746

Reconciliation of Statement of Cash Flows

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

Notes on GAAP – IFRS Reconciliations

(a) IFRS 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 "contributed surplus" account and concluded that as at the January 1, 2010 transition date and the comparative dates of December 31, 2010, part of the contributed surplus relates to "Equity settled share-based payment" and part to "Reserves for agent warrants".

IFRS also permits a transfer of reserves arising of share-based transactions, within equity. At January 1, 2010 $731,193 of total reserves related to options and agent warrants no longer outstanding and was therefore transferred to Retained earnings/(Deficit), in order that the balance of "Equity settled share-based payment" and "Reserves for agent warrants" reflected only the fair value of options and agent warrants outstanding on that date. During the year ended December 31, 2010, several options outstanding at January 1, 2010 were canceled, and therefore a further transfer, $44,661 of the fair value attributed to these cancelled options, was made to Retained earnings/(Deficit).

14. SUBSEQUENT EVENTS

The following events occurred subsequent to December 31, 2011:

On February 6, 2012 the Company announced the commencement of a non-brokered private placement offering of up to 3,400,000 units consisting of 2,400,000 flow-through units (each, a "Flow-Through Unit") at a price of $0.20 per Flow-Through Unit and 1,000,000 Non-Flow-Through units (each, a "Non-Flow-Through Unit") at a price of $0.135 per Non-Flow-Through Unit for gross proceeds of $615,000 (the "Offering"). Each Non-Flow-Through Unit consists of one common and one Non-Flow-Through share purchase warrant (a "Warrant) of the Company. Each Flow-Through Unit consists of one common "flow-through share" and one non-flow-through share purchase warrant (a "Warrant) of the Issuer. Each Warrant will entitle the holder, on exercise, to purchase one additional common share of the Company (a "Warrant Share") for a period of two 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 at a price of $0.40 per share for the second year. The Company closed the first tranches of 1,260,000 Non-Flow-Through Units ("NFT Units") with gross proceeds of CDN$170,100 on February 16, 2012. The balance of this private placement has been terminated.

On April 4, 2012 the Company announced a non-brokered private placement offering of up to 3,000,000 Non-Flow-Through units at a price of $0.135 per Non-Flow-Through Unit and 8,500,000 Flow-Through units (each, a "Flow-Through Unit") at a price of $0.17 per Flow-Through Unit for gross proceeds of $1,850,000 (the "Offering"). Each Non-Flow-Through Unit consists of one common and one Flow-Through share purchase warrant (a "Warrant) of the Company. Each Flow-Through Unit consists of one common "flow-through share" and one non-flow-through share purchase warrant (a "Warrant) of the Company. Each Warrant will entitle the holder, on exercise, to purchase one additional Non-Flow-Through common share of the Company (a "Warrant Share") exercisable at a price of $0.25 per share for a period of one year from the date of issue.