CADMAN RESOURCES INC.

FINANCIAL STATEMENTS FOR THE YEARS ENDED

DECEMBER 31, 2011 AND 2010

MANNING ELLIOTT
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Cadman Resources Inc.

We have audited the accompanying financial statements of Cadman Resources Inc. 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 and cash flows for the years ended December 31, 2011 and 2010, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

April 25, 2012

CADMAN RESOURCES INC.

STATEMENTS OF FINANCIAL POSITION

AS AT DECEMBER 31, 2011, DECEMBER 30, 2010 AND JANUARY 1, 2010

(Expressed in Canadian Dollars)

	December 31, 2011 $	**December 31, 2010** (Note 13) $	**January 1, 2010** (Note 13) $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 217,551	$ 6,831	$ 114,840
HST recoverable	30,297	19,167	11,725
Other receivable	–	1,475	–
Prepaid expenses	4,425	5,775	5,000
Due from related party (Note 4)	–	–	22,520
Loans receivable (Note 5)	–	–	35,000
	252,273	33,248	189,085
DEFERRED FINANCING COSTS	–	–	28,161
DEFERRED ACQUISITION COSTS (Note 6)	25,000	–	25,000
	$ 277,273	$ 33,248	$ 242,246
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	$ 31,896	$ 59,084	$ 7,123
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital (Note 7)	1,184,485	602,485	219,414
Subscriptions received (Note 7)	–	–	255,000
Contributed surplus (Note 7)	78,148	33,698	33,698
Deficit	(1,017,256)	(662,019)	(272,989)
	245,377	(25,836)	235,123
	$ 277,273	$ 33,248	$ 242,246

NATURE OF BUSINESS AND CONTINUED OPERATIONS (Note 1)
COMMITMENT (Note 9)
SUBSEQUENT EVENTS (Note 12)

APPROVED ON BEHALF OF THE BOARD:

"Derek Bartlett"
Derek Bartlett, Director

"Alex Johnston"
Alex Johnston, Director

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

CADMAN RESOURCES INC.

STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian Dollars)

		2011		**2010** (Note 13)
REVENUE	$	–	$	–
GENERAL AND ADMINISTRATIVE EXPENSES				
Marketing		21,784		–
Office and miscellaneous		18,751		10,162
Professional fees		173,632		119,842
Rent (Note 4)		16,168		19,975
Share-based compensation		44,450		–
Transfer agent and filing fees		12,442		19,669
Travel and promotion		69,676		3,629
		356,903		173,277
OTHER EXPENSE (INCOME)				
Impairment of loans and interest receivable (Note 5)		–		36,595
Impairment of deferred acquisition costs (Note 6)		–		117,464
Financing costs		–		63,589
Interest and other income		(1,666)		(1,895)
NET LOSS AND COMPREHENSIVE LOSS		(355,237)		(389,030)
LOSS PER SHARE – BASIC AND DILUTED	$	(0.03)	$	(0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		11,759,185		7,769,544

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

CADMAN RESOURCES INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian Dollars)

	Common shares		Share	Contributed	Deficit	Shareholders'
	Shares	Amount (Note 13)	Subscriptions Received	Surplus (Note 13)		Equity (Deficiency) (Note 13)
		$	$	$	$	$
Balance, January 1, 2010	4,800,000	219,414	255,000	33,698	(272,989)	235,123
Shares issued for cash, net of issue costs	4,414,500	383,071	(255,000)	–	–	128,071
Comprehensive loss	–	–	–	–	(389,030)	(389,030)
Shares Cancelled	(1,000,000)	–	–	–	–	–
Balance, January 1, 2011	8,214,500	602,485	–	33,698	(662,019)	(25,836)
Share based compensation	–	–	–	44,450	–	44,450
Shares issued for cash, net of issue costs	4,270,000	582,000	–	–	–	582,000
Comprehensive loss	–	–	–	–	(355,237)	(355,237)
Balance, December 31, 2011	12,484,500	1,184,485	–	78,148	(1,017,256)	245,377

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

CADMAN RESOURCES INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(Expressed in Canadian Dollars)

	2011	2010
OPERATING ACTIVITIES		
Net loss	$ (355,237)	$ (389,030)
Items not involving cash:		
Impairment of deferred acquisition costs	–	117,464
Financing costs	–	15,000
Impairment of loans and interest receivable	–	36,595
Share-based compensation	44,450	–
	(310,787)	(219,971)
Changes in non-cash working capital items:		
HST recoverable	(11,130)	(7,442)
Other receivable	1,475	(1,475)
Prepaid expenses	1,350	(775)
Due from related party	–	20,925
Accounts payable and accrued liabilities	(27,188)	51,961
Cash used in operating activities	(346,280)	(156,777)
INVESTING ACTIVITIES		
Deferred acquisition costs	(25,000)	(92,464)
Cash used in investing activities	(25,000)	(92,464)
FINANCING ACTIVITIES		
Common shares issued, net	582,000	141,232
Cash provided by financing activities	582,000	141,232
INCREASE (DECREASE) IN CASH	210,720	(108,009)
CASH AND CASH EQUIVALENTS, BEGINNING	6,831	114,840
CASH AND CASH EQUIVALENTS, ENDING	$ 217,551	$ 6,831
SUPPLEMENTAL INFORMATION:		
Interest paid	$ –	$ –
Income taxes paid	$ –	$ –

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

1. NATURE OF BUSINESS AND CONTINUED OPERATIONS

Cadman Resources Inc. ("the Company") was incorporated pursuant to the British Columbia Business Corporation Act on November 13, 2007. The Company is a "Capital Pool Company" ("CPC"), as defined in the policies of the TSX Venture Exchange (the "Exchange"). The Company's shares were listed on the Exchange effective July 10, 2008. The head office, principal address and records of the office of the Company are located at 336-9 Queen Street South, Mississauga, Ontario L5M 1M2.

On December 23, 2010, the Company terminated an agreement entered into on August 5, 2009 and amended on December 9, 2009 with SamLorne Limited ("SamLorne") to purchase all the outstanding shares of SamLorne. SamLorne has an option agreement to acquire a 70% interest in the Fanggelewan Silver-Lead property in Henan Province, Peoples Republic of China and the exploration and mining rights associated with that property (see Note 6). The completion of the acquisition would have constituted the Company's Qualifying Transaction. As the Company failed to complete a Qualifying Transaction within the prescribed time frame under the Exchange's policy, the Company cancelled 1,000,000 seed common shares subscribed by directors of the Company and transferred the listing of the Company's shares to the NEX Board. On March 6, 2012 the Company submitted an application to the Canadian National Stock Exchange (the "CNSX") to transfer its listing to CNSX and on April 2, 2012, the Company received conditional approval for listing on the CNSX (see Note 12 (b)).

As at December 31, 2011, the Company had no business operations. As a CPC, the Company's principal business is the identification and evaluation of assets, properties or businesses with a view to acquisition or participation therein subject, in certain cases, to shareholders' approval and acceptance by the Exchange. Where an acquisition or participation in a Qualifying Transaction is warranted, additional funding may be required. The ability of the Company to fund its potential future operations and commitments is dependent upon the ability of the Company to obtain additional financing.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a forced liquidation. These financial statements do not give effect to adjustments that would be necessary to the carrying amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PREPARATION

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first annual financial statements presented in accordance with IFRS. Previously the Company prepared its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, profit and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. BASIS OF PREPARATION (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed below.

These financial statements were approved and authorized for issuance by the Company's Board of Directors on April 25, 2012.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Measurement basis

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

(b) Cash and cash equivalents

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

(c) Use of Estimates

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

(d) Share Issuance Costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed, or for which successful completion is considered unlikely, are charged to operations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) **Financial instruments**

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

i. Financial assets

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

ii. Financial liabilities

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

(f) Share based payments

The Company accounts for share-based payments awards granted to employees and consultants using the fair value method. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest, using the Black-Scholes option pricing model. The amount recognized as expense is adjusted to reflect the number of share options expected to vest at each reporting period.

(g) Income taxes

Income tax expense comprises current and deferred tax and is recognized in operations except to the extent that it relates to business combinations, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for temporary differences in assets and liabilities arising in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, transactions relating to investments in jointly controlled entities to the extent that they will not reverse in the foreseeable future, and transactions arising on the initial recognition of goodwill. Deferred tax is recognized at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Income taxes (continued)

A deferred tax assets is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(h) Loss per share

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

(i) Impairment

At each reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication of impairment. If any indication exists, then the asset's recoverable amount is estimated to determine the extent of the impairment, if any. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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 assets.

An impairment loss is recognized in operations if the carrying amount of an asset exceeds its recoverable amount. For an asset that does not generate independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

(j) New standards and interpretations not yet adopted

The following new standards and amendments to standards and interpretations have been published that are not effective for the year ended December 31, 2011 and have not been applied in preparing these condensed interim financial statements. The extent of impact of adoption of these standards and interpretations on the condensed interim financial statements has not been determined.

International Accounting Standards		Effective Date
IFRS 9 – Financial Instruments	In November 2009, as part of the International Accounting Standards (IASB) project to replace International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement, the IASB issued the first phase of IFRS 9 Financial Instruments, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.	January 1, 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) New standards and interpretations not yet adopted (continued)

International Accounting Standards		Effective Date
IFRS 11 – Joint Arrangements	IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures,* and SIC 13, *Jointly Controlled Entities – Non-monetary Contributions.*	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.	January 1, 2013
IFRS 13 – Fair Value Measurement	IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.	January 1, 2013
IAS 27 – Separate Financial Statements	As a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee.	January 1, 2013

4. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011, the Company incurred rent expenses of $nil (2010 - $4,357) to a company controlled by an individual related to a director of the Company. The transactions were measured at exchange amounts, which were the amounts agreed upon by the transacting parties and are on terms and conditions similar to non-related entities. At January 1, 2010, amount due from this Company of $22,520 was non-interest bearing, unsecured and fully repaid in October 2010.

During the year ended December 31, 2010, the Company advanced a loan of $10,000 to a company with two common directors. The loan was interest bearing at a rate of 5% per annum, unsecured with due date of December 31, 2010. The loan was made pursuant to an agreement to acquire a mineral property from the company (as described in Note 5). At December 31, 2010, the loan was impaired and charged to operations as the acquisition was terminated and the repayment of the loan was considered unlikely.

During the year ended December 31, 2011, the Company incurred share-based compensation expense of $44,450 (2010 - $nil) from options granted to key management personnel.

At December 31, 2011, accounts payable and accrued liabilities included $1,790 (2010 - $nil) for amounts due to a director.

5. LOANS RECEIVABLE

	SamLorne	Newport Gold Inc	Total
Balance January 1, 2010	$ 25,000	$ 10,000	$ 35,000
Interest accrued at 4.6%	957	638	1595
Loans and interest impaired	(25,957)	(10,638)	(36,595)
Balance December 31, 2010 and 2011	$ –	$ –	$ –

The Company impaired the loans and the related interest due from SamLorne and Newport Gold as the agreements to acquire these companies were terminated and the repayment of these loans was considered unlikely.

6. DEFERRED ACQUISTION COSTS

	Golden Star Block	Fanggelewan	Total
Balance January 1, 2010	$ –	$ 25,000	$ 25,000
Legal, geological, engineering and travel	–	92,464	92,464
Impairment	–	(117,464)	(117,464)
Balance December 31, 2010	$ –	$ –	$ –
Refundable Deposit	25,000	–	25,000
Balance December 31, 2011	25,000	–	25,000

6. DEFERRED ACQUISTION COSTS (continued)

Gold Star Block, Ontario, Canada

Pursuant to a non-binding letter of intent for a property option agreement, the Company paid a refundable deposit of $25,000 to acquire a 55% undivided interest in 2 blocks of mining claims, leases and patents, known as the Golden Star Block and the Baseline/Nugget Block, that are located in Northwestern Ontario. Subject to a final definitive agreement with the vendor (see Note 12 (a)), the Company agreed to pay $275,000 in cash, $240,000 by issuance of 960,000 common shares of the Company and incur exploration expenditures of $600,000 on the properties as follows:

	Cash Payments	Number of Common Shares	Exploration Expenditures
(i) Within in 30 days after the closing date of the agreement (paid)	$ 25,000	–	$ –
(ii) Within 5 days after listing of the Company's shares on the CNSX	–	960,000	–
(iii) Within 3 months after the closing date	100,000	–	
(iv) Within 12 months after the closing date	150,000	–	250,000
(v) Within 24 months after the closing date	–	–	350,000
	$ 275,000	960,000	$ 600,000

The final agreement is conditional on completion of satisfactory due diligence by the Company and receipt of all other necessary corporate, regulatory and securities law approvals.

The property is subject to a 6% Net Smelter Return (NSR). The Company can purchase up to an aggregate of 3% of the NSR for $1,500,000.

Fanggelewan Silver-Lead Property, Henan, China

Fanggelewan Silver-Lead property is a 1.75 square kilometre property located in Henan Province, Peoples Republic of China. SamLorne entered into an option agreement dated April 1, 2009 to acquire a 70% interest in the property and the associated exploration rights and mining rights for payment of US$1,500,000. The Company terminated the agreement to acquire SamLorne on December 23, 2010 (see Note 1) and wrote-off the deferred acquisition costs of $117,464.

7. SHARE CAPITAL

Authorized:
An unlimited number of common shares without par value.

On February 11, 2010, the Company closed a non-brokered private placement of 4,414,500 common shares at a price of $0.10 per share for gross proceeds of $441,450, $255,000 of which was received as of December 31, 2009. The Company incurred finders' fees of $44,145 and issue costs of $14,234 in relation to the private placement.

On December 23, 2010, the Company cancelled 1,000,000 common shares in accordance with the Exchange's policy with respect to a CPC.

7. SHARE CAPITAL (continued)

On March 3, 2011, pursuant to a non-brokered private placement, the Company issued 4,000,000 common shares at a price of $0.15 per share for gross proceeds of $600,000. The Company paid $18,000 and issued 270,000 common shares at a fair value of $40,500 as finder fees.

Escrowed Shares:

At December 31, 2011, 1,400,000 common shares issued and outstanding were held in escrow with 10% to be released on the completion of a Qualifying Transaction, and 15% to be released every six months thereafter.

Stock Options:

The Company has an incentive share option plan for granting options to directors, employees and consultants, under which the total outstanding options are limited to 10% of the outstanding common shares of the Company at any one time. Under the plan, the exercise price of an option shall not be less than the discounted market price at the time of granting, or as permitted by the policies of the Exchange, subject to a minimum of $0.10 per common share. Options granted are non-transferable and may not exceed a term of five years from the grant date. Vesting is as determined by the directors at the time of grant.

A summary of the Company's stock option activity for the period ended December 31, 2011 is presented below:

	Number of Options	Weighted Average Exercise Price
Balance January 1, 2010	720,000	$0.10
Options cancelled	(200,000)	0.10
Agents' options expired	(240,000)	0.10
Balance, December 31, 2010	280,000	$0.10
Options Granted	200,000	0.10
Options Cancelled	(200,000)	0.10
Balance, December 31, 2011	280,000	$0.10

At December 31, 2011, 280,000 options with a weighted average remaining contractual life of 1 year were outstanding and exercisable, entitling the holders thereof the right to purchase one common share for each option held as follows:

Options	Exercise Price	Expiry Date
280,000	$0.10	January 8, 2013

7. SHARE CAPITAL (continued)

Stock Options (Continued)

Fair Value of Options Issued during the year

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

A total of 200,000 options were granted during the year ended December 31, 2011 to directors, officers and employees of the Company at a price of $0.10 per share. The options were cancelled during the year. Share-based compensation of $44,450 was charged to profit or loss.

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

	2011
Share price	$0.25
Exercise price	$0.10
Risk free interest rate	2.68%
Expected dividend yield	0%
Expected stock price volatility	125%
Expected life of options	5 years

The weighted average grant date fair value of stock options was $0.22.

8. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

		2011		**2010**
Combined statutory tax rate		26.5%		28.5%
Income tax recovery at combined statutory rate	$	94,138	$	110,874
Non-deductible item		(11,779)		–
Reduction in tax rates		(4,662)		(13,616)
Amounts not recognized		(77,697)		(97,258)
Deferred income tax recovery	$	–	$	–

8. INCOME TAXES (continued)

At December 31, 2011, the amount of deductible temporary differences for which no deferred tax asset is recognized in the statements of financial position is as follows:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Temporary Difference $	Tax Effect $	Temporary Difference $	Tax Effect $	Temporary Difference $	Tax Effect $
Non-capital losses	869,000	217,000	504,000	126,000	308,000	77,000
Loans receivables	37,000	9,000	37,000	9,000	–	–
Mineral properties	142,000	36,000	142,000	36,000	–	–
Share issue costs	108,000	27,000	143,000	36,000	72,000	18,000
	1,156,000	289,000	826,000	207,000	380,000	95,000

As at December 31, 2011, the Company has approximately $869,000 of non-capital loss carry forwards available to reduce taxable income for future years. These losses expire from 2027 to 2031 if unused.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of deferred income tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

9. COMMITMENT

The Company is a co-tenant to an office lease agreement requiring an annual minimum lease payment of $8,800 until April 2013.

10. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to complete a qualifying transaction and to safeguard the Company's ability to continue as a going concern (see Note 1). The Company does not have any externally imposed capital requirements to which it is subject.

The Company seeks to manage capital to provide adequate funding for its projects while minimizing dilution for its existing shareholders. As the Company has no practical ability presently to raise money by long term or other debt, for practical purposes all of its capital management is directed towards management of its equity, warrant and option issuances. There is thus very limited flexibility in its capital management.

11. FINANCIAL INSTRUMENTS AND RISK

Fair value

As at December 31, 2011, the Company's financial instruments consist of cash and cash equivalents and accounts payable. The fair values of these financial instruments approximate their carrying values because of their current nature.

11. FINANCIAL INSTRUMENTS AND RISK (continued)

Fair value (continued)

IFRS 7 “Financial Instruments – Disclosures”, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. IFRS 7 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

The Company’s financial instruments measured at fair value on a recurring basis at December 31, 2011 is as follows:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalent	$ 217,551	$ -	$ -	$ 217,551

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with a financial institution.

Liquidity Risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company’s financial liabilities have contractual maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed Commercial Paper or similar instruments.

Foreign Exchange Risk

The Company does not have any foreign exchange risk as all of its transactions are in Canadian dollars.

Interest Rate Risk

The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions. At December 31, 2011, the Company held a $100,000 and a $100,342 one-year term deposit in interest bearing instruments.

12. SUBSEQUENT EVENTS

a) On March 6, 2012, the Company signed a definitive agreement with Q-Gold Resources Ltd. (see Note 6).

b) On April 2, 2012, the Company received conditional approval for listing on the CNSX. The Company expects to delist from the NEX concurrently with listing on the CNSX (See Note 1).

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING

For all periods up to and including the year ended December 31, 2010, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after January 1, 2011 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at January 1, 2010, the Company's date of transition to IFRS.

This note explains the principal adjustments made by the Company in restating its Canadian GAAP statement of financial position as at January 1, 2010 and the GAAP financial statements for the year ended December 31, 2010.

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company has applied the following exemptions to its opening statement of financial position dated January 1, 2010:

Share-based payment transactions

IFRS 1 encourages, but 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 later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to July 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 Canadian GAAP estimates for that date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the first time adoption of IFRS did not have an impact on the total operating, investing or financing cash flows, it has resulted in changes to the Company's reported financial position. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statements of net income and comprehensive income for the year ended December 31, 2010 have been reconciled to IFRS without differences. In addition, the statements of financial position as at January 1, 2010 and December 31, 2010 have been reconciled with the resulting differences explained.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING (continued)

The January 1, 2010 Canadian GAAP financial position has been reconciled to IFRS without difference as follows:

	January 1, 2010		
	Canadian GAAP Balance	IFRS adjustments	IFRS Balance
	$	$	$
CURRENT ASSETS			
Cash and cash equivalent	114,840	-	114,840
GST/HST recoverable	11,725	-	11,725
Prepaid expenses	5,000	-	5,000
Due from related party	22,520	-	22,520
Loan receivable	35,000	-	35,000
	33,248	-	33,248
DEFERRED FINANCING COSTS	28,161	-	28,161
DEFERRED ACQUISITION COSTS	25,000	-	25,000
	242,246	-	242,246
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	7,123	-	7,123
SHAREHOLDERS' EQUITY			
Share capital	219,414	-	219,414
Subscription received	255,000	-	255,000
Contributed surplus	33,698	-	33,698
Deficit	(272,989)	-	(272,989)
	235,123	-	235,123
	242,246	-	242,246

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING (continued)

The Canadian GAAP statement of operations for the year ended December 31, 2010 has been reconciled to the December 31, 2010 statement of comprehensive loss under IFRS without differences as follows:

	Canadian GAAP balance	IFRS adjustments	IFRS Balance
	$	$	$
GENERAL AND ADMINISTRATIVE EXPENSES			
Office and miscellaneous	10,162	-	10,162
Professional fees	119,842	-	119,842
Rent	19,975	-	19,975
Transfer agent and filing fees	19,669	-	19,669
Travel and promotion	3,629	-	3,629
	173,277	-	173,277
OTHER EXPENSES (INCOME)			
Impairment of loans and interest receivable	36,595	-	36.595
Impairment of deferred acquisition costs	117,464	-	117,464
Financing costs	63,589	-	63,589
Interest and other income	(1,895)	-	(1,895)
NET LOSS AND COMPREHENSIVE LOSS	(389,030)	-	(389,030)

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING (continued)

The Canadian GAAP statement of financial position at December 31, 2010 has been reconciled to IFRS with differences as follows:

	December 31, 2010		
	Canadian GAAP Balance	IFRS adjustments	IFRS Balance
	$	$	$
CURRENT ASSETS			
Cash and cash equivalent	6,831	-	6,831
GST recoverable	19,167	-	19,167
Other receivable	1,475	-	1,475
Prepaid expenses	5,775	-	5,775
	33,248	-	33,248
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	59,084	-	59,084
SHAREHOLDERS' EQUITY			
Share capital (Note 13 (a))	537,085	65,400	602,485
Contributed surplus (Note 13 (a))	99,098	(65,400)	33,698
Deficit	(662,019)	-	(662,019)
	(25,836)	-	(25,836)
	33,248	-	33,248

Notes to reconciliations

a) On December 23, 2010, the Company cancelled 1,000,000 common shares in accordance with the Exchange's policy with respect to a CPC. Pursuant to the CICA Handbook Section 3240, Share Capital, the average per share capital attributable to these shares in the amount of $65,400 was deducted from share capital with a corresponding increase in contributed surplus. As no consideration was paid or received to cancel the shares, pursuant to IAS 32, Financial Instruments: Presentation, the carrying amount of the share capital should not be adjusted.