# VIPER GOLD LTD.

## (Formerly LeBoldus Capital Inc.)

## CONDENSED INTERIM FINANCIAL STATEMENTS

## For the Nine Months Ended

## September 30, 2011 and 2010

## (Unaudited)

*(Expressed in Canadian Dollars)*

**Notice to Readers:**

These unaudited condensed financial statements of Viper Gold Ltd. ("the Company") have not been reviewed by the auditors of the Company. This notice is being provided in accordance with Section 4.3(3)(a) of National Instrument 51-102 Continuous Disclosure Obligations

**Viper Gold Ltd.**
**Condensed Interim Statements of Financial Position**
*(Expressed in Canadian Dollars)*
*(Unaudited)*

| | Notes | As at September 30, 2011 | As at December 31, 2010 |
|---|---|---|---|
| | | | *(Note 14)* |
| **Assets** | | | |
| **Current assets** | | | |
| Cash | | $ 281,766 | $ 1,323,599 |
| Amounts receivable | | 35,903 | 18,609 |
| Prepaid expenses and deposits | | 2,660 | 9,076 |
| | | 320,329 | 1,351,284 |
| | | | |
| Equipment | 5 | 2,536 | 1,051 |
| Exploration and evaluation assets | 6 | 1,244,525 | 330,982 |
| **Total assets** | | $ 1,567,390 | $ 1,683,317 |
| | | | |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | $ 95,832 | $ 83,886 |
| | | | |
| **Shareholders' Equity** | | | |
| Share capital | 7 | 1,487,051 | 1,375,051 |
| Warrants | 7 | 417,664 | 422,583 |
| Share-based payments reserve | | 188,815 | 44,582 |
| Deficit | | (621,972) | (242,785) |
| **Total equity** | | 1,471,558 | 1,599,431 |
| **Total liabilities and equity** | | $ 1,567,390 | $ 1,683,317 |

*Going concern (note 2)*
*Commitments and contingencies (note 12)*

Approved on Behalf of the Board:

| | |
|---|---|
| *Joseph Del Campo* | *Paul C. Davis* |
| Director | Director |

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

**Viper Gold Ltd.**

**Condensed Interim Statements of Loss and Comprehensive Loss**

*(Expressed in Canadian Dollars)*

*(Unaudited)*

| | | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|---|
| | ***Notes*** | **2011** | **2010** | **2011** | **2010** |
| | | | *(Note 14)* | | *(Note 14)* |
| **Expenses** | | | | | |
| Share-based payments | *8* | $ - | $ 30,156 | $ 139,314 | $ 30,156 |
| General and administrative expenses | | 25,924 | 12,404 | 138,703 | 31,271 |
| Professional and consulting fees | | 26,543 | (6,448) | 100,858 | (6,293) |
| Amortization | | 104 | - | 312 | - |
| Interest (income) | | - | (43) | - | (173) |
| | | 52,571 | 36,069 | 379,187 | 54,961 |
| **Net loss and comprehensive loss for the period** | | $ (52,571) | $ (36,069) | $ (379,187) | $ (54,961) |
| Basic and diluted loss per share | *9* | $ (0.00) | $ (0.01) | $ (0.03) | $ (0.01) |
| Weighted average number of common shares | | 12,105,000 | 5,480,435 | 11,905,000 | 4,830,403 |

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

**Viper Gold Inc.**

**Condensed Interim Statements of Changes in Equity**

*(Expressed in Canadian Dollars)*

*(Unaudited)*

| | Notes | Capital stock: Number of shares | Capital stock: Amount | Warrants | Share-based payments reserve | Deficit | Total Equity |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2010 | | 11,705,000 | $ 1,375,051 | $ 422,583 | $ 44,582 | $ (242,785) | $ 1,599,431 |
| Issued to Duran for mineral properties | *7 (a)(ii)* | 300,000 | 72,000 | - | - | - | 72,000 |
| Issued for mineral exploration properties | *7 (a)(ii)* | 200,000 | 40,000 | - | - | - | 40,000 |
| Share-based payments | *8* | - | - | - | 139,314 | - | 139,314 |
| Expiry of warrants | | | | (4,919) | 4,919 | - | |
| Net loss | | - | - | - | - | (379,187) | (379,187) |
| **Balance at September 30, 2011** | | 12,205,000 | $ 1,487,051 | $ 417,664 | $ 188,815 | $ (621,972) | $ 1,471,558 |
| Balance at January 1, 2010 | | 2,500,000 | $ 231,926 | $ - | $ 20,255 | $ (90,782) | $ 161,399 |
| Issued on private placement | *7 (a)(i)* | 3,750,000 | 550,000 | - | - | - | 550,000 |
| Issued for mineral exploration properties | *7 (a)(ii)* | 300,000 | 60,000 | - | - | - | 60,000 |
| Fair value attributed to warrants on private placement issuance | | - | (94,061) | 94,061 | - | - | - |
| Fair value of issued finder's warrants | | - | - | 8,138 | - | - | 8,138 |
| Share-based payments | | - | - | - | 30,156 | - | 30,156 |
| Share issuance cost | | - | (178,266) | - | - | - | (178,266) |
| Net loss | | - | - | - | - | (54,961) | (54,961) |
| **Balance at September 30, 2010** | | 6,550,000 | $ 569,599 | $ 102,199 | $ 50,411 | $ (145,743) | $ 576,466 |

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

**Viper Gold Ltd.**
**Condensed Interim Statements of Cash Flows**
*(Expressed in Canadian Dollars)*
*(Unaudited)*

| | Notes | For the nine months ended September 30, 2011 | 2010 |
|---|---|---|---|
| | | | *(Note 14)* |
| **Cash flows from operating activities** | | | |
| Net loss for the period | | $ (379,187) | $ (54,961) |
| **Adjustments to reconcile net loss to net cash flows:** | | | |
| **Non-cash adjustments:** | | | |
| Amortization | | 312 | - |
| Share-based payments | *8* | 139,314 | 30,156 |
| | | (239,561) | (24,805) |
| **Working capital adjustments:** | | | |
| Increase in amounts receivable | | (17,294) | (5,059) |
| Decrease (increase) in prepaid expenses | | 6,416 | - |
| Increase (decrease) in accounts payable and accrued liabilities | | 11,946 | (18,705) |
| **Net cash flows (used in) from operating activities** | | (238,493) | (48,569) |
| **Cash flows from investing activities** | | | |
| Purchase of equipment | | (1,797) | (1,259) |
| Addition to exploration and evaluation assets | | (801,543) | (285,982) |
| Refund of Kinetex purchase agreement | | - | 25,000 |
| **Net cash flows used in investing activities** | | (803,340) | (262,241) |
| **Cash flows from financing activities** | | | |
| Proceeds on private placement - gross | *7 (a)(i)* | - | 550,000 |
| Share issue costs | | - | (170,128) |
| **Net cash flows from financing activities** | | - | 379,872 |
| **Net (decrease) increase in cash and cash equivalents** | | (1,041,833) | 69,062 |
| Cash and cash equivalents - Beginning of the period | | 1,323,599 | 155,466 |
| **Cash and cash equivalents - End of the period** | | $ 281,766 | $ 224,528 |
| **Suplemental information:** | | | |
| Common shares issued for interest in exploration properties | *7 (b)(ii)* | $ 112,000 | $ - |

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

## 1. NATURE OF OPERATIONS

Viper Gold Ltd. (formerly LeBoldus Capital Inc.) (the “Company”) was incorporated in Canada pursuant to the provisions of the Business Corporations Act (Alberta) on January 29, 2008. Until August 19, 2010, the Company was classified as a capital pool company as defined by TSX Venture Exchange (the “TSXV”) Policy 2.4. During the year ended December 31, 2010, the Company completed its Qualifying Transaction, namely, the optioning of the Corongo Property as described in Note 6. The Company is a public corporation whose shares are listed and posted for trading on the TSXV under the symbol “VPR” (formerly “LEB”). The Company is in the business of acquiring and exploring mineral properties with a view to developing mineable deposits of precious and base metals.

The address of the Company’s executive office is: First Canadian Place, Suite 5700, 100 King Street West, Toronto, Ontario, M5X 1C7, Canada.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The recoverability of the carrying value of exploration properties and the Company’s continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write downs of the carrying values. The Company’s interest in the Corongo Property is located outside of Canada and is subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations, and political uncertainties.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current state of exploration of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory and environmental requirements.

## 2. GOING CONCERN

The Company is in the development stage and has entered into option agreements providing for the right to acquire an interest in certain mineral claims in Peru and Canada, from which no revenue has yet been generated. The exploration and development of mineral properties involves significant financial risk, with recoverability of costs incurred being subject to future profitable production from economically recoverable reserves and/or financing through issuance of shares or sale of property interests.

These condensed interim financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in these condensed interim financial statements. The continuing operations of the Company are dependent upon its ability to obtain the necessary financing to meet ongoing administration expenses and related liabilities as they fall due.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These unaudited condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, using the accounting policies the Company expects to adopt in its financial statements as at and for the year ending December 31, 2011. The same accounting policies and methods of computation were followed in the preparation of these unaudited condensed interim financial statements as were followed in the preparation of the unaudited condensed interim financial statements for the three months ended March 31, 2011.

The unaudited condensed interim financial statements for the three months ended March 31, 2011 contain certain incremental annual IFRS disclosures not included in the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian generally accepted accounting principles ("Canadian GAAP"). Accordingly, these unaudited condensed interim financial statements for the three and nine months ended September 30, 2011 should be read in conjunction with the annual financial statements for the year ended December 31, 2010 prepared in accordance with previous Canadian GAAP, as well as the unaudited condensed interim financial statements for the three months ended March 31, 2011.

The accounting policies applied in these unaudited condensed interim financial statements are based on IFRS issued and outstanding as of November 23, 2011, the date the Board of Directors approved these statements. Any subsequent changes to IFRS that are given effect in the Company's annual financial statements for the year ending December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments recognized on change-over to IFRS.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

### (b) Basis of preparation

These condensed interim financial statements are presented in Canadian dollars. The financial statements are prepared on the historical cost basis. In addition, these financial statements are prepared using the accrual basis of accounting except for cash flow information.

### (c) Accounting standards issued but not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these condensed interim financial statements.

- IFRS 9, *Financial Instruments*, addresses the classification and measurement of financial assets;
- IFRS 10*, Consolidated Financial Statements*, builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company;
- IFRS 11, *Joint Arrangements*, establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled;

*(Expressed in Canadian Dollars)*

- IFRS 12, *Disclosure of Interest in Other Entities*, provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities;
- IFRS 13, *Fair Value Measurement*, defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

None of these standards are expected to have a significant effect on the financial statements of the Company.

## 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

i. the recoverability of exploration and evaluation assets which are included in the condensed interim statement of financial position;
ii. the inputs used in accounting for valuation of warrants and options which are included in the condensed interim statement of financial position;
iii. the inputs used in accounting for share purchase option expense in the condensed interim statement of loss and comprehensive loss;
iv. the nil provision for asset retirement obligations which is included in the condensed interim statement of financial position; and
v. the nil provision for income taxes which is included in the condensed interim statements of loss and comprehensive loss and composition of deferred income tax assets and liabilities included in the condensed interim statement of financial position at September 30, 2011.

## 5. EQUIPMENT

| | Cost | Accumulated depreciation | Net book value |
|---|---|---|---|
| As at September 30, 2011 | $ 3,056 | $ 520 | $ 2,536 |
| As at December 31, 2010 | $ 1,259 | $ 208 | $ 1,051 |
| As at January 1, 2010 | $ - | $ - | $ - |

*(Expressed in Canadian Dollars)*

## 6. EXPLORATION AND EVALUATION ASSETS

| | Balance January 1, 2010 | 2010 Additions | Balance December 31, 2010 | 2011 Additions | Balance September 30, 2011 |
|---|---|---|---|---|---|
| **Corongo Property** | $ - | $ 330,982 | $ 330,982 | $ 816,834 | $ 1,147,816 |
| **Campbell Lake Property** | - | - | - | 50,000 | 50,000 |
| **Currie-Bowman Property** | - | - | - | 46,709 | 46,709 |
| | $ - | $ 330,982 | $ 330,982 | $ 913,543 | $ 1,244,525 |

**Corongo:**

On March 17, 2010, the Company entered into an option agreement ("Option Agreement") with Duran Ventures Inc. ("Duran"), an arm's length resources company, and its subsidiary Minera Aguila de Oro S.A.C. ("Minera"), providing for the right to acquire a 50% interest in certain mineral claims comprising a prospective gold property known as the Corongo Property in Peru. The Option Agreement was subsequently amended June 22, 2010 and August 5, 2010. The Option Agreement, as amended, provides for the acquisition of a 50% interest in certain mineral claims comprising the Corongo Property in consideration for: (i) the payment of US$25,000 (paid) in cash upon execution of the Agreement, (ii) the Company incurring not less than US$1,000,000 in exploration expenditures on the Corongo Property (US$1,000,000 has been incurred) prior to March 10, 2012; and (iii) the issuance of 1,000,000 common shares in the capital of the Company as to: (a) 300,000 common shares on or prior to the closing of the Qualifying Transaction (issued and valued at $45,000); (b) 300,000 common shares on or prior to March 10, 2011 (issued and valued at $72,000); and (c) 400,000 common shares on or prior to March 10, 2012. The Company is the operator of the project.

The right of the Company to acquire a 50% interest in the Corongo Property is an option only. The Company is not required to complete any further cash payments, exploration expenditures or share issuances under the Option Agreement and may terminate its option at any time without further obligation to Duran under the Option Agreement.

**Campbell Lake:**

On August 15, 2011, the Company entered into a property option agreement with a local prospector (the “Vendor”), whereby the Company can acquire an undivided 100% interest in certain unpatented mining claims known as the Campbell Lake Property, consisting of 96 claim units representing approximately 1,500 hectares in northeastern Ontario. The Company can earn a 100% interest over a two-year period by making option payments totaling $100,000 ($10,000 has been paid) and issuing 600,000 common shares (200,000 issued and valued at $40,000). The Vendor will retain a 2% Net Smelter Royalty, 1% of which can be purchased by the Company for $1,000,000.

**Currie-Bowman:**

On August 8, 2011, the Company staked approximately 5,900 hectares of prospective unpatented mining claims in northern Ontario. The Company holds a 100% interest in the staked mining claims, which are valid for two years from the date of recording, and can be held for additional years by completing a minimum of $400 of work per 16 hectare unit per year.

## 7. SHARE CAPITAL AND OTHER EQUITY

*(a) Authorized, issued and outstanding shares*

Authorized:
- unlimited number of common shares without par value
- unlimited number of preferred shares issuable in series

Issued:
12,205,000 and 11,705,000 common shares as at September 30, 2011 and December 31, 2010, respectively.

*(i) Private placements*

On February 25, 2010, the Company issued 2,000,000 common shares at a price of $0.10 per share for gross aggregate proceeds of $200,000.

On August 17, 2010, the Company issued a total of 1,750,000 units at a price of $0.20 per unit for gross proceeds of $350,000. Each unit consisted of one common share and one common share purchase warrant of the Company with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.40 per share for a period of 24 months from the closing of the offering, subject to acceleration in certain circumstances. Directors and officers of the Company subscribed for an aggregate of 300,000 units for gross proceeds of $60,000 pursuant to this financing.

On December 17, 2010, the Company issued a total of 5,155,000 units at a price of $0.25 per unit for gross proceeds of $1,288,750. Each unit consisted of one common share and one common share purchase warrant of the Company with each warrant entitling the holder to purchase one additional common share of the Company at a price of $0.30 per share for a period of 24 months from the closing of the offering, subject to acceleration in certain circumstances.

*(ii) Shares issued for mineral exploration properties*

On August 17, 2010, the Company issued 300,000 common shares valued at $0.15 per share based on the price of the financing that closed August 17, 2010, to Duran under the Option Agreement described in note 6. On March 10, 2011, the Company issued another 300,000 common shares valued at $0.24 per share (being the market value on the date of issue) to Duran pursuant to the Option Agreement.

On August 15, 2011, the Company issued 200,000 common shares valued at $0.20 per share (being the market value on the date of issue) pursuant to the option agreement on the Campbell Lake Property (see note 6).

*(Expressed in Canadian Dollars)*

*(b) Warrants*

Details of common share purchase warrants outstanding at September 30, 2011 are as follows:

| | Number of Warrants | Exercise price | Expiry date |
|---|---|---|---|
| Share purchase warrants | | | |
| Issued on private placement | 1,750,000 | $0.40 | August 17, 2012 |
| Issued on private placement | 5,155,000 | $0.30 | December 17, 2012 |
| Agents' compensation warrants | 409,200 | $0.25 | December 17, 2011 |
| | 7,314,200 | | |

Common share purchase warrant transactions during the nine month period ending September 30, 2011 and for the year ended December 31, 2010 are as follows:

| | September 30, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Number of Warrants | Weighted average exercise price | Fair Value | Number of Warrants | Weighted average exercise price | Fair Value |
| Outstanding – beginning of the year | 7,418,200 | $ 0.32 | $ 422,583 | - | - | - |
| Issued | - | - | - | 7,418,200 | $ 0.32 | $ 477,027 |
| Expired | (104,000) | $ 0.20 | (4,919) | - | - | - |
| Less: issue costs | | | - | | | (54,444) |
| Outstanding – end of the period | 7,314,200 | $ 0.32 | $ 417,664 | 7,418,200 | $ 0.32 | $ 422,583 |

The fair value of the 1,750,000 warrants and 104,000 finders' warrants issued in connection with the private placement that closed on August 17, 2010 has been estimated at $81,094 and $4,919 respectively, using the Black-Scholes option pricing model. The following weighted average assumptions were used: Risk-free interest rate – 1.39%; Expected volatility – 100%; Expected dividend yield – nil; Expected life – 2 years and 1 year, respectively.

The grant date fair value of the 5,155,000 warrants and 409,200 finders' warrants issued in connection with the private placement that closed on December 17, 2010 has been estimated at $370,088 and $20,926 respectively, using the Black-Scholes option pricing model. The following weighted average assumptions were used: Risk-free interest rate – 1.63%; Expected volatility – 100%; Expected dividend yield – nil; Expected life – 2 years and 1 year, respectively.

The weighted average remaining contractual life of the issued and outstanding warrants as at September 30, 2011 was 1.03 years.

*(Expressed in Canadian Dollars)*

*(c) Share-based payments reserve*

Share-based payments reserve is primarily comprised of entries relating to share based payments and exercise of options.

## 8. SHARE - BASED PAYMENTS – SHARE OPTION PLAN

The Company has adopted a stock option plan (the "Plan") for its directors, officers, employees and consultants to acquire common shares of the Company at a price determined by the fair market value of the shares at the date immediately preceding the date on which the option is granted. The terms and conditions of the options are determined by the Board of Directors.

The aggregate number of common stock options shall not exceed 10% of the issued and outstanding common shares of the Company, with no one individual being granted more than 5% of the issued and outstanding common shares. In addition, the exercise price of options granted under the plan shall not be lower than the exercise price permitted by the TSX Venture Exchange, and all options granted under the plan will have a term not to exceed five years.

A summary of the status of the Plan as at September 30, 2011 and as at December 31, 2010, and changes during periods ended on those dates are presented below:

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Number of stock options | Weighted average exercise price | Number of stock options | Weighted average exercise price |
| Outstanding – beginning of the year | 500,000 | $0.20 | 350,000 | $0.20 |
| Granted | 581,000 | $0.38 | 250,000 | $0.20 |
| Expired | - | - | (100,000) | $0.20 |
| Outstanding – end of the period | 1,081,000 | $0.29 | 500,000 | $0.20 |

*(Expressed in Canadian Dollars)*

As at September 30, 2011, the Company had stock options issued to directors, officers and employees of the Company outstanding as follows:

| Date of grant | Number of options | Exercisable | Exercise price | Expiry date |
|---|---|---|---|---|
| July 10, 2008 | 250,000 | 250,000 | $0.20 | July 10, 2013 |
| August 17, 2010 | 200,000 | 200,000 | $0.20 | August 17, 2015 |
| October 1, 2010 | 50,000 | 37,500 | $0.20 | October 1, 2015 |
| January 26, 2011 | 481,000 | 468,500 | $0.40 | January 26, 2016 |
| March 29, 2011 | 100,000 | 100,000 | $0.26 | March 29, 2016 |
| | 1,081,000 | 1,056,000 | | |

On August 17, 2010, the Company granted options to two directors of the Company to acquire an aggregate of 200,000 options, exercisable at a price of $0.20 per common share for a period of five years from the date of grant. The options vested immediately upon grant.

On October 1, 2010, the Company granted options to a consultant to acquire an aggregate of 50,000 options, exercisable at a price of $0.20 per share for a period of five years from the date of grant. The options vest in four equal tranches every quarter with the first tranche having vested on December 31, 2010.

On January 26, 2011, the Company granted a total of 481,000 stock options to directors, officers and a consultant of the Company, exercisable at a price of $0.40 per common share for a period of five years from the date of grant. The 456,000 options granted to directors and officers vested immediately. The 25,000 options granted to the consultant vest as to ¼ on each of the 3rd, 6th, 9th, and 12th month anniversaries of the date of grant.

On March 29, 2011, the Company granted options to a director of the Company to acquire an aggregate of 100,000 stock options, exercisable at a price of $0.26 per common share for a period of five years from the date of grant, all of which vested immediately.

The fair value of the options granted in the nine months ended September 30, 2011 was estimated to be $139,314 (nine months ended September 30, 2010 - $30,156). This amount was recognized as a share-based payment expense in the nine months ended September 30, 2011 as substantially all of the options vested immediately (2010 - $30,156). The related credit is included in the share-based payments reserve.

The fair value of the options granted was determined using the Black-Scholes option pricing model, using the following range of assumptions:

| | 2011 | 2010 |
|---|---|---|
| Risk-free interest rate | 2.20% - 2.56% | 2.03% – 2.18% |
| Expected life | 5 years | 5 years |
| Expected volatility | 100% | 100% |
| Dividend yield | nil | nil |
| Exercise price | $0.20 - $0.40 | $0.20 |
| Grant date fair value per option | $0.20 - $0.25 | $0.13 |

*(Expressed in Canadian Dollars)*

## 9. LOSS PER SHARE

*(a) Basic*

Basic loss per share is calculated by dividing the net loss attributable to common shareholders by the weighted average number of ordinary shares in issue during the period.

| | For the three months ended September 30, | | For the nine months ended Sepember 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Net loss attributable to common shareholders | $ (52,571) | $ (36,069) | $ (379,187) | $ (54,961) |
| Weighted average number of ordinary shares in issue | 12,105,000 | 5,480,435 | 11,905,000 | 4,830,403 |
| Basic loss per share | $ (0.00) | $ (0.01) | $ (0.03) | $ (0.01) |

*(b) Diluted*

Diluted loss per share has not been presented as issued and outstanding warrants and options are considered to be anti-dilutive.

## 10. FINANCIAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

**(a) Credit risk management**

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and amounts receivables. Cash is held with a reputable Canadian financial institution, from which management believes the risk of loss is remote. Financial instruments included in amounts receivable consists of harmonized sales tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to financial instruments included in amounts receivable is minimal.

**(b) Liquidity risk**

As at September 30, 2011, the Company had working capital of $224,497 (December 31, 2010 - $1,267,398). The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. The Company has a sufficient cash balance to settle current liabilities.

**(c) Market risk**

At the present time, the Company does not hold any interest in a mining property that is in production. The Company's viability and potential success depends on its ability to develop, exploit, and generate revenue from the development of mineral deposits. Revenue, cash flow, and profits from any future mining operations in which the Company is involved will be influenced by precious and/or base metal prices and by the relationship of such prices to productions costs. Such prices can fluctuate widely and are affected by numerous factors beyond the Company's control.

**(d) Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Company is required to make all exploration expenditures required under the Option Agreement in US dollars (Note 6). As at September 30, 2011, the Company had cash balances of $82,570 (December 31, 2010 - $ Nil) in U.S. dollars.

Sensitivity to a plus or minus 5% change in the foreign exchange rate would have affected the net loss by approximately $4,000 in the nine month period ended September 30, 2011.

The Company does not undertake currency hedging activities to mitigate its foreign currency risk.

**(e) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances and currently does not carry interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its financial institutions. It is management's opinion that the Company is not exposed to significant interest rate risk.

**(f) Commodity price risk**

The ability of the Company to develop its properties and the future profitability of the Company is directly related to the market price of certain minerals.

**(g) Fair value of financial assets and liabilities**

The book values of the cash, amounts receivable, and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments.

The fair values together with the carrying amounts shown in the statements of financial position are as follows:

| | As at September 30, 2011 | | As at December 31, 2010 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Cash | $ 281,766 | $ 281,766 | $1,323,599 | $1,323,599 |
| Amounts receivable | 35,903 | 35,903 | 18,609 | 18,609 |
| Accounts payable and accrued liabilities | (95,832) | (95,832) | (83,886) | (83,886) |
| Unrecognized (losses) / gains | | $ - | | $ - |

*(Expressed in Canadian Dollars)*

## 11. CAPITAL RISK MANAGEMENT

The Company defines capital as Shareholders' Equity which at September 30, 2011 was $1,471,558 (December 31, 2010 - $1,599,431). The Company manages its capital structure and makes adjustments to it, in order to have the funds available to support its exploration, development and operations activities.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the exploration of its mineral properties and maximize shareholder returns. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing bank indebtedness or equity issues, as necessary, based on the prevalent economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. As at September 30, 2011, the Company had no bank debt.

Management reviews its capital management approach on an ongoing basis. There were no changes in the Company's approach to capital management during the nine month period ended September 30, 2011. The Company is not subject to externally imposed capital requirements.

## 12. COMMITMENTS AND CONTINGENCIES

### (a) Consulting agreements

On October 1, 2010, the Company engaged Advanture Capital Partners Inc. ("Advanture") to provide investor relations, corporate communications and marketing services. The agreement with Advanture was for an initial term of six months beginning October 1, 2010 and it was extended for a further six months. The Company is committed to monthly cash payments of $6,500. A grant of 50,000 stock options in the capital of the Company at an exercise price of $0.20 per share was made to Advanture, effective October 1, 2010. Another grant of 25,000 stock options in the capital of the Company at an exercise price of $0.40 per share was made to Advanture, effective January 26, 2011.

On October 27, 2010 (effective August 17, 2010), the Company entered into a consulting agreement with Paul C. Davis, the Company's President and Chief Executive Officer, to provide management services to the Company. The Company will pay Mr. Davis a per diem rate of $650 to a maximum of $4,000 monthly, along with a vehicle allowance of $55 per day to a maximum of $330 per month. The agreement was for an initial one year term, expiring August 31, 2011 which has been extended to August 31, 2012.

During the third quarter 2011, the Company entered into a consulting agreement (retroactively to January 1, 2011) with Joseph Del Campo, the Company's Interim Chief Financial Officer, to provide management services to the Company. The Company will pay Mr. Del Campo a monthly fee of $1,000. The agreement is for a one year term, expiring December 31, 2011.

### (b) Office lease commitment

On February 14, 2011, the Company entered into a lease agreement for office space commencing May 1, 2011. The term of the lease is for a period of two years, expiring on April 30, 2013. As part of the agreement, the Company paid a rental deposit of $1,233 to be applied to the first rental payment due and an additional $1,253 to be held as a security deposit. Future minimum rental payments under this lease are as follows:

| | |
|---|---|
| October 1, 2011 – December 31, 2011 | $ 3,700 |
| January 1, 2012 – December 31, 2012 | $14,954 |
| January 1, 2013 – April 1, 2013 | $ 3,758 |
| | $22,412 |

*(Expressed in Canadian Dollars)*

**(c) Environmental matters**

The Company currently has an interest in an exploration property in Peru. The enforcement of environmental regulation in Peru is evolving and the enforcement posture of government authorities is continually being reconsidered. The Company periodically evaluates its obligations under environmental regulations.

The Company's exploration activities are subject to various federal and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

## 13. COMPENSATION OF KEY MANAGEMENT AND RELATED PARTY TRANSACTIONS

The remuneration of directors and members of key management personnel during the nine months ended September 30, 2011 and 2010 was as follows:

| | 2011 | 2010 |
|---|---|---|
| Aggregate compensation | $ 44,100 | $ Nil |
| Share-based payments | $133,092 | $30,156 |
| | $177,192 | $30,156 |

The directors and key management were awarded the following share options under the employee share option plan during the nine months ended September 30, 2011 and 2010:

| Date of grant | Number of options | Exercise price | Expiry |
|---|---|---|---|
| January 26, 2011 | 456,000 | $0.40 | January 26, 2016 |
| March 29, 2011 | 100,000 | $0.26 | March 29, 2016 |
| August 17, 2010 | 200,000 | $0.20 | August 17, 2015 |

During the nine months ended September 30, 2011, the Company incurred legal fees in the amount of $25,398 (2010 - $51,612) from a law firm of which a director is a partner, of which $Nil (December 31, 2010 - $62,662) is included in accounts payable.

During the nine-month period ended September 30, 2011, directors and officers of the Company were paid a total of $44,100 (2010 - $nil) for services rendered, of which $3,900 (December 31, 2010 - $6,356) is included in accounts payable.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

See also Note 7 for a description of related party share subscriptions.

## 14. TRANSITION TO IFRS

As stated in Significant Accounting Policies Note 3 (a), these condensed interim financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies set out in the Significant Accounting Policies section have been applied in preparing the condensed interim financial statements for the nine months ended September 30, 2011, the comparative information presented in these financial statements for the nine months ended September 30, 2010 and in the preparation of an opening IFRS balance sheet at January 1, 2010 (the Company's date of transition).

The Company has followed the recommendations in IFRS-1 *First-time adoption of IFRS*, in preparing its transitional statements.

*IFRS Optional exemptions*

IFRS-1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS.

- Property, plant and equipment - IFRS 1 provides a one-time choice of measuring property, plant and equipment at its fair value as deemed cost at the date of transition and using those amounts as deemed cost or using the historical valuation under the prior GAAP. For the purpose of subsequent measurement, the Company has elected to apply the cost model for property, plant & equipment rather than the fair value model available under IFRS. In preparing its opening IFRS statement of financial position, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as there were no differences identified.

- Share-based payments - IFRS 2, *Share-based Payments*, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

*Mandatory exceptions to retrospective application*

Estimates: Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

Other IFRS-1 exemptions and mandatory exceptions have not been discussed above as they are not applicable to the Company.

*Changes in accounting policies*

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

i. Share-based payments

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010; and,
- From January 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the Company's policy.

*Recognition of Expense*

**Canadian GAAP -** Often in practice expense is recognized on a straight line basis over vesting period. Forfeitures may be recognized as they occur.
**IFRS -** Under IFRS 2, graded vesting awards must be accounted for as though each installment is a separate award. Forfeiture estimates are recognized in the current period and revised for actual experience in subsequent periods. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis.

The effects of the foregoing differences have had in immaterial impact on the Company as a substantial portion of the Company's options vest immediately and are recognized as an expense immediately at date of grant.

*Forfeitures*

**Canadian GAAP** – Forfeitures of awards are recognized as they occur.
**IFRS** – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No adjustments were required.

ii. Contributed surplus

**Canadian GAAP** – Amounts recorded for expired, unexercised stock options and warrants remained in contributed surplus.
**IFRS** – On transition to IFRS the Company elected to change its accounting policy for the treatment of share-based payments and warrants whereby the amounts recorded for expired, unexercised stock options and warrants are transferred to deficit. No adjustments were required.

iii. Impairments

Recoverable Amount
**Canadian GAAP** - A recoverability test is performed by first comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset does not recover its carrying value, an impairment loss is calculated as the excess of the asset's carrying amount over its fair value.
**IFRS** – The impairment loss is calculated as the excess of the asset's carrying amount over its recoverable amount, where recoverable amount is defined as the higher of the asset's fair value less costs to sell and its value-in-use. Under the value-in-use calculation, the expected future cash flows from the asset are discounted to their net present value. No adjustments were required.

Reversal of Impairment
**Canadian GAAP** - Reversal of impairment losses is not permitted.
**IFRS** - Reversal of impairment losses is required for assets other than goodwill if certain criteria are met. No adjustments were required.

*Explanation of differences impacting the Company's financial statements including IFRS 1 First-Time Adoption of International financial Reporting Standards*

IFRS 1 requires the Company to reconcile equity, comprehensive income and cash flows for prior periods. In preparing its opening IFRS consolidated statement of financial position, the Company has not adjusted amounts reported previously in financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as there were no differences identified. An explanation of how the transition from Canadian GAAP to IFRS would affected the Company's financial position, financial performance and cash flows, if there were any differences, would be set out in the following tables. The tables are unaudited.

*(Expressed in Canadian Dollars)*

### Reconciliation of equity:

| | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS | Canadian GAAP | Effect of transition to IFRS | IFRS |
|---|---|---|---|---|---|---|---|---|---|
| | January 1, 2010 | | | September 30, 2010 | | | December 31, 2010 | | |
| **Assets** | | | | | | | | | |
| **Current assets** | | | | | | | | | |
| Cash | $155,466 | - | $155,466 | $224,528 | - | $224,528 | $1,323,599 | - | $1,323,599 |
| Amounts receivable | 2,579 | - | 2,579 | 7,638 | - | 7,638 | 18,609 | - | 18,609 |
| Deffered charges | - | - | - | - | - | - | - | - | - |
| Prepaid expenses and deposits | 25,000 | - | 25,000 | - | - | - | 9,076 | - | 9,076 |
| | 183,045 | - | 183,045 | 232,166 | - | 232,166 | 1,351,284 | - | 1,351,284 |
| Equipment | - | - | - | 1,259 | - | 1,259 | 1,051 | - | 1,051 |
| Mineral Exploration Properties | - | - | - | 345,982 | - | 345,982 | 330,982 | - | 330,982 |
| **Total assets** | $183,045 | - | $183,045 | $579,407 | - | $579,407 | $1,683,317 | - | $1,683,317 |
| **Liabilities and Shareholders' Equity** | | | | | | | | | |
| **Current liabilities** | | | | | | | | | |
| Accounts payable and accrued liabilities | $ 21,646 | - | $ 21,646 | $ 2,941 | - | $ 2,941 | $ 83,886 | - | $ 83,886 |
| **Shareholders' Equity** | | | | | | | | | |
| Share Capital | 231,926 | - | 231,926 | 569,599 | - | 569,599 | 1,375,051 | - | 1,375,051 |
| Warrants | - | - | - | - | - | - | 422,583 | - | 422,583 |
| Share-based payments reserve | 20,255 | - | 20,255 | 152,610 | - | 152,610 | 44,582 | - | 44,582 |
| Accumulated OCI | - | - | - | - | - | - | - | - | - |
| Deficit | (90,782) | - | (90,782) | (145,743) | - | (145,743) | (242,785) | - | (242,785) |
| **Total equity** | 161,399 | - | 161,399 | 576,466 | - | 576,466 | 1,599,431 | - | 1,599,431 |
| **Total liabilities and equity** | $183,045 | - | $183,045 | $579,407 | - | $579,407 | $1,683,317 | - | $1,683,317 |

*(Expressed in Canadian Dollars)*

**Reconciliation of loss and comprehensive loss for the three and nine months period ended September 30, 2010 and year ended December 31, 2010:**

| | Three months period ended September 30, 2010 | | | Nine months period ended September 30, 2010 | | | Year ended December 31, 2010 | | |
|---|---|---|---|---|---|---|---|---|---|
| **Continuing Operations** | **Canadian GAAP** | **Effect of Transition to IFRS** | **IFRS** | **Canadian GAAP** | **Effect of Transition to IFRS** | **IFRS** | **Canadian GAAP** | **Effect of Transition to IFRS** | **IFRS** |
| **Expenses** | | | | | | | | | |
| General and administrative expenses | $ 12,404 | - | $ 12,404 | $ 31,271 | - | $ 31,271 | $ 76,922 | - | $ 76,922 |
| Share-based payments | 30,156 | - | 30,156 | 30,156 | - | 30,156 | 24,327 | - | 24,327 |
| Professional and consulting fees | (6,448) | - | (6,448) | (6,293) | - | (6,293) | 50,719 | - | 50,719 |
| Interest (income) | (43) | - | (43) | (173) | - | (173) | (173) | - | (173) |
| Amortization | - | - | - | - | - | - | 208 | - | 208 |
| | 36,069 | - | 36,069 | 54,961 | - | 54,961 | 152,003 | - | 152,003 |
| **Net loss and comprehensive loss for the period** | $ (36,069) | - | $ (36,069) | $ (54,961) | - | $ (54,961) | $(152,003) | - | $(152,003) |
| Basic and diluted loss per share | $ (0.01) | | $ (0.01) | $ (0.01) | | $ (0.01) | $ (0.03) | | $ (0.03) |
| Weighted average number of common shares | 5,480,435 | | 5,480,435 | 4,830,403 | | 4,830,403 | 5,154,712 | | 5,154,712 |

## 15. SUBSEQUENT EVENTS

On October 12, 2011, the Company entered into a consulting agreement with Douglas Lalonde, an arms length consultant, to provide exploration consultation services to the Company. The Company will pay Mr. Lalonde a monthly rate of $12,550 to a maximum of $50,000. The agreement is for a four month term, expiring February 12, 2012.