SPARROW VENTURES CORP.

January 31, 2012 and 2011

- Independent Auditors’ Report
- Statements of Financial Position
- Statements of Changes in Equity
- Statements of Comprehensive Loss
- Statements of Cash Flows
- Notes to the Financial Statements

Independent Auditors' Report

To the Shareholders of:
SPARROW VENTURES CORP.

We have audited the accompanying financial statements of Sparrow Ventures Corp. which comprise the statements of financial position as at January 31, 2012, January 31, 2011, and February 1, 2010, the statements of changes in equity, comprehensive loss, and cash flows for the years ended January 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained 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 Sparrow Ventures Corp. as at January 31, 2012, January 31 2011, and February 1, 2010, and their financial performance and cash flows for the years ended January 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter – Going Concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the ability of Sparrow Ventures Corp. to continue as a going concern. The company incurred a net loss of $182,927 during the year ended January 31, 2012, and as of that date, had accumulated losses since inception of $926,254. The financial statements do not include the adjustments that would result if Sparrow Ventures Corp. was unable to continue as a going concern.

Watson Dauphinee & Masuch

Chartered Accountants

Vancouver, B.C., Canada
May 28, 2012

SPARROW VENTURES CORP.
Statements of Financial Position

	Notes	January 31, 2012 $	January 31, 2011 (Note 11) $	February 1, 2010 (Note 11) $
ASSETS				
CURRENT				
Cash and cash equivalents		226,240	370,290	653,087
Interest receivable		1,235	1,849	843
HST/GST recoverable		1,569	8,091	2,766
Prepaid expenses and deposits	8(c)	1,500	1,500	1,500
		230,544	381,730	658,196
Equipment	5	2,113	1,913	-
		232,657	383,643	658,196
LIABILITY				
CURRENT				
Accounts payable and accrued liability		12,731	13,722	38,157
SHAREHOLDERS' EQUITY				
Share capital	7	1,007,228	1,007,228	986,098
Share-based payment reserve		138,952	135,149	130,783
Deficit		(926,254)	(772,456)	(496,842)
		219,926	369,921	620,039
		232,657	383,643	658,196

Nature of operations (Note 1)

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

Approved on Behalf of the Board:

"Marc Levy"
Marc Levy, Director

"Marc Morin"
Marc Morin, Director

SPARROW VENTURES CORP.

Statements of Changes in Equity

For the Years Ended January 31, 2012 and 2011

	Notes	Number of Common Shares	Share Capital	Share-Based Payment Reserve	Deficit	Total
			$	$	$	$
Balance, February 1, 2010	11	13,490,500	986,098	130,783	(496,842)	620,039
Comprehensive loss for the year		-	-	-	(275,614)	(275,614)
Shares issued for exploration and evaluation assets	6	100,000	11,000	-	-	11,000
Expired agent's options	11(c)	-	10,130	(10,130)	-	-
Share-based payments	7(d)	-	-	14,496	-	14,496
Balance, January 31, 2011		13,590,500	1,007,228	135,149	(772,456)	369,921
Comprehensive loss for the year		-	-	-	(182,927)	(182,927)
Expired stock options		-	-	(29,129)	29,129	-
Share-based payments	7(d)	-	-	32,932	-	32,932
Balance, January 31, 2012		13,590,500	1,007,228	138,952	(926,254)	219,926

SPARROW VENTURES CORP.

Statements of Comprehensive Loss

For the Years Ended January 31, 2012 and 2011

	Notes	2012 $	2011 $
EXPENSES			
Accounting, audit and legal		17,055	68,494
Bank charges		480	1,849
Consulting fees		15,778	29,644
Depreciation		710	337
Exploration and evaluation expenditures	6	-	87,531
Management fees	8(b)	12,000	4,000
Office, rent and administration	8(a)	66,089	43,568
Regulatory fees		10,515	3,345
Share-based payments	7(d)	32,932	14,496
Transfer agent and shareholder information		7,148	8,362
Travel and promotion		23,121	17,842
LOSS BEFORE OTHER ITEM		(185,828)	(279,468)
Interest income		2,901	3,854
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		(182,927)	(275,614)
BASIC AND DILUTED LOSS PER SHARE	7(e)	(0.01)	(0.02)

SPARROW VENTURES CORP.

Statements of Cash Flows

For the Years Ended January 31, 2012 and 2011

	2012 $	2011 $
CASH WAS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net loss for the year	(182,927)	(275,614)
Adjustments for non-cash items		
Depreciation	710	337
Share-based payments	32,932	14,496
Shares issued for exploration and evaluation assets	-	11,000
Changes in non-cash working capital accounts		
Interest receivable	614	(1,006)
HST/GST recoverable	6,522	(5,325)
Accounts payable and accrued liability	(991)	(24,435)
	(143,140)	(280,547)
INVESTING ACTIVITY		
Purchase of equipment	(910)	(2,250)
DECREASE IN CASH AND CASH EQUIVALENTS	(144,050)	(282,797)
Cash and cash equivalents, beginning of year	370,290	653,087
CASH AND CASH EQUIVALENTS, END OF YEAR	226,240	370,290
CASH AND CASH EQUIVALENTS CONSIST OF:		
Cash	-	70,290
Guaranteed Investment Certificates	226,240	300,000
	226,240	370,290

NOTE 1 – NATURE OF OPERATIONS

Sparrow Ventures Corp. (the "Company") was incorporated on July 04, 2006 under the laws of the Business Corporations Act (British Columbia) under the name 0762477 B.C. Ltd. On December 17, 2008, the Company changed its name to Sparrow Ventures Corp. The Company's shares are traded on the TSX Venture Exchange ("Exchange") under the symbol "SPW."

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

The Company is engaged in the acquisition, exploration, and development of resource properties. On May 26, 2010, the Company entered into a mineral option agreement which constituted the Company's Qualifying Transaction under the policies of the Exchange. During the year ended January 31, 2012, the Company terminated this option agreement (Note 6). The Company currently does not hold any mineral property interests and is actively evaluating mineral properties to acquire or option.

These financial statements have been prepared in accordance with International Financial Reporting Standards on the basis that the Company is a going concern and will be able to meet its obligations and continue its operations for its next fiscal year.

The Company will require additional financing as it acquires mineral properties or interests therein. There is no assurance that it will be able to obtain such financing, if any, on reasonable terms.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements were authorized for issue on May 28, 2012 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Statement of Compliance

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

The disclosures related to the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in Note 11 to these financial statements. Note 11 contains reconciliations and descriptions of the effect of the transition from GAAP to IFRS on previously reported statements of financial position as at January 31, 2011 and February 1, 2010 and statements of comprehensive loss and cash flows for the year ended January 31, 2011. The first date at which IFRS was applied was February 1, 2010.

(b) Basis of Presentation

The financial statements are presented in Canadian dollars unless otherwise noted.

The financial statements of the Company have been prepared on a historical cost basis.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Functional and Presentation of Foreign Currency

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

(d) Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances and short-term highly liquid investments which are readily convertible into cash and that are subject to an insignificant risk of changes in value.

For the purpose of the statements of cash flows, total cash and cash equivalents include cash and guaranteed investment certificates ("GIC") with maturities of less than one year and redeemable anytime at the option of the holder.

(e) Equipment and Depreciation

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on a declining-balance basis to write off the cost of the assets to their residual values over their estimated useful lives. The depreciation rate applicable to equipment is 30%.

(f) Exploration and Evaluation Assets

Exploration and evaluation activity begins when the Company obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility and the assessment of commercial viability of an identified mineral resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties, and the costs of the Company's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

Exploration and evaluation expenditures incurred prior to the determination of commercially viable mineral resources, the feasibility of mining operations, and a positive development decision, are expensed as incurred. Mineral property acquisition costs and development expenditures incurred subsequent to such a determination are capitalized and amortized over the estimated life of the property following the commencement of commercial production or are written off if the property is sold, allowed to lapse, abandoned, or when an impairment is determined to have occurred.

(g) Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is reviewed at each reporting date to determine whether there is any indication of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Impairment of Financial Assets (Continued)

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or in the case of amounts receivable are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(h) Share Capital

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

(i) Share-Based Payments

The Company operates an employee stock option plan.

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve.

The fair value of options is determined using the Black–Scholes option pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Amounts recorded for forfeited or expired unexercised options are reversed in the period the forfeiture occurs.

Upon the exercise of stock options, consideration received on the exercise of these equity instruments is recorded as share capital and the related share-based payment reserve is transferred to share capital.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income Taxes

Tax expense recognized in profit or loss comprises the sum of current and deferred taxes not recognized in other comprehensive income or directly in equity.

(i) Current Income Tax

Current income tax assets and/or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting periods that are unpaid at the reporting date. Current tax is payable on taxable profit, which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred Income Tax

Deferred income taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax liabilities are always provided for in full.

Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income. Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

(k) Loss per Share

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is the same as basic loss per share, as the issuance of shares on the exercise of stock options and share purchase warrants is anti-dilutive.

(l) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the statements of financial position at the time the Company becomes a party to the contractual provisions of the financial instrument.

Financial instruments are initially measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity, available-for-sale, and other financial liabilities.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Financial Instruments (Continued)

(i) Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial assets and liabilities at fair value through profit or loss are either ‘held-for-trading’ or classified at fair value through profit or loss. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

The Company does not have any financial assets at fair value through profit or loss.

(ii) Loans and Receivables

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

The Company has designated its cash and cash equivalents and interest receivable as loans and receivables.

(iii) Held-to-Maturity

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company’s intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost.

The Company does not have any held-to-maturity financial assets.

(iv) Available-For-Sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses are recognized in other comprehensive income (loss) and presented in the fair value reserve in shareholders’ equity. When the financial assets are sold or an impairment write-down is required, losses accumulated in the fair value reserve recognized in shareholders’ equity are included in profit or loss.

The Company does not have any available-for-sale financial assets.

(v) Financial Liabilities at Amortized Cost

Financial liabilities at amortized cost are non-derivative financial liabilities (excluding financial guarantees) that are recorded at the date of obligation at fair value and are subsequently measured at amortized cost using the effective interest method.

The Company’s non-derivative financial liabilities are its accounts payable and accrued liability, which are designated as other liabilities.

NOTE 3 – SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

In the application of the Company's accounting policies which are described in Note 2, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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 future periods, if the revision affects both current and future periods.

Significant judgments, estimates and assumptions that have the most significant effect on the amounts recognized in the financial statements are described below.

(a) Share-based Compensation

The Company grants stock options to directors, officers, employees and consultants of the Company under its incentive stock option plan. The fair value of stock options is estimated using the Black-Scholes option pricing model and are expensed over their vesting periods. In estimating fair value, management is required to make certain assumptions and estimates such as the life of options, volatility and forfeiture rates.

Changes in assumptions used to estimate fair value could result in materially different results.

(b) Decommissioning and Restoration Provision

The decommissioning and restoration provision is based on future cost estimates using information available at the reporting date. The decommissioning and restoration provision is adjusted at each reporting period for changes to factors such as the expected amount of cash flows required to discharge the liability, the timing of such cash flows, and the discount rate. The decommissioning and restoration provision requires other significant estimates and assumptions such as requirements of the relevant legal and regulatory framework, and the timing, extent and costs of required decommissioning and restoration activities. Actual costs may differ from these estimates.

As at January 31, 2012 and 2011, the Company has no material decommissioning and restoration provision.

(c) Deferred Tax Assets

Deferred tax assets, including those arising from un-utilized tax losses, require management to assess the likelihood that the Company will generate sufficient taxable earnings in future periods in order to utilize recognized deferred tax assets. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted.

NOTE 4 – RECENT ACCOUNTING PRONOUNCEMENTS

The following IFRS standards have been recently issued by the IASB or the IFRIC. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein.

(a) IFRS 7, Financial Instruments: Disclosures

The IASB has issued an amendment to IFRS 7, Financial Instruments: Disclosures ("IFRS 7"), requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of its 2013 financial year. The Company does not expect the implementation to have a significant impact on the Company's disclosures.

(b) IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company does not expect the implementation to have a significant impact on the Company's results of operations, financial position and disclosures.

(c) IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement ("IFRS 13") is effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value as 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.

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

The IASB has issued an amendment to IAS 1, Presentation of Financial Statements ("IAS 1"), which requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after January 1, 2012 and requires full retrospective application. The Company does not expect the amendment to have a material impact on the financial statements.

NOTE 5 – EQUIPMENT

	Computer $
Costs:	
Balance, February 1, 2010	-
Additions	2,250
Balance, January 31, 2011	2,250
Additions	910
Balance, January 31, 2012	3,160
Accumulated Depreciation:	
Balance, February 1, 2010	-
Depreciation	337
Balance, January 31, 2011	337
Depreciation	710
Balance, January 31, 2012	1,047
Net Book Value:	
February 1, 2010	-
January 31, 2011	1,913
January 31, 2012	2,113

NOTE 6 – EXPLORATION AND EVALUATION ASSETS

On May 26, 2010, the Company entered into a letter agreement with Full Metal Minerals Ltd. ("Full Metal") pursuant to which Full Metal granted to the Company an option to acquire a 60% interest in its Nebocat and RIM properties ("the Properties"). The Properties are located south of the community of Ross River, Yukon.

Pursuant to the terms of the agreement, the Company could earn a 60% interest in the Properties by paying $150,000, issuing 400,000 common shares of the Company, and incurring minimum exploration expenditures of $3,000,000 over a period of four years.

The Properties were subject to a Net Smelter Royalty of 2%.

As at January 31, 2012, the Company had incurred $87,531 (2011 – $87,531) of acquisition payments which consisted of cash payments in the amount of $25,000, issuance of 100,000 common shares of the Company at $0.11 per share, and professional and regulatory fees of $51,531.

During the year ended January 31, 2012, the Company terminated its option agreement with Full Metal.

NOTE 6 – EXPLORATION AND EVALUATION ASSETS (Continued)

Cumulative expenditures incurred by the Company on the Properties are summarized as follows:

	Nebocat and Rim Properties $
Balance, February 1, 2010	-
Acquisition costs	
Cash consideration	25,000
Common shares issued	11,000
Professional and regulatory fees	51,531
Balance, January 31, 2011	87,531
Acquisition costs – Nil	-
Balance, January 31, 2012	87,531

NOTE 7 – SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of voting common shares without par value.

(b) Issued Share Capital

At January 31, 2012, there were 13,590,500 issued and fully paid common shares (January 31, 2011 – 13,590,500; February 1, 2010 – 13,490,500).

During the year ended January 31, 2011, the Company issued 100,000 common shares valued at $11,000 as consideration for acquisition of exploration and evaluation assets (Note 6).

(c) Escrow Shares

As of January 31, 2012, the Company had 2,520,001 (January 31, 2011 – 3,780,000; February 1, 2010 – 4,200,000) common shares held in escrow pursuant to the requirements of the Exchange and escrow agreement. Pursuant to the escrow agreement, 10% of the escrowed common shares were released from escrow following issuance of the final Exchange bulletin ("Final Exchange Bulletin") on completion of the Qualifying Transaction, and in increments of 15% every six months thereafter over a period of thirty six months. If the Company meets the Exchange's Tier 1 status after receipt of the Final Exchange Bulletin, the release of escrow shares will be accelerated.

(d) Share-Based Payments

The Company adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Stock options will be exercisable for a period of up to 10 years from the date of grant and charitable options will be exercisable for a period of up to 10 years from the date of grant.

NOTE 7 – SHARE CAPITAL (Continued)

(d) Share-Based Payments (Continued)

In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of six months after such death, subject to the expiry date of such option.

A summary of the status of the options outstanding follows:

	Number of Options	Weighted Average Exercise Price $
Balance, February 1, 2010	1,195,000	0.10
Granted	269,000	0.11
Balance, January 31, 2011	1,464,000	0.10
Cancelled	(330,000)	0.11
Granted	330,000	0.11
Balance, January 31, 2012	1,464,000	0.10

The following table summarizes the stock options outstanding as at January 31, 2012:

Exercise Price $	Number of Options Outstanding #	Expiry Date	Number of Options Exercisable
0.10	865,000	May 26, 2018	865,000
0.11	100,000	August 31, 2020	87,500
0.12	169,000	October 7, 2020	147,875
0.11	330,000	May 27, 2021	165,000
	1,464,000		1,265,375

During the year ended January 31, 2012, the Company recorded share-based payments of $32,932 (2011 – $14,496) for stock options granted and vested during the year. The weighted average fair value of options granted during the year ended January 31, 2012 was $0.10 (2011 – $0.10) per option and the weighted average remaining contractual life of outstanding stock options was 7.4 years (2011 – 6.8 years).

NOTE 7 – SHARE CAPITAL (Continued)

(d) Share-Based Payments (Continued)

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

	2012	2011
Risk free interest rate	2.03 – 2.63%	1.65%
Expected dividend yield	0%	0%
Expected stock price volatility	145%	154%
Expected life (in years)	5.00 – 7.00	3.82

Option pricing models require the input of highly subjective assumptions. The volatility assumption is based on an analysis of historical volatility over a period equivalent to the expected life of the equity instruments. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models may not necessarily provide a single reliable measure of the fair value of stock options.

(e) Loss per Share

Basic loss per share was calculated based on the following weighted average number of shares outstanding:

Weighted average number of shares outstanding:		
Issued common shares, beginning of period	13,590,500	13,490,500
Shares issued for exploration and evaluation assets	-	43,288
Weighted average number of shares - basic and diluted	13,590,500	13,533,788

NOTE 8 – RELATED PARTY TRANSACTIONS

(a) Related Party Transactions

The Company incurred the following transactions with companies having directors and officers in common:

	$	$
Office, rent and administration expense	54,600	26,400

NOTE 8 – RELATED PARTY TRANSACTIONS (Continued)

(b) Compensation of Key Management Personnel

The remuneration of directors and other members of key management personnel during the years ended January 31, 2012 and 2011 were as follows:

	2012 $	2011 $
Short-term benefits [i]	12,000	4,000
Share-based payments [ii]	17,236	-
	29,236	4,000

[i] Short-term benefits include salaries and benefits, consulting, and management fees.
[ii] Share-based payments is the fair value of options granted and vested to key management personnel under the Company's stock option plan (Note 7(d)).

(c) Related Party Balances

The following related party amounts were included in prepaid expenses and deposits:

	January 31, 2012 $	January 31, 2011 $	February 1, 2010 $
Company having directors in common	1,500	1,500	1,500

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

NOTE 9 – INCOME TAXES

(a) Reconciliation of Effective Tax Rate

Income tax expense (recovery) differs from the amounts computed by applying the combined federal and territorial income tax rate of 26.4% (2011 – 28.3%) to pre-tax loss as a result of the following:

	2012 $	2011 $
Loss before income taxes	(182,927)	(275,614)
Computed expected income tax recovery	(48,247)	(78,091)
Deferred tax assets not recognized	36,208	63,560
Effect of Change in Tax Rates	1,991	8,475
Permanent difference	10,048	5,597
Other	-	459
Income tax expense (recovery)	-	-

NOTE 9 – INCOME TAXES (Continued)

(b) Deferred Income Tax Assets and Liabilities

Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
	$	$
Non-capital losses carry-forward	199,105	155,935
Share issue cost	7,815	14,954
Exploration and evaluation assets	21,883	21,883
Other	487	309
Unrecognized deferred tax assets	229,290	193,081

(c) Non-Capital Losses

As at January 31, 2012, the Company has non-capital losses of $796,420, which may be applied to reduce taxable income of future years. These non-capital losses expire as follows:

Year	$
2028	677
2029	98,734
2030	327,778
2031	196,550
2032	172,681
	796,420

In addition, the Company has cumulative resource pools of $87,531 which can be carried forward indefinitely to offset future resource profits.

NOTE 10 – FINANCIAL RISK MANAGEMENT

(a) Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, interest receivable, and accounts payable and accrued liability. The carrying values of these financial instruments approximate their fair values because of their short term nature and/or the existence of market related interest rates on the instruments.

IFRS requires disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 – Inputs for the asset or liability that are not based on observable market data.

NOTE 10 – FINANCIAL RISK MANAGEMENT (Continued)

(a) Fair Value of Financial Instruments (Continued)

The following table summarizes the classification, carrying values and fair value hierarchy of the Company's financial instruments:

	Carrying value	Fair value hierarchy	January 31, 2012	January 31, 2011	February 1, 2010
			$	$	$
Financial assets					
Loans and receivables					
Cash and cash equivalents	Amortized cost	N/A	226,240	370,290	653,087
Interest receivable	Amortized cost	N/A	1,235	1,849	843
			227,475	372,139	653,930
Financial liabilities					
Other financial liabilities					
Accounts payable and accrued liability	Amortized cost	N/A	12,731	13,722	38,157

(b) Financial Instruments Risk

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

(i) Credit Risk

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

(ii) Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at January 31, 2012, the Company had cash and cash equivalents of $226,240 to settle current liabilities of $12,731 which mainly consisted of accounts payable that were considered short term and settled within 30 days. The Company believes that it has sufficient capital to meet its requirements for fiscal 2013.

NOTE 10 – FINANCIAL RISK MANAGEMENT (Continued)

(b) Financial Instruments Risk (Continued)

(iii) Interest Rate Risk

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

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

(c) Capital Management

The Company manages its share capital as capital, which as at January 31, 2012, totaled $1,007,228 (2011 - $1,007,228).

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

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its objectives. The Company may issue new shares or seek debt financing to ensure that there is sufficient working capital to meet its short-term business requirements. The Company is not subject to externally imposed capital requirements.

There were no changes in the Company's management of capital during the year ended January 31, 2012.

NOTE 11 – CONVERSION TO IFRS

The Company adopted IFRS on February 1, 2011, with the transition date of February 1, 2010 representing the Company's opening IFRS balance sheet. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with GAAP. The accounting policies set out in Note 2 have been applied in preparing the financial statements for the years ended January 31, 2012 and 2011 and in the preparation of the opening IFRS balance sheet as at February 1, 2010.

The Company applied IFRS 1, First-time Adoption of IFRS, in preparing these first IFRS financial statements. In preparing the opening IFRS statement of financial position, the Company adjusted amounts previously reported in the financial statements prepared in accordance with GAAP. This note explains the principal adjustments made by the Company in restating its GAAP balance sheet as at February 1, 2010 and its previously published GAAP financial statements for the year ended January 31, 2011.

NOTE 11 – CONVERSION TO IFRS (Continued)

Elected exemption from full retrospective application:

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

IFRS 2 – Share-based Payment

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

Mandatory exception to retrospective application:

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated February 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 applied, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as at February 1, 2010 are consistent with its previous estimates under GAAP for the same date.

In preparing its IFRS annual financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from previous GAAP to IFRS affected the Company's financial position and results is set out in the following notes and accompanying tables

Reconciliation between GAAP and IFRS:

IFRS 1 requires reconciliation disclosures that explain how the transition from GAAP to IFRS has affected the Company's previously reported financial statements prepared in accordance with previous GAAP for the year ended January 31, 2011. An explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position is set out in the following notes and accompanying table:

(a) Reserves

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

NOTE 11 – CONVERSION TO IFRS (Continued)

(b) Share-Based Payments

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

Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate. The Company elected to use the IFRS exemption whereby the liabilities for share-based payments that had vested or settled prior to February 1, 2010 were not required to be retrospectively restated. As at February 1, 2010, all stock options granted were fully vested and no fair value adjustment was made accordingly. Subsequent to transition, the Company has assessed the impact of share-based payments being insignificant at January 31, 2011 and no adjustments were made.

(c) Forfeited or Expired Options and Warrants

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

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

Accordingly, upon conversion to IFRS, the value assigned to forfeited options of $26,005 had been reclassified from reserves to deficit as at February 1, 2010 and January 31, 2011. Subsequent to transition, the value assigned to expired agent's options of $10,130 had been reclassified from reserves to share capital as at January 31, 2011.

(d) Exploration and Evaluation of Mineral Resources

Under GAAP, the Company capitalized the costs of acquiring interests in mineral rights and exploration and evaluation expenditures in respect of projects that are in the exploration or pre-development stage.

On transition to IFRS, the Company elected to change its accounting policy to expense exploration and evaluation expenditures, the costs of acquiring interests in mineral rights and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. As a result of this change, net loss increased by $87,531 for the year ended January 31, 2011 and capitalized exploration and evaluation assets as at January 31, 2011 decreased by $87,531, as compared to amounts previously reported.

NOTE 11 – TRANSITION TO IFRS (Continued)

IFRS Reconciliation of Statements of Financial Position

		As at February 1, 2010			As at January 31, 2011		
	Note	Canadian GAAP	Effect of Transition to IFRS	**IFRS**	Canadian GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
ASSETS							
CURRENT							
Cash and cash equivalents		653,087	-	**653,087**	370,290	-	**370,290**
Interest receivable		843	-	**843**	1,849	-	**1,849**
HST/GST recoverable		2,766	-	**2,766**	8,091	-	**8,091**
Prepaid expenses and deposits		1,500	-	**1,500**	1,500	-	**1,500**
		658,196	-	**658,196**	381,730	-	**381,730**
Equipment		-	-	**-**	1,913	-	**1,913**
Exploration and evaluation assets	(d)	-	-	**-**	87,531	(87,531)	**-**
		-	-	**-**	89,444	(87,531)	**1,913**
		658,196	-	**658,196**	**471,174**	**(87,531)**	**383,643**
LIABILITY							
CURRENT							
Accounts payable and accrued liability		38,157	-	**38,157**	13,722	-	**13,722**
SHAREHOLDERS' EQUITY							
Share capital	(c)	986,098	-	**986,098**	997,098	10,130	**1,007,228**
Reserves	(a),(c)	-	130,783	**130,783**	-	135,149	**135,149**
Contributed surplus	(a)	156,788	(156,788)	**-**	171,284	(171,284)	**-**
Deficit	(c)	(522,847)	26,005	**(496,842)**	(710,930)	(61,526)	**(772,456)**
		620,039	-	**620,039**	457,452	(87,531)	**369,921**
		658,196	-	**658,196**	**471,174**	**(87,531)**	**383,643**

NOTE 11 – TRANSITION TO IFRS (Continued)

IFRS Reconciliation of the Statement of Comprehensive Loss

	Note	Year ended January 31, 2011		
		GAAP $	Effect of Transition to IFRS $	**IFRS** **$**
EXPENSES				
Accounting, audit and legal		68,494	-	**68,494**
Bank charges		1,849	-	**1,849**
Consulting fees		29,644	-	**29,644**
Depreciation		337	-	**337**
Exploration and evaluation expenditures	(d)	-	87,531	**87,531**
Management fees		4,000	-	**4,000**
Office, rent and administration		43,568	-	**43,568**
Regulator fees		3,345	-	**3,345**
Share-based payments		14,496	-	**14,496**
Transfer agent and shareholder information		8,362	-	**8,362**
Travel and promotion		17,842	-	**17,842**
LOSS BEFORE OTHER ITEM		(191,937)	(87,531)	**(279,468)**
Interest income		3,854	-	**3,854**
NET LOSS AND COMPREHENSIVE LOSS		(188,083)	(87,531)	**(275,614)**
BASIC AND DILUTED LOSS PER SHARE		(0.01)	(0.01)	**(0.02)**

NOTE 11 – TRANSITION TO IFRS (Continued)

IFRS Reconciliation of the Statement of Cash Flow

		Year ended January 31, 2011		
	Notes	GAAP $	Effect of Transition to IFRS $	**IFRS** **$**
CASH WAS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES				
Net loss for the year	(d)	(188,083)	(87,531)	**(275,614)**
Adjustments for non-cash items				
Depreciation		337	-	**337**
Share-based payments		14,496	-	**14,496**
Shares issued for exploration and evaluation assets	(d)	-	11,000	**11,000**
Changes in non-cash working capital accounts				
Interest receivable		(1,006)	-	**(1,006)**
HST/GST recoverable		(5,325)	-	**(5,325)**
Accounts payable and accrued liability		(24,435)	-	**(24,435)**
		(204,016)	(76,531)	**(280,547)**
INVESTING ACTIVITIES				
Purchase of equipment		(2,250)	-	**(2,250)**
Exploration and evaluation assets		(76,531)	76,531	**-**
		(78,781)	76,531	**(2,250)**
DECREASE IN CASH AND CASH EQUIVALENTS		(282,797)	-	**(282,797)**
Cash and cash equivalents, beginning of year		653,087	-	**653,087**
CASH AND CASH EQUIVALENTS, END OF YEAR		370,290	-	**370,290**