

**FAIRMONT RESOURCES INC.**

**Condensed Interim Financial Statements**

**Three Months Ended  
January 31, 2012 and 2011**

**(Expressed in Canadian Dollars)  
Unaudited – Prepared by Management**

**FAIRMONT RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

	January 31, 2012	October 31, 2011 (Note 13)	November 1, 2010 (Note 13)
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents (Note 4)	\$ 647,828	\$ 826,159	\$ 975,901
Amounts receivable	38,758	68,710	11,795
Prepaid expenses	24,080	18,322	10,000
<b>TOTAL CURRENT ASSETS</b>	<b>710,666</b>	<b>913,191</b>	<b>997,696</b>
Exploration and evaluation assets (Note 5)	1,319,473	1,214,519	187,636
<b>TOTAL ASSETS</b>	<b>\$ 2,030,139</b>	<b>\$ 2,127,710</b>	<b>\$ 1,185,332</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	\$ 35,230	\$ 32,627	\$ 103,282
Due to related parties (Note 8)	24,831	1,000	6,720
Flow-through share premium liability (Note 7)	50,054	55,173	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>110,115</b>	<b>88,800</b>	<b>110,002</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 6)	2,857,908	2,833,908	1,297,464
Equity Reserves (Note 6)	548,428	548,124	127,833
Deficit	(1,486,312)	(1,343,122)	(349,967)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,920,024</b>	<b>2,038,910</b>	<b>1,075,330</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,030,139</b>	<b>\$ 2,127,710</b>	<b>\$ 1,185,332</b>

Nature and continuance of operations (Note 1)

Subsequent events (Note 12)

Approved on behalf of the Board:

"Greg Ball"

Director

"Neil Pettigrew"

Director

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

**FAIRMONT RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

	<b>Three months ended January 31,</b>	
	<b>2012</b>	<b>2011</b>
		(Note 13)
<b>EXPENSES</b>		
Administration	\$ 9,000	\$ 1,500
Advertising and promotion	20,132	5,161
Audit and accounting	15,000	2,000
Consulting	4,500	6,000
Exploration expense	8,104	-
Insurance	2,511	451
Investor relations	37,000	22,500
Legal	1,978	9,886
Management	23,250	24,500
Office and miscellaneous	5,965	1,937
Rent	4,500	4,500
Registration and transfer fees	1,835	9,144
Share-based payments (Note 6)	304	267,857
Travel	12,766	1,087
Wages and benefits	3,211	-
Loss before other items and income taxes	(150,056)	(356,523)
Interest income	1,747	998
Other income on settlement of flow-through share premium	5,119	-
Comprehensive loss for the period	(143,190)	(355,525)
<b>LOSS PER SHARE, basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.03)</b>
Weighted average number of shares outstanding:	16,251,122	11,048,957

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

**FAIRMONT RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

**Three months ended January 31,**  
**2012**                      **2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Loss and comprehensive loss for the period	\$	(143,190)	\$	(355,525)
Items not affecting cash				
Share-based payments		304		267,857
Other income on settlement of flow-through share premium liability		(5,119)		-
Changes in non-cash working capital items				
Amounts receivable		29,952		(34,176)
Prepaid expenses		(5,758)		(14,834)
Accounts payable and accrued liabilities		(3,307)		(81,165)
Due to related party		23,831		(3,506)
<b>Net cash used in operating activities</b>		<b>(103,287)</b>		<b>(221,349)</b>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Issuance of shares		-		-
Share issuance cost		-		(139)
<b>Net cash used in financing activities</b>		<b>-</b>		<b>(139)</b>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Exploration and evaluation asset expenditures		(75,044)		(121,327)
<b>Net cash used in investing activities</b>		<b>(75,044)</b>		<b>(121,327)</b>

Change in cash and cash equivalents during the period		(178,331)		(342,815)
Cash and cash equivalents, beginning of period		826,159		975,901
<b>Cash and cash equivalents, end of period</b>	<b>\$</b>	<b>647,828</b>	<b>\$</b>	<b>633,086</b>

**SUPPLEMENTAL INFORMATION**

Interest paid	\$	-	\$	-
Income taxes paid	\$	-	\$	-

**NON CASH TRANSACTIONS**

Shares issued for mineral property (Note 5)	\$	24,000	\$	35,000
Finders' units and warrants issued for private placement (Note 6)	\$	-	\$	13,000
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$	5,910	\$	130,085

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

**FAIRMONT RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED JANUARY 31, 2012 AND 2011**  
**Unaudited - Prepared by Management**  
**(Expressed in Canadian Dollars)**

	Number of shares	Share Capital	Equity Reserves	Deficit	Total equity
Balance at November 1, 2010	11,037,000	\$ 1,297,464	\$ 127,833	\$ (349,967)	\$ 1,075,330
Share issuance costs	-	(139)	-	-	(139)
Shares issued for exploration and evaluation asset option	100,000	35,000	-	-	35,000
Share-based payments	-	-	267,857	-	267,857
Comprehensive loss for the period	-	-	-	(355,525)	(355,525)
Balance at January 31, 2011	11,137,000	1,332,325	395,690	(705,492)	1,022,523
Private placement	4,905,000	1,880,500	-	-	1,880,500
Flow-through share premium liability	-	(163,750)	-	-	(163,750)
Share issuance costs	-	(175,302)	-	-	(175,302)
Agent warrants issued as finders' fees	-	(77,124)	77,124	-	-
Exercise of agent warrants	65,100	14,220	-	-	14,220
Adjustment for exercised agent warrants	-	7,039	(7,039)	-	-
Shares issued for exploration and evaluation asset option	100,000	16,000	-	-	16,000
Share-based payments	-	-	82,349	-	82,349
Comprehensive loss for the period	-	-	-	(637,630)	(637,630)
Balance at October 31, 2011	16,207,100	2,833,908	548,124	(1,343,122)	2,038,910
Share-based payments	-	-	304	-	304
Shares issued for exploration and evaluation asset option	150,000	24,000	-	-	24,000
Comprehensive loss for the period	-	-	-	(143,190)	(143,190)
Balance at January 31, 2012	16,357,100	\$ 2,857,908	\$ 548,428	\$ (1,486,312)	\$ 1,920,024

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

**FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Fairmont Resources Inc. (the “Company”) was incorporated on May 25, 2007 under the British Columbia Business Corporations Act as Strike Explorations Corp. On April 23, 2009, the Company changed its name to Fairmont Resources Inc. The Company’s head office is Suite 610 – 1100 Melville Street, Vancouver, BC V6E 4A6, Canada. The registered and records office address is Suite 950 – 650 West Georgia Street, Vancouver, BC V6B 4N8, Canada. The Company is listed on the TSX Venture Exchange under the symbol “FMR”. The Company is primarily engaged in the acquisition, exploration and development of exploration and evaluation assets. At October 31, 2011, the Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production from the exploration and evaluation assets or proceeds from the disposition of the exploration and evaluation asset.

At January 31, 2012 and October 31, 2011, the Company had an accumulated deficit of 1,486,312 and \$1,343,122 respectively, which has been funded by the issuance of equity. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

	January 31, 2012	October 31, 2011
Working capital	\$ 600,551	\$ 824,391
Deficit	\$ (1,486,312)	\$ (1,343,122)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

## a) Statement of compliance and basis of presentation

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounts Standards (“IAS”) 34, “Interim Financial Reporting” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s transition date to IFRS is November 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). Historical results and balances have been restated under IFRS. These condensed interim financial statements should be read in conjunction with the Company’s October 31, 2011 Canadian GAAP annual financial statements, and in consideration of the disclosure regarding the transition from Canadian GAAP to IFRS included in note 13. Certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS are not included in these condensed interim financial statements nor in the Company’s most current annual Canadian GAAP financial statements.

## **FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **a) Statement of compliance and basis of presentation (continued)**

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

The condensed interim financial statements of the Company are presented in Canadian dollars unless otherwise indicated, which is the functional currency of the Company.

#### **b) Use of Estimates**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of exploration and evaluation assets and deferred exploration costs, share-based payments and future income tax valuation allowance. Actual results could differ from those reported.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the financial position reporting 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:

- 1) the carrying value and the recoverability of exploration and evaluation assets, which are included in the condensed interim statements of financial position;
- 2) the inputs used in the accounting for the deferred tax liability.
- 3) the inputs used in the accounting for stock-based payment expense included in profit or loss.

#### **c) Cash and Cash Equivalents**

The Company considers all highly liquid instruments with a maturity of three months or less when purchased, or which are redeemable at the option of the Company, to be cash equivalents.

#### **d) Exploration and evaluation assets**

Pre-exploration costs are expensed in the period in which they are incurred.

All costs related to the acquisition, exploration and development of exploration and evaluation assets are capitalized. Upon commencement of commercial production, the related accumulated costs are amortized against projected income using the units of production method over estimated recoverable reserves. Management annually assesses carrying values of non-producing properties and properties for which events and circumstances may indicate possible impairment. Impairment of a property is generally considered to have occurred if the property has been abandoned, there are unfavourable changes in the property economics, there are restrictions on development, or when there has been an undue delay in development, which exceeds three years. If management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed in the period that this determination is made.

## **FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **d) Exploration and evaluation assets (continued)**

The recoverability of exploration and evaluation assets and exploration and development costs is dependent on the existence of economically recoverable reserves, the ability to obtain the necessary financing to complete the development of the reserves, and the profitability of future operations. The Company has not yet determined whether or not any of its exploration and evaluation assets contain economically recoverable reserves. Amounts capitalized to exploration and evaluation assets as exploration and development costs do not necessarily reflect present or future values. When options are granted on exploration and evaluation assets or properties are sold, proceeds are credited to the cost of the property. If no future capital expenditure is required and proceeds exceed costs, the excess proceeds are reported as a gain.

#### **e) Income Taxes**

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purpose. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

#### **f) Impairment**

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.



## **FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **f) Impairment (continued)**

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **g) Provision for closure and reclamation**

The Company recognizes statutory, contractual or other legal obligations related to the retirement of its exploration and evaluation assets and its tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. Management has determined that there was no provision required for closure and reclamation as at January 31, 2012, October 31, 2011 and November 1, 2010.

#### **h) Share-based payment**

The Company applies the fair value method to share-based payments and all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in equity reserves. When the options are exercised, the exercise price proceeds together with the amount initially recorded in equity reserves are credited to share capital.

#### **i) Basic and diluted loss per share:**

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of the diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses the exercise of outstanding options has not been included in this calculation as it would be anti-dilutive.

#### **j) Flow-through Shares**

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

## **FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### k) Share Issue Costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to operations.

#### l) Financial Instruments

##### Financial assets:

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss (“FVTPL”).

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit or loss. The Company’s cash and cash equivalents is classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that provide objective evidence of impairment, which are recognized in earnings. The Company’s investments are classified as available-for-sale and its receivables are classified as loans and receivables.

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

##### Financial liabilities:

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period or, where appropriate, a shorter period. The Company’s financial liabilities consist of accounts payable, accrued liabilities and due to related parties, which are classified as other liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including embedded derivatives, are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

## **FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **l) Financial instruments (continued)**

##### **Impairment of financial assets:**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated present value of the future cash flows of the financial assets are less than their carrying values.

#### **m) Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

### **3. ACCOUNTING STANDARDS ISSUED FOR ADOPTION IN FUTURE PERIODS**

#### **Joint Ventures**

In May 2011, the IASB issued IFRS 11 – Joint Arrangements. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 is effective for annual years beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its financial statements.

#### **Consolidation**

In May 2011, the IASB issued IFRS 10 – Consolidated Financial Statements. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 – Consolidation – Special Purpose Entities and IAS 27 – Consolidated and Separate Financial Statements and will be effective for the Company's fiscal year ending October 31, 2016. The Company is currently evaluating the impact of IFRS 10 on its financial statements.

#### **Financial Instruments**

The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) in its entirety with IFRS 9 – Financial Instruments (“IFRS 9”) in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

### **4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include a redeemable guaranteed investment certificate (“GIC”) with an interest rate of prime minus 1.80% per annum and expiring on March 20, 2012. At January 31, 2012, October 31, 2011 and 2010, the fair value of the GIC was \$600,000, \$750,000 and \$330,000 respectively. At January 31, 2012 there was \$5,798 (October 31, 2011 - \$5,254, November 1, 2010 - \$Nil) in interest receivable that was included as a cash equivalent.

**FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

**5. EXPLORATION AND EVALUATION ASSETS****Title to exploration and evaluation asset**

Title to exploration and evaluation asset interests involve certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

**Clay and Powell Properties (Ontario)**

On September 14, 2010, the Company entered into a Letter of Intent with Rainy Mountain Royalty Corp. and Mega Uranium Ltd. (the “Optionors”) for an option to purchase a 70% undivided interest in certain mineral tenures comprising the Powell property and the Clay property (the “Properties”) located near Thunder Bay, Ontario.

The Company may exercise the option by the issuance to the Optionors of 400,000 common shares in the capital stock of the Company, and by incurring a total of \$1,000,000 in exploration and development expenditures on the properties as follows:

Date of Completion	Number of Common Shares	Minimum Expenditures
Within 10 days of October 15, 2010 (shares issued at a value of \$35,000)	100,000	\$ -
Before October 15, 2011 (minimum expenditures of \$250,000 incurred) (shares issued at a value of \$11,000)	100,000	250,000
Before October 15, 2012 (minimum expenditures of \$250,000 incurred)	100,000	250,000
Before October 15, 2013	<u>100,000</u>	<u>500,000</u>
	400,000	\$ 1,000,000

In the event that the Company decides to abandon the Option and the Properties, the Company will provide thirty days prior written notice and will provide payment of rental fees for a period of at least six months from the effective date of such abandonment.

Pursuant to the Letter of Intent, the Clay and Powell properties are subject to a 2% net smelter return (“NSR”) of which 1% can be purchased for \$500,000 and the other 1% for \$1,000,000. The Company and the Optionors will pay the amount in proportion to their respective interest in the Properties.

**Marmion South Contact Property (Ontario)**

On January 7, 2011, the Company entered into a letter agreement with an arm’s length party (the “Optionor”) to earn a 100% interest in certain mineral claims known as the Marmion South Contact property. The property is located in the Thunder Bay Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay \$320,000, issue a total of 750,000 common shares and incur a total of \$1,500,000 in exploration expenditures as follows:

**FAIRMONT RESOURCES INC.**

Notes to Condensed Interim Financial Statements

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

Three months ended January 31, 2012

**5. EXPLORATION AND EVALUATION ASSETS (continued)**  
**Marmion South Contact Property (Ontario) (continued)**

Date of Completion	Cash Payments	Number of Common Shares	Exploration Expenditures
By January 7, 2011 (paid)	\$ 25,000	-	\$ -
On receiving approval from TSX Venture Exchange (issued at a value of \$40,000)	-	100,000	-
By January 7, 2012	40,000	150,000	150,000
By January 7, 2013	60,000	150,000	250,000
By January 7, 2014	75,000	150,000	400,000
By January 7, 2015	<u>120,000</u>	<u>200,000</u>	<u>700,000</u>
	<u>\$ 320,000</u>	<u>750,000</u>	<u>\$ 1,500,000</u>

On January 4, 2012, the Company paid the cash payment of \$40,000 and issued 150,000 common shares with a value of \$24,000. The Company incurred the minimum exploration expenditures of \$150,000 during the year ended October 31, 2011.

The Company paid \$13,000 as a finder's fee for the Marmion South Contact acquisition.

The property is subject to a 2.5% net smelter return royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production upon the property for \$1,000,000.

**Nicoamen River Claims (British Columbia)**

On July 30, 2009, the Company entered into an option agreement to acquire an initial 51% interest in the Nicoamen River Claims located in the Kamloops Mining Division, British Columbia. In order to earn its interest the Company agreed to make \$25,000 cash payments to the optionor and incur \$300,000 in exploration expenditures as follows:

Date of Completion	Cash Payments	Exploration Expenditures
On execution of the Agreement (paid)	\$ 10,000	\$ -
By December 31, 2009 (completed)	-	100,000
Before April 15, 2011 (cash paid in 2010, exploration requirement due date extended to July 31, 2011)	<u>15,000</u>	<u>200,000</u>
	<u>\$ 25,000</u>	<u>\$ 300,000</u>

On February 14, 2011, the Company entered into an amending agreement for the July 30, 2009 option agreement. Pursuant to the option agreement, the Company was required to incur \$200,000 in exploration expenditures on the property by April 15, 2011. The optionor agreed to extend the exploration expenditure deadline from April 15, 2011 to July 31, 2011. As consideration for the amendment, the Company immediately paid the \$15,000 cash obligation that would have been due on April 15, 2011.

The Company could have acquired an additional 9% interest in the Nicoamen River Claims by issuing 300,000 common shares to the optionor and incurring \$1,700,000 in exploration expenditures.

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**5. EXPLORATION AND EVALUATION ASSETS (continued)**

On June 27, 2011, management decided to terminate its Nicoamen River Claims option agreement. Accordingly, the Company wrote-off \$29,224 in acquisition and \$216,981 in deferred exploration costs related to the Nicoamen River Claims property.

The following acquisition and deferred exploration costs were incurred on the Company's exploration and evaluation assets:

	Clay and Powell	Marmion South Contact	Total
Acquisition costs, October 31, 2011	\$ 46,000	\$ 78,000	\$ 124,000
Additions during the period	-	64,000	64,000
Write-off during the period	<u>-</u>	<u>-</u>	<u>-</u>
Acquisition costs, January 31, 2012	<u>46,000</u>	<u>142,000</u>	<u>188,000</u>
Deferred exploration costs, October 31, 2011	712,930	377,589	1,090,519
Additions during the year			
Administration	-	688	688
Assays	-	29	29
Field personnel	-	2,324	2,324
Geological consulting	-	14,726	14,726
Geophysical	3,220	19,516	22,736
Mapping	<u>451</u>	<u>-</u>	<u>451</u>
Deferred exploration costs, January 31, 2012	<u>716,601</u>	<u>414,872</u>	<u>1,131,473</u>
Total exploration and evaluation assets, January 31, 2012	\$ 62,601	\$ 556,872	\$ 1,319,473

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**5. EXPLORATION AND EVALUATION ASSETS (continued)**

	Clay and Powell	Marmion South Contact	Nicoamen River Claims	Total
Acquisition costs, November 1, 2010	\$ 35,000	\$ -	\$ 29,224	\$ 64,224
Additions during the year	11,000	78,000	-	89,000
Write-off during the year	-	-	(29,224)	(29,224)
Acquisition costs, October 31, 2011	<u>46,000</u>	<u>78,000</u>	<u>-</u>	<u>124,000</u>
Deferred exploration costs, November 1, 2010	-	-	123,412	123,412
Additions during the year				
Administration	8,291	3,199	612	12,102
Assays	43,528	24,401	15,426	83,355
Camp costs	35,364	16,100	3,321	54,785
Consulting	-	-	6,607	6,607
Demobilization	9,668	3,911	445	14,024
Drilling	227,140	-	-	227,140
Equipment rental	29,880	9,426	4,680	43,986
Field expenditures	20,641	3,514	868	25,023
Field personnel	51,632	48,300	22,328	122,260
Geological consulting	140,993	112,996	36,816	290,805
Geophysical	84,726	148,794	-	233,520
Insurance	2,150	-	-	2,150
Line-cutting and surveying	34,506	-	-	34,506
Mapping	3,349	1,192	-	4,541
Mobilization	10,762	3,911	445	15,118
Staking	2,871	-	-	2,871
Storage	450	-	433	883
Transport and freight	4,684	411	1,308	6,403
Travel and related	<u>2,295</u>	<u>1,434</u>	<u>280</u>	<u>4,009</u>
Deferred exploration costs, October 31, 2011	<u>712,930</u>	<u>377,589</u>	<u>93,569</u>	<u>1,184,088</u>
Write-off of deferred exploration costs	<u>-</u>	<u>-</u>	<u>(216,981)</u>	<u>(216,981)</u>
Total exploration and evaluation assets, October 31, 2011	\$ 758,930	\$ 455,589	\$ -	\$ 1,214,981

**6. SHARE CAPITAL**

The authorized share capital consists of an unlimited number of commons shares without par value.

*Escrow Shares*

At January 31, 2012, pursuant to an escrow agreement dated December 10, 2009, 1,013,628 of the common shares issued and outstanding were held in escrow. 337,875 are to be released every six months from April 15, 2012 to April 15, 2013.

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### **6. SHARE CAPITAL (continued)**

#### *Private Placements*

Year Ended October 31, 2011

On March 4, 2011, the Company completed the first tranche of a private placement which was comprised of 3,275,000 Flow-Through Units (“FT Unit”) at \$0.40 per FT Unit for gross proceeds of \$1,310,000. An additional \$351,750 was received from the issuance of 1,005,000 Non-Flow-Through Units (“Non FT Units”) at \$0.35 per Unit.

On March 15, 2011, the Company completed the second tranche of a private placement by issuing 625,000 Non-Flow-Through Units at \$0.35 per Unit for gross proceeds of \$218,750.

Each FT Unit is comprised of one flow-through common share and one-half of a non-transferable share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per share until March 4, 2012 and then at \$0.75 per share until March 4, 2013.

Each Non FT Unit is comprised of one common share and one non-transferable share purchase warrant. Each warrant is exercisable into an additional common share at \$0.45 per share in the first year and then at \$0.70 in the second year from issuance of the respective warrants.

The Company issued 287,500 finder’s units valued at \$50,030 as finder’s fees for the first tranche of the private placement. These finder’s units are exercisable into units at \$0.40 per unit until March 4, 2013. The finder’s units are comprised of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per share until March 4, 2012 and then at \$0.75 per share until March 4, 2013. The fair value of the finder’s warrants was determined using the Black Scholes option pricing model with a volatility of 100%, risk free interest rate of 1.84%, expected life of 2 years, and a dividend rate of 0%.

The Company paid \$107,940 cash in finder’s fees. An additional 178,000 agent warrants valued at \$27,094 were issued as finder’s fees, of which 15,000 are exercisable into one common share at \$0.50 per share until March 4, 2012 and at \$0.75 per share until March 4, 2013. The remaining 163,000 agent warrants are exercisable into one common share at \$0.45 per share in the first year and then at \$0.70 in the second year from issuance of the respective agent warrants. The fair value of these agents’ warrants was determined using the Black Scholes option pricing model with the following weighted average assumptions: volatility of 100%, risk free interest rate of 1.78%, expected life of 1.78 years, and a dividend rate of 0%.

The Company paid \$67,501 cash for due diligence, filing, legal and other fees directly attributed to the private placement and therefore were allocated as share issuance costs.

#### **Stock options**

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 1,651,000 common shares. The exercise price of each option is based on the market price of the Company’s stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.



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**6. SHARE CAPITAL (continued)****Stock options (continued)**

The following table summarizes the stock option activity:

	Number of Stock Options	Weighted Average Exercise Price \$
Balance at November 1, 2010	400,000	0.15
Granted	1,450,000	0.28
Cancelled	(200,000)	0.15
Exercised	-	-
Balance at October 31, 2011	1,650,000	0.27
Granted	-	-
Cancelled	(835,000)	0.31
Exercised	-	-
Balance at January 31, 2011	815,000	0.22

Subsequent to the period ended January 31, 2012 365,000 options were cancelled and 1,100,000 options were issued at \$0.15.

As at January 31, 2012, the following incentive stock options are available and fully vested:

Number of Stock Options	Exercise Price \$	Expiry Date
200,000	0.15	December 9, 2014
415,000	0.31	November 3, 2015
200,000	0.115	October 24, 2016
815,000		

**Share-based payments**

For the three months ended January 31, 2012 the total share-based payments calculated for stock options granted under the fair value method was \$Nil (2011 - \$323,499) using the Black-Scholes option pricing model. For the three months ended January 31, 2012, the Company expensed \$304 (2011 - \$267,857) for the vesting portion of the stock options to operations.

The following weighted average assumptions were used for the Black-Scholes option-pricing model calculation of stock options granted during the period.

	2012	2011
Risk free interest rate	-	2.02%
Expected life of options	-	5 years
Expected annualized volatility	-	100%
Expected dividend rate	-	-%

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**6. SHARE CAPITAL (continued)****Warrants**

The following table summarizes the warrants and agent warrants activity.

	Number of Warrants	Weighted Average Exercise Price \$
Balance at November 1, 2010	1,847,400	0.31
Agents warrants	465,500	0.42
Private placement warrants	3,267,500	0.48
Exercised warrants	(65,100)	0.22
Expired warrants	(1,555,400)	0.33
Balance at October 31, 2011 and January 31, 2012	3,959,900	0.45

As at January 31, 2012, the following share purchase warrants are outstanding:

Number of Warrants	Exercise Price \$	Expiry Date
1,005,000	0.45	March 4, 2012
	then at 0.70	March 4, 2013
1,637,500	0.50	March 4, 2012
	then at 0.75	March 4, 2013
625,000	0.45	March 15, 2012
	0.70	March 15, 2013
<hr/> 3,267,500		

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**6. SHARE CAPITAL (continued)****Agent warrants**

As at January 31, 2012, the following agent warrants are outstanding:

Number of Warrants	Exercise Price \$	Expiry Date
226,900	0.20	April 13, 2012 *
287,500	0.40	March 4, 2013
100,500	0.45	March 4, 2012
15,000	then at 0.70	March 4, 2013
62,500	0.50	March 4, 2012
62,500	then at 0.75	March 4, 2013
62,500	0.45	March 15, 2012
62,500	then at 0.70	March 15, 2013
692,400		

\* Subsequent to January 31, 2012 these warrants expired unexercised.

**7. FLOW-THROUGH SHARE PREMIUM LIABILITY**

	Issued on March 4, 2011
Balance at November 1, 2010	\$ -
Liability incurred on flow-through shares issued	163,750
Settlement of flow-through share liability upon expenditures being incurred	<u>(108,577)</u>
Balance at October 31, 2011	\$ 55,173
Settlement of flow-through share liability upon expenditures being incurred	<u>(5,119)</u>
Balance at January 31, 2012	<u>\$ 50,054</u>

On March 4, 2011, the Company completed the first tranche of a private placement which was comprised of 3,275,000 Flow-Through Units ("FT Unit") at \$0.40 per FT Unit for gross proceeds of \$1,210,000. The premium received on the shares issued was determined to be \$163,750 and has been recorded as a share capital reduction. An equivalent premium liability was recorded and reduced when the required exploration expenditures were incurred.

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**8. RELATED PARTY TRANSACTIONS**

In the three months ended January 31, 2012 and 2011 the following amounts were paid or accrued to related parties:

- a) Paid or accrued \$Nil (2011 – \$9,500) in management fees to two companies controlled by former directors of the Company.
- b) Paid or accrued \$3,000 (2011 - \$Nil) in management fees to a director of the Company.
- c) Paid or accrued \$15,000 (2011 - \$Nil) in management fees to a director of the Company.
- d) Paid or accrued \$5,250 (2011 - \$Nil) in management fees to a company controlled by a director of the Company.
- e) Paid or accrued \$14,726 (2011 - \$Nil) in deferred exploration expenses to a company controlled by two directors of the Company.

These transactions were in the normal course of operations.

The remuneration of directors and other members of key management personnel, including amounts disclosed above, during the three months ended January 31, 2012 and 2011 were as follows:

	January 31, 2012	January 31, 2011
Exploration costs	\$ 14,726	\$ Nil
Management fees	23,250	9,500
Total	\$ 37,976	\$ 9,500

**9. CAPITAL MANAGEMENT**

The Company considers its capital to be the components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

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**10. FINANCIAL INSTRUMENTS**

## a) Fair Values

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and due to related party. The fair values of these financial instruments approximate their carrying values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

	January 31, 2012	October 31, 2011	November 1, 2010
Fair value through profit and loss (i)	\$ 647,828	\$ 826,159	\$ 975,901
Loans and receivables (ii)	38,758	68,710	11,795
Other financial liabilities (iii)	\$ 60,061	\$ 33,627	\$ 110,002

(i) Cash and cash equivalents

(ii) Amounts receivable

(iii) Accounts payable and accrued liabilities and amounts due to related party

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

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 (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 647,828	-	-	\$ 647,828

## b) Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

## c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

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### **10. FINANCIAL INSTRUMENTS (continued)**

#### **c) Liquidity Risk (continued)**

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuances when required. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

#### *d) Foreign Exchange Risk*

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

#### *e) Interest Rate Risk*

The Company is not exposed to significant interest rate risk.

#### *f) Price risk*

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company

### **11. SEGMENT INFORMATION**

The Company conducts all of its business activities in Canada, in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets.

### **12. SUBSEQUENT EVENTS**

Subsequent to the quarter end, on March 19, 2012 the Company announced that it had completed a private placement offering by issuing a total of 3,443,333 units at a price of \$0.15 per unit for gross proceeds of approximately \$516,500 (the "Private Placement"). Each unit under the Private Placement is comprised of one common share and one non-transferable share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.20 per share until March 15, 2014. In connection with the Private Placement, Fairmont paid finders cash commissions totaling \$50,900 and issued finders a total of 339,333 non-transferable share purchase warrants. Each finder's warrant is exercisable on the same terms described above and expire on March 15, 2014.

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**13. EXPLANATION OF TRANSITION TO IFRS**

As stated in note 2, these are the Company's first condensed interim financial statements prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied in preparing the condensed interim financial statements for the three months ended January 31, 2012, the comparative information presented in these condensed interim financial statements for both the three months ended January 31, 2011 and the year ended October 31, 2011 and in the preparation of an opening IFRS statement of financial position at November 1, 2010, the "Transition Date".

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company has not elected to take any of the IFRS 1 optional exemptions.

## a) Optional exemptions

The Company elected to take IFRS 1 option exemption to apply the requirements of IFRS 2, Share-based Payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

## b) Mandatory exceptions

## Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of October 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

## Reconciliation of Canadian GAAP statements of financial position and comprehensive loss to IFRS

IFRS requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive loss as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

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**13. EXPLANATION OF TRANSITION TO IFRS (continued)**

The Canadian GAAP statements of financial position has been reconciled to IFRS as follows:

	Canadian GAAP November 1, 2010	Effect of transition to IFRS	IFRS November 1, 2010	Canadian GAAP January 31, 2011	Effect of transition to IFRS	IFRS January 31, 2011	Canadian GAAP October 31, 2011	Effect of transition to IFRS	IFRS October 31, 2011
<b>ASSETS</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 975,901	\$ -	\$ 975,901	\$ 647,828	\$ -	\$ 647,828	\$ 826,159	\$ -	\$ 826,159
Amounts receivable	11,795	-	11,795	38,758	-	38,758	68,710	-	68,710
Prepaid expenses	10,000	-	10,000	24,080	-	24,080	18,322	-	18,322
	997,696	-	997,696	710,666	-	710,666	913,191	-	913,191
<b>Non-current assets</b>									
Exploration and evaluation assets	187,636	-	187,636	1,319,473	-	1,319,473	1,214,519	-	1,214,519
	<u>\$ 1,185,332</u>	<u>-</u>	<u>\$ 1,185,332</u>	<u>\$ 2,030,139</u>	<u>\$ -</u>	<u>\$ 2,030,139</u>	<u>\$ 2,127,710</u>	<u>\$ -</u>	<u>\$ 2,127,710</u>
<b>LIABILITIES AND EQUITY</b>									
<b>Current liabilities</b>									
Accounts payable and accrued liabilities	\$ 103,282	\$ -	\$ 103,282	\$ 59,061	\$ -	\$ 59,061	\$ 32,627	\$ -	\$ 32,627
Due to related parties	6,720	-	6,720	-	-	-	1,000	-	1,000
Flow through share premium liability	-	-	-	-	-	-	-	55,173	55,173
	110,002	-	110,002	59,061	-	59,061	33,627	55,173	88,800
<b>EQUITY</b>									
Share capital (i)	1,297,464	-	1,297,464	3,021,658	-	3,021,658	2,997,658	(163,750)	2,833,908
Contributed Surplus (i)	127,833	-	127,833	548,428	-	548,428	548,124	-	548,124
Deficit (i)	(349,967)	-	(349,967)	(1,599,008)	-	(1,599,008)	(1,451,699)	108,577	(1,343,122)
	1,075,330	-	1,075,330	1,971,078	-	1,971,078	2,094,083	(55,173)	2,038,910
<b>Total Liabilities and Equity</b>	<u>\$ 1,185,332</u>	<u>\$ -</u>	<u>\$ 1,185,332</u>	<u>\$ 2,030,139</u>	<u>\$ -</u>	<u>\$ 2,030,139</u>	<u>\$ 2,127,710</u>	<u>\$ -</u>	<u>\$ 2,127,710</u>



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**13. EXPLANATION OF TRANSITION TO IFRS (continued)**

The following reconciliation provides a quantification of the effect of the transition to IFRS:

	Three months ended January 31, 2011			Year ended October 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>EXPENSES</b>						
Administration	\$ 1,500	\$ -	\$ 1,500	\$ 9,500	\$ -	\$ 9,500
Advertising and promotion	5,161	-	5,161	86,358	-	86,358
Audit and accounting	2,000	-	2,000	54,518	-	54,518
Consulting	6,000	-	6,000	98,767	-	98,767
Insurance	451	-	451	9,239	-	9,239
Investor Relations	22,500	-	22,500	96,500	-	96,500
Legal	9,886	-	9,886	17,462	-	17,462
Management	24,500	-	24,500	63,500	-	63,500
Office and miscellaneous	1,937	-	1,937	9,080	-	9,080
Rent	4,500	-	4,500	16,500	-	16,500
Registration and transfer fees	9,144	-	9,144	21,200	-	21,200
Share based payment (Note 6)	267,857	-	267,857	350,206	-	350,206
Travel	1,087	-	1,087	25,221	-	25,221
Website	-	-	-	7,765	-	7,765
Total expenses	356,523	-	356,523	865,816	-	865,816
Loss before other items and income taxes	(356,523)	-	(356,523)	(865,816)	-	(865,816)
Write-off of mineral properties	-	-	-	(246,205)	-	(246,205)
Interest income	998	-	998	10,289	-	10,289
Other income on settlement of flow-through share premium liability	-	-	-	-	108,577	108,577
Comprehensive loss for the period	\$ (355,525)	\$ -	\$(355,525)	\$(1,101,732)	\$ 108,577	\$(993,155)

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**13. EXPLANATION OF TRANSITION TO IFRS (continued)**

Explanation for the adjustments are as follows:

Flow-through shares

Under Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and: ii) share capital. Upon expenses being renounced, the Company derecognizes the liability and the premium is recognized as other income.

As a result, for issuances of flow-through shares for which expenditures have not been renounced, by the end of the reporting period, a liability is shown in “flow-through share premium liability”. This resulted in a liability of \$Nil at November 1, 2010 (October 31, 2011 - \$55,173; January 31, 2012 - \$50,054) and a decrease in share capital of \$163,750 at October 31, 2011. The impact on loss and comprehensive loss for the three months-ended January 31, 2011 was \$5,119 (year ended October 31, 2011 - \$108,577).