

**FAIRMONT RESOURCES INC.**  
**FORM 51-102F1**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**THREE MONTHS ENDED JANUARY 31, 2012**

The following Management Discussion and Analysis (“MD&A”) of Fairmont Resources Inc. (the “Company” or “Fairmont”) has been prepared by management, in accordance with the requirements of National Instrument of 51-102 as of April 25, 2012 and should be read in conjunction with the unaudited condensed interim financial statements for the three months ended January 31, 2012 and 2011 and the related notes contained therein which have been prepared under International Financial Reporting Standards (“IFRS”). The following should also be read in conjunction with the audited financial statements and the related MD&A for the year ended October 31, 2011, and all other disclosure documents of the Company. It should be noted that the audited financial statements for the year ended October 31, 2011 were prepared in accordance with Canadian Generally Accepted Accounting Principles (“Canadian GAAP”), the reconciliation of which can be found on page 19 of this MD&A. The information contained herein is not a substitute for detailed investigation or analysis on any particular issue. The information provided in this document is not intended to be a comprehensive review of all matters and developments concerning the Company. The Company is presently a “Venture Issuer” as defined in NI 51-102.

All financial information in this MD&A related to 2012 and 2011 has been prepared in accordance with IFRS and all dollar amounts are quoted in Canadian dollars, the reporting and functional currency of the Company, unless specifically noted.

Additional information related to the Company is available for view on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statements**

Certain information included in this discussion may constitute forward-looking statements. Readers are cautioned not to put undue reliance on forward-looking statements. These statements relate to future events or the Company’s future performance, business prospects or opportunities. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These forward-looking statements include statements regarding the future price of gold, the timing and amount of estimated future production, costs of production, capital expenditures, the success of exploration activities, permitting time lines, currency fluctuations, the requirements of future capital, drill results and the estimation of mineral resources and reserves. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements contained into this report should not be unduly relied upon. These statements speak only as of the date of this report. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this report. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about general business and economic conditions; the supply and demand for, deliveries of, and the level and volatility of prices of gold and silver; the availability of financing for the Company’s exploration programs; the ability to procure equipment and operating supplies in sufficient quantities and on a timely basis; and the ability to attract and retain skilled staff.

These forward-looking statements involve risks and uncertainties relating to, among other things, changes in commodity and, particularly, gold prices, access to skilled mining development personnel, results of exploration and development activities, uninsured risks, regulatory changes, defects in title, availability of materials and equipment, timeliness of government approvals, actual performance of facilities, equipment and processes relative to specifications and expectations and unanticipated environmental impacts on operations. Actual results may differ materially from those expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, the risk factors hereinabove. Additional risk factors are described in more detail hereinafter. **Investors should not place undue reliance on forward-looking statements as the plans, intentions or expectations upon which they are based might not occur. The Company cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Company's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.** The Company intends to discuss in its quarterly and annual reports referred to as the Company’s management’s discussion and analysis documents, any events and circumstances that occurred

during the period to which such document relates that are reasonably likely to cause actual events or circumstances to differ materially from those disclosed in this management discussion and analysis.

## **Qualified Person**

Neil Pettigrew, P. Geo, the Chief Executive Officer, President and a director of the Company, is a Qualified Person as defined in National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* and has reviewed and approved all technical information in this management discussion and analysis.

## **Description of Business**

Fairmont Resources Inc. (the “Company”) is engaged in the exploration and development of its Marmion South Contact Property and Clay-Powell Property located in northwestern Ontario. The Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties 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 mineral properties or proceeds from the disposition of the mineral properties.

## **Overall Performance**

For the three months ended January 31, 2012 the Company incurred a net loss of \$143,190 (2011 - \$355,525). The decreased loss is primarily attributed to the recognition of non-cash share-based compensation in the first quarter of 2011 that was not repeated in 2012. Other decreases included a decrease in legal and a decrease in registration and transfer fees. During the three months ended January 31, 2012, the Company granted no stock options (2011 – 1,250,000), and 835,000 options were cancelled (2011 – Nil). The total stock-based compensation calculated on the options vested in the three months ended January 31, 2012 was \$304 (2011 - \$267,857).

On January 7, 2011, the Company entered into a letter agreement with Karl Bjorkman (the “Optionor”) to earn a 100% interest in 47 mineral claims known as the Marmion South Contact property.

On March 4, 2011, the Company completed the 1<sup>st</sup> 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. 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 unit until March 4, 2012 and then at \$0.75 per unit until March 4, 2013.

An additional \$351,750 was received from the issuance of 1,005,000 Non-Flow-Through Units (“Non FTUnits”) at \$0.35 per Non FT Unit. 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.

On March 15, 2011, the Company completed the 2<sup>nd</sup> 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 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 Unit in the first year and then at \$0.70 in the second year from issuance of the respective warrants.

The Company issued 287,500 finders’ units valued at \$50,030 as finder’s fees for the 1<sup>st</sup> tranche of the private placement. These units are exercisable into units at \$0.40 per unit until March 4, 2013. The 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 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 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.

An additional \$14,220 was received from the exercise of 65,100 agent warrants at prices ranging from \$0.20 to \$0.30 per share. The Company transferred \$7,039 from contributed surplus to capital stock upon the exercise of the agent warrants.

On June 27, 2011, Management decided to terminate its Nicoamen River Claims option agreement and focus exploration efforts on the Company's other mineral properties. Accordingly, the Company wrote-off \$29,224 in acquisition and \$216,981 in deferred exploration costs related to the Nicoamen River Claims property.

At January 31, 2011, the Company had cash and cash equivalents of \$647,828 (October 31, 2011 - \$826,159). Working capital at January 31, 2012 was \$600,551 (October 31, 2011 - \$824,391). To date, the Company's sole source of financing has been derived from the issuance of common shares.

The Company earned interest income from redeemable guaranteed investment certificates. Interest income of \$1,747 (2011 - \$998) was recognized as a result of having more funds to invest during the current period.

### ***Other Events and Transactions***

#### *Appointments and Resignations*

On December 29, 2010, the Company announced the resignation of Mr. Robert Coltura as Director, President and Chief Executive Officer. The Company wishes to thank Mr. Coltura for his past contributions to the Company and wishes him well in his future endeavours.

On December 29, 2010, the Company announced the appointment of Mr. Bernard Dewonck as President and Chief Executive Officer. Mr. Dewonck has served as a member of the Company's Board of Directors since September, 2010. Mr. Dewonck graduated from the University of British Columbia with a Bachelor of Science degree in geology in 1974 and Bachelor of Education in 1993. He has worked throughout North, Central and South America on a wide range of base, precious and industrial mineral projects, as well as in the Athabasca oil sands of Northern Alberta. He has participated in and managed programs ranging from grassroots to detailed surface and underground drilling programs, and evaluated projects requiring report submissions to regulatory agencies.

On December 29, 2010, the Company announced the appointment of Mr. Bruno Kasper to the Board of Directors. Mr. Kasper graduated from the University of Alberta with a Bachelor of Science degree in 1988. Mr. Kasper has consulted on various mineral projects located in Canada, Mexico, Kyrgyzstan and throughout South America, focusing on precious and base metal projects. He has participated in and managed programs that have developed from grassroots discoveries to prefeasibility status. Mr. Kasper has been a senior geologist and project manager of Coast Mountain Geological Services Ltd. since 2004.

On July 7, 2011, the Company announced the resignation of Dr. Gerald Carlson, P. Eng. as a Director. The Company wishes to thank Dr. Carlson for his past contributions and wishes him well in his future endeavours.

On July 7, 2011, the Company announced the appointment of Mr. Jim Chapman to the Board of Directors.

On August 30, 2011 the Company announced the resignations of Mr. Bernard Dewonck as Chief Executive Officer and President and Mr. Jim Chapman as a Director. The Company wishes to thank Mr. Dewonck and Mr. Chapman for their past contributions.

On August 30, 2011 the Company announced the appointment of John Bevilacqua as Chief Executive Officer, President and a director of Fairmont. Mr. Bevilacqua brings more than 13 years' experience of management and finance in both private and public companies. John spent 5 years managing investor relations for Stockhouse Inc., which is an online financial media company that serves financial institutions, media publishers, public companies, and advertisers. Developing strong

relationships within the investment and brokerage community John has assisted several public companies building and executing their business plans.

On September 14, 2011, the Company announced the resignation of Mr. Dewonck as a Director.

On September 26, 2011, the Company announced the resignation of Mr. Jerry Minni as CFO, Secretary and Director. The Company wishes to thank Mr. Minni for his past contributions and wishes him well in his future endeavours.

On September 26, 2011, the Company announced the appointment of Greg Ball as CFO, Secretary and Director. Mr. Ball has worked in the accounting field for the past 23 years. In the past 10 years, Mr. Ball served as a controller at Black Top & Checker Cabs and Pacific Western Brewing Co. Since January 2005, Mr. Ball has been a senior accountant with the Da Costa Management Corp. Mr. Ball has a Bachelor of Science in Mathematics from the University of Alberta and received his CGA designation in August of 2005.

On October 26, 2011 the Company announced that it had appointed Michael Thompson to its Board of Directors. Mr. Thompson received his Honours B.Sc. in Geology from the University of Toronto in 1997. Michael has worked for several companies since 1997 in both gold and base metal exploration, most notably Teck Resources Ltd., Placer Dome CLA Inc. and Goldcorp Inc. Mr. Thompson specializes in structural interpretation of gold deposits as well as advancing exploration programs to the resource stage. He is a founding partner, part owner and President of Fladgate Exploration Consulting Corporation of Thunder Bay, ON, a full service mineral exploration consulting firm with over 60 employees and a roster of publicly traded clients. Mr. Thompson is also a director and Vice President Exploration of Red Metal Resources Ltd., a mineral exploration company quoted on the OTC Bulletin Board.

On November 30, 2011, Bruno Kasper resigned as a director of Fairmont. Fairmont thanks Mr. Kasper for his services as a member of Fairmont's board of directors.

#### *Annual General Meeting*

On May 10, 2012, the Company will hold its Annual General Meeting.

#### *Escrow Shares Released*

On April 15, 2011, 337,875 common shares were released from escrow leaving a balance of 1,351,503 remaining in escrow.

On October 15, 2011, 337,875 common shares were released from escrow leaving a balance of 1,013,628 remaining in escrow.

#### **Commitments**

##### **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 11 mineral tenures comprising the Powell property and 10 mineral tenures comprising 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 (issued)	100,000	\$ -
Before October 15, 2011 (minimum expenditures of \$250,000 incurred)	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>
	<u>400,000</u>	<u>\$ 1,000,000</u>

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 second 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 Karl Bjorkman (the “Optionor”) to earn a 100% interest in 47 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:

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 (minimum expenditures of \$150,000 incurred)	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. The Company incurred the minimum exploration expenditures of \$150,000 before January 31, 2012.

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)	<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 as follows:

	Number of Common Shares	Exploration Expenditures
By April 15, 2012	-	\$ 300,000
By April 15, 2013	50,000	500,000
By April 15, 2014	100,000	-
By April 15, 2015	<u>150,000</u>	<u>900,000</u>
	<u>300,000</u>	<u>\$ 1,700,000</u>

On June 27, 2011, Management decided to terminate its Nicoamen River Claims option agreement and focus exploration efforts on the Company's other mineral properties. 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 events occurred subsequent to January 31, 2012:**

On February 8, 2012 the Company announced that its board of directors has approved a proposed private placement offering of up to 3,700,000 units at a price of \$0.15 per unit for gross proceeds of \$555,000. Each unit under the proposed Offering will be 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 for a period of two years following closing. Subject to TSX Venture Exchange approval, Fairmont may pay finders a fee consisting of cash and warrants from the proceeds of the proposed Offering. Proceeds of the Offering will be used for the exploration of Fairmont's mineral properties as well as for general working capital and corporate purposes.

On February 10, 2012 the Company announced the appointment of Neil Pettigrew, M.Sc., P.Geo. to the position of President, CEO and Director replacing John Bevilacqua as President and CEO. Mr. Bevilacqua will continue to serve as a director of the Company. Fairmont thanks Mr. Bevilacqua for his services as President and CEO of Fairmont. Mr. Pettigrew received his H.B.Sc. in Geology degree from the University of New Brunswick in 1999 and his M.Sc. degree in Earth Sciences from the University of Ottawa in 2004. He has worked for several junior and major companies in gold and Cu-Ni-PGE exploration, most notably Avalon Ventures Ltd., Temex Resources Corp., Rainy River Resources Ltd., Placer Dome CLA Inc. and Goldcorp Inc. He has also worked for the Ontario Geological Survey as a Senior Precambrian Geoscientist. Currently, Mr. Pettigrew serves as VP Exploration of PC Gold Inc., an exploration and development company listed on the TSX. Mr. Pettigrew is also a founder of Fladgate Exploration Consulting Corporation of Thunder Bay, ON, a full service mineral exploration consulting firm with over 60 employees and a roster of publicly traded clients.

On February 10, 2012 the Company announced that it granted 1,050,000 stock options to officers, directors, consultants and employees of Fairmont pursuant to the terms of the Company's stock option plan, subject to regulatory approval. The options were granted for a period of 5 years, expiring on February 9, 2017, and each stock option will allow the holder to purchase a common share of Fairmont at an exercise price of \$0.15.

On February 14, 2012 the Company announced the resignation of Mitchell Adam as director. The Company wishes to thank Mr. Adam for his past contributions and wishes him well in his future endeavours.

Subsequent to the quarter end, on March 19, 2012 the Company issued 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 expires on March 15, 2014.

## Selected Annual Information

	Year Ended October 31, 2011 IFRS* (\$)	Year Ended October 31, 2010 Canadian GAAP* (\$)	Year Ended October 31, 2009 Canadian GAAP* (\$)
Total Revenue	-	-	-
Operating Expenses	(865,816)	(255,072)	(125,486)
Loss Before Other Items and Income Tax	(865,816)	(255,072)	(125,486)
Write-Off Mineral Properties	(246,205)	-	-
Interest Income	10,289	571	-
Future Income Tax Recovery	-	16,128	13,952
Other income on settlement of flow-through share premium liability	108,577	-	-
Net Loss	(993,155)	(238,373)	(111,594)
Basic and Diluted Loss Per Share	(0.08)	(0.04)	(0.20)

  

	As at October 31, 2011 IFRS* (\$)	As at October 31, 2010 Canadian GAAP* (\$)	As at October 31, 2009 Canadian GAAP* (\$)
<b>Balance Sheet Data</b>			
Total assets .....	2,127,710	1,185,332	333,321
Total liabilities .....	(88,800)	(110,002)	(142,595)
Total equity .....	2,038,910	1,075,330	190,762

\* These amounts have not been audited . Refer to “First Time Adoption of IFRS.”

## Results of Operations

During the three months ended January 31, 2012, the Company incurred a net loss before income taxes of \$143,190 (2011 - \$355,525). The expenses include the following items:

- Administration of \$9,000 (2011 - \$1,500) was incurred in the current period as the Company’s business activities increased.
- Advertising and promotion of \$20,132 (2011 - \$5,161) is higher than the comparative period. The increase is primarily attributed to an increase in expenses to exhibit at trade shows and entertainment expenses. During the current period the Company exhibited at trade shows in Toronto, Munich and San Francisco.
- Accounting and audit of \$15,000 (2011 – \$2,000) are higher than the comparative period. These expenses have risen as a result of increased business and exploration activities.
- Exploration Expense of \$8,104 (2011 - \$Nil) was incurred to finalize our obligation in returning the Nicoamen River property to the optionor.
- Investor relations charges were \$37,000 (2011 - \$22,500) an increase of \$14,500. This was primarily due to an increase in fees charged by our investor relations firm in response to an expanded scope of work.
- Legal fees of \$1,978 (2011 – \$9,886). The higher legal fees in 2011 were due to completing the purchase of the Marmion South Contact property in Ontario.
- Management fees of \$23,250 (2011 - \$24,500) are comparable to the comparative period.

- Office and miscellaneous of \$5,965 (2011 - \$1,937) are higher than the comparative year. This increase is primarily attributed to increased business activities.
- Registration and filing fees of \$1,835 (2011 - \$9,144) decreased from the three months ended January 31, 2011. The prior year's fees were higher due to higher fees for filing our annual statements on Sedar, filing requirements for the Marmion property and for transfer agent fees associated with private placements.
- During the three months ended January 31, 2012, the Company granted no stock options (2011 - 1,250,000). The total share-based payments calculated on the options vested in the current period was \$304 (2011 - \$267,857).
- Travel and related fees were \$12,766 (2011 - \$1,087) increased significantly during the current period as a result of the Company's management and consultants attending trade shows in Toronto, San Francisco and Munich.

The Company earned interest income from redeemable guaranteed investment certificates. Interest income of \$1,747 (2011 - \$998) was recognized as a result of having significantly more funds to invest during the current period.

## **Project Updates**

### *Clay and Powell*

In fiscal 2011, the Company completed its 1,500 metre diamond drilling program on two target areas on the Clay and Powell property. One of the target areas drilled consisted of a subtle resistivity high flanking a chargeability high. This target was viewed as a potential extension of gold- and copper-bearing shear zones hosting the Moss Lake mine and the Foundation Resources Inc./Alto Ventures Ltd. Coldstream deposits to the northeast. Of the three drill holes collared in this area (CP-11-04 to CP-11-06), two intersected gold mineralization: 2.91 grams per tonne (g/t) Au over 1.55 metres from 99.50 metres to 101.05 metres in hole CP-11-04 and 8.45 g/t Au over 1.90 metres from 222.75 metres to 224.65 metres in hole CP11-06. Gold mineralization is associated with quartz-carbonate-chlorite-pyrite-chalcopyrite veining within hematite- and carbonate-altered mafic volcanics. The presence of gold within these drill holes indicates that there is a potential for a shear-hosted deposit similar to that of Moss Lake and Coldstream. CP-11-06 was collared 202 metres northeast of CP11-04; CP-11-5, from which no significant values were returned, was collared 136 metres northeast of CP-11-06.

The other target area drilled was a magnetic high defined by a recently completed induced polarization and magnetic survey over the southeast portion of the property. The survey was designed to cover a potential extension of magnetic anomalies associated with the Xstrata Copper/Rainy Mountain Royalty Corp. Hamlin iron oxide copper-gold (IOCG) prospect to the northeast. The three holes drilled in this area (CP-11-01 to CP-11-03) intersected intervals of epidote-carbonate-magnetite to magnetite-carbonate-hematite-chlorite alteration with pyrite and trace amounts of chalcopyrite similar in style to the Hamlin IOCG prospect. Hole CP-11-02 intersected a broad zone of anomalous copper grading 146 parts per million (ppm) from 74.5 metres to 129.9 metres, which includes higher values over narrow widths, including a high of 0.18 per cent Cu over 0.55 metre from 113.35 metres to 113.90 metres. The same hole intersected an elevated gold value of 162 parts per billion (ppb) over 1.50 metres from 221.5 metres to 223.0 metres.

The Company will continue to evaluate available data for these and other areas of the property to assess its potential for additional exploration.

### *Marmion South Contact*

In fiscal 2011, the Company entered into a letter agreement whereby it was granted an option to acquire a 100% interest in the Marmion South Contact Property. The Marmion South Contact Property consists of 8,208 hectares and is located approximately 200 km west of Thunder Bay. The Property is accessed via the Trans-Canada Highway 11 from Thunder Bay to the town of Atikokan then accessed by a secondary highway with several logging roads providing access within the Property. A major railway line and an electrical grid are located just a few kilometres south of the Property. These infrastructures serve the community of Atikokan and the surrounding areas. Both skilled and semi-skilled labour is readily available from Thunder Bay and Atikokan, respectively.

The property is adjacent to the past producing Atiko Gold Mine to the east and Osisko Mining Corporation's ("Osisko") Hammond Reef Project (10.5 million ounce NI 43-101 compliant gold resource in 'Inferred' category - [www.osisko.com](http://www.osisko.com)) being developed to the north.



The property is host to several gold showings and prospects, including the Olcott prospect which has a historical resource estimate of 81,000 tons @ 0.06 oz/ton gold (Placer Development Limited 1981 – Assessment Work Report # 52B14SW0066). This historical resource estimate is mentioned for historical purposes only and is not compliant with National Instrument 43-101 (“NI 43-101”). The reliability of historical estimates is unknown but considered relevant by the Company as it represents a potential target for exploration work by the Company. These are historical resource estimates prepared prior to the implementation of NI 43-101 and use terminology not compliant with current reporting standards. The Company has not made any attempt to re-classify the estimates according to current NI 43-101 standards of disclosure or the CIM definitions. The Company is not treating this estimate as current mineral resources or mineral reserves as defined in NI 43-101. These historical estimates should not be relied upon.

Exploration over the past several years has identified other prospects, including the Agnico-Eagle prospect (located just to the east of the property, which returned drill hole result of up to 1.0 oz/ton gold over 0.75m), the White Lake prospect (returned grab sample result of up to 0.37 oz/t gold and drill hole result of 0.45 g/t gold over 7.0 m) and a prospective structure known as the Smokey Shear approximately 2 km long located near the northern boundary of the Property. These gold assay values are from various historical assessment and prospecting reports and have not been verified by the Company.

Gold mineralization on the Property is associated with pyrite +/- arsenopyrite and occurs within shear zone-hosted quartz veins/stringers and altered host rocks. The property is underlain by Archean granite-greenstone rocks of the Central Wabigoon Subprovince within the geological Superior Province of the Canadian Shield. The northern half of the property is underlain by granitic rocks of the Marmion batholithic complex which hosts some of the gold deposits on the adjacent Hammond Reef property of Osisko. Volcanic and gabbroic rocks dominating the southern half of the Property are bound by a major crustal break, the Quetico Fault and its subsidiary structures. Gold and copper mineralization in the volcanic and gabbroic rocks is structurally controlled by east-northeast to east-striking shear zones which are possibly related to the Quetico Fault system.

In June, 2011, the Company completed the initial exploration program of the Marmion South Contact Property. This initial program involved the prospecting and sampling in parts of the property underlain by the Marmion Lake Batholith, host to Osisko’s Hammond Reef deposit. Attention was focused on potential southwest extensions of the shear hosted Jack Lake deposit (non NI 43-101 compliant historical resource of 90,000 tonnes at 15.6 g/t, Ontario Geological Survey report) and Clearwater showing that lie within the adjacent Osisko claims to the north, and the Almada showing where a historical grab sample grading 6.34 g/t was recorded by Noranda in 1990. A total of 42 grab rock samples and 81 soil samples were collected in these two areas. Other historically defined prospects – McKinnon, Partridge, Pickering and Smokey Shear – were located and the surrounding areas sampled for a total of 32 grab rock samples.

The work also consisted of identifying the location of historical drill holes in the area of the historical Olcott gold showing; prospecting, channel and grab rock and soil sampling across a potentially mineralized 3 km long corridor within greenstones of the Central Wabigoon Subprovince. The corridor trends northeastward from Olcott toward the Agnico Eagle prospect, which lies just outside the property boundary. Historical drilling at Olcott returned up to 2.51 g/t gold over 10.8 metres and up to 34.3 g/t gold over 0.75 metres at Agnico Eagle according to Ontario Geological Survey reports. A total of 41 grab and 159 channel rock samples, as well as 127 soil samples, were collected across chlorite-sericite altered, foliated shear zones within this corridor, some in areas where historical trenching was observed. Sampling of the White Lake prospect to the southwest included 17 channel and 18 grab rock samples.

In November, 2011, the Company completed its airborne geophysical survey on its Marmion South Contact Property. The airborne survey was conducted by Fugro Airborne Surveys Corp. and consisted of a DIGHEM and magnetometer survey along 1,305 line-kilometres. The purpose of the survey was to aid in the identification of regional and local structures to focus future ground exploration and drill programs. This survey identified several key northeast trending structures in the Marmion Batholith, which are considered priority targets for Hammond Reef style mineralization.

In the winter of 2012 the Company compiled historic exploration data and 2011 exploration results to generate drill targets. These targets were tested in the recent 1400 meter drill program from March 15<sup>th</sup> to April 9<sup>th</sup>. This drill program focused on the Historic Olcott showing area. Results from this program are expected in May.

The Company is currently in the planning stages for an extensive summer program of reconnaissance mapping, prospecting and soil sampling to ground truth targets located along northeast trending structures in the Marion Batholith identified by the 2011 airborne geophysical survey. Drill testing of these targets is currently planned for fall 2012.

*Nicoamen River Claims*

On June 27, 2011, Management decided to terminate its Nicoamen River Claims option agreement and focus exploration efforts on the Company's other mineral properties. Accordingly, the Company wrote-off \$29,224 in acquisition and \$216,981 in deferred exploration costs related to the Nicoamen River Claims property.

## Summary of Quarterly Results

	Three Months Ended January 31, 2012 IFRS*	Three Months Ended October 31, 2011 IFRS*	Three Months Ended July 31, 2011 IFRS*	Three Months Ended April 30, 2011 IFRS*
Total assets	\$2,030,139	\$ 2,127,710	\$ 2,391,616	\$ 2,770,478
Working capital	600,551	824,391	976,456	1,430,704
Shareholders' equity	1,920,024	2,038,910	2,180,798	2,466,675
Interest income	1,747	2,163	5,827	1,301
Settlement of flow-through share premium	5,119	(728)	52,432	56,873
Net loss	(143,190)	195,472	299,902	142,256
Loss per share	(0.01)	(0.01)	(0.02)	(0.01)

	Three Months Ended January 31, 2011 IFRS*	Three Months Ended October 31, 2010 Canadian GAAP*	Three Months Ended July 31, 2010 Canadian GAAP*	Three Months Ended April 30, 2010 Canadian GAAP*
Total assets	\$ 1,190,939	\$ 1,185,332	\$ 535,995	\$611,372
Working capital (deficiency)	535,475	887,694	395,734	472,611
Shareholders' equity	1,022,523	1,075,330	533,370	608,747
Interest income	998	49	522	-
Settlement of flow-through share premium	-	-	-	-
Net loss	(355,525)	(67,694)	(55,182)	(101,917)
Loss per share	(0.03)	(0.01)	(0.01)	(0.02)

\* These amounts have not been audited. Refer to Note 13 in the unaudited condensed interim financial statements for the three month period ended January 31, 2012 for a reconciliation of Canadian GAAP to IFRS.

Significant changes in key financial data from 2010 to 2012 can be attributed to the Company completing its initial public offering and two private placements for gross proceeds of \$3,141,000. The Company paid a total of \$579,980 in share issuance costs (including the fair value of broker's warrants).

Subsequent to January 31, 2012, on March 15, 2012, the Company completed a private placement for gross proceeds of \$516,500. The Company paid a total of \$76,543 in share issuance costs (including the fair value of broker's warrants).

As at January 31, 2012, the Company has paid or accrued \$217,224 for mineral property acquisition costs and \$1,348,454 for deferred exploration costs on the Clay and Powell, Marmion South Contact and Nicoamen River Claims. On June 27, 2011, Management decided to terminate its Nicoamen River Claims option agreement and focus exploration efforts on the Company's other mineral properties. Accordingly, the Company wrote-off \$29,224 in acquisition and \$216,981 in deferred exploration costs related to the Nicoamen River Claims property.

During the three months ended January 31, 2012, the Company granted no stock options (2011 – 1,250,000), 835,000 options were cancelled (2011 – Nil). The total stock-based compensation calculated on the options granted in the current period was \$Nil (2011 - \$323,499). The Company expensed \$304 (2011 - \$267,857) of the total stock-based compensation.

Subsequent to January 31, 2012, on February 8, 2012 the Company agreed with an option holder to cancel 215,000 common share options. The Company also granted 1,050,000 common share options to certain directors, officers and consultants.

On February 14, 2012, the Company agreed with an option holder to cancel 50,000 common share options and the Company granted 50,000 common share options to a consultants.

On February 28, 2012, 100,000 common share options in the name of a former director expired.

## Liquidity and Capital Resources

To date, the Company has not yet realized profitable operations and has relied on equity financings and trade credit to fund the losses. The Company has sufficient funds to satisfy its exploration expenditure plans for the current fiscal year.

These financial statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

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

Net cash used in operating activities during the three months ended January 31, 2012, was \$103,287 (2011 – \$221,349). The cash used in operating activities for the period consists primarily of the operating costs and a change in non-cash working capital.

Net cash provided by financing activities during the three months ended January 31, 2012, was \$Nil (2011 – (\$139)). The Company paid \$139 cash for share issuances related to the private placement that was completed after January 31, 2011.

Net cash used in investing activities during the three months ended January 31, 2012, was \$75,044 (2011 - \$121,327). During the current period the Company paid \$42,000 cash to the optionor pursuant to the letter agreement for the Marmion South Contact property. A total of \$33,044 (2011 - \$96,327) cash was paid on deferred exploration costs for the Company's mineral properties during the three months ended January 31, 2012.

There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. If adequate financing is not available when required, the Company may be unable to continue operating. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

The Company has sufficient funds to cover anticipated administrative expenses and continue to conduct exploration activities throughout the current fiscal year. It will continue to focus on actively exploring its mineral properties.

## Related Party Transactions

There was a balance due to related parties at January 31, 2012, of \$24,831 (October 31, 2011 - \$nil), owed to a company controlled by two of the Company's directors.

There was a balance due to related parties at January 31, 2012, of \$Nil (October 31, 2011 - \$1,000), owed to one of the Company's directors.

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

- Paid or accrued \$Nil (2011 - \$9,500) in management fees to a company controlled by Jerry Minni a former director of the Company.
- Paid or accrued \$3,000 (2011 - \$Nil) in management fees to Greg Ball a director of the Company.
- Paid or accrued \$15,000 (2011 - \$Nil) in management fees to John Bevilacqua a director of the Company.

- d) Paid or accrued \$5,250 (2011 - \$Nil) in management fees to a company controlled by two directors 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.

The related party transactions are in the normal course of operations.

### **Changes in Accounting Policies**

The unaudited condensed interim financial statements, including comparatives have been prepared 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”) and in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting.

The preparation of the condensed interim financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles (“Canadian GAAP”). The accounting policies set out below have been applied consistently to all periods presented in the condensed interim financial statements. They have also been applied in preparing an opening IFRS balance sheet at November 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (“IFRS 1”). The impact of the transition from GAAP to IFRS is explained in Note 12 of the financial statements.

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

The preparation of the condensed interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the period. Actual results could differ from these estimates.

The condensed interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 share-based payment expense included in profit or loss.

### **Significant Accounting Policies**

The accounting policies set out below are expected to be adopted for the year-ending October 31, 2012 and have been applied consistently to all periods presented in the condensed interim financial statements and in preparing the opening IFRS balance sheet at November 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

- 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.

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.

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.

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.

#### 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.

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.

## Financial Instruments

### Fair Values

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities and due to related parties. 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, 2011	October 31, 2011	November 1, 2010
Held for trading (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 amounts due to related parties

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

### 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.



### *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.

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.

### *Foreign Exchange Risk*

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

### *Interest Rate Risk*

The Company is not exposed to significant interest rate risk.

### *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

### **New standards not yet adopted**

In November 2009, the IASB published IFRS 9, "Financial Instruments," which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If the option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective for the Company on November 1, 2013. An early adoption is permitted and the standard is required to be applied retrospectively. There will be no significant impact on the Company upon implementation of the issued standard.

### **FIRST TIME ADOPTION OF IFRS**

The financial statements are the Company's first interim condensed financial statements prepared in accordance with IFRS.

The accounting policies have been applied in preparing the condensed interim financial statements for the three months ended January 31, 2012 and 2011, the financial statements for the year ended October 31, 2011 and the opening IFRS statement of financial position on the Transition Date, November 1, 2010.

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended January 31, 2012, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has effected the Company's financial position and financial performance is set out in the following tables.

The guidance for 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 elected not to take any 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.

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

November 1,	Canadian GAAP 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>

### 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)

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; 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).

## Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as at January 31, 2012.

## Additional Disclosure for Venture Issuers without Significant Revenue

Please refer to Note 5 in the audited financial statements for the three months ended January 31, 2012 for a description of the capitalized exploration and development costs on the Clay and Powell Property, Marmion South Contact Property and Nicoamen River Property. For a description of the general and administrative expenses, please refer to the statements of operations contained in the audited financial statements for the three months ended January 31, 2012.

## Outstanding Share Data

The following table summarizes the outstanding share capital as of the date of the MD & A:

	Number of shares issued or issuable		
Common shares			19,800,433
Stock options			1,550,000
Warrants			6,710,833
Agent warrants			1,031,733

### *Escrow Shares*

At October 31, 2011, pursuant to an escrow agreement dated December 10, 2009, 1,013,628 of the common shares issued and outstanding remain held in escrow and 337,875 are to be released every six months from April 15, 2012 to April 15, 2013.

## Business Risks

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks, but the Company is not fully insured against all risks, nor are all such risks insurable.
- Financial risks include commodity prices, interest rates and the Canada / United States exchange rate, all of which are beyond the Company's control.
- Regulatory risks include the possible delays in getting regulatory approval to the transactions that the Board of Directors believe to be in the best interest of the Company, and include increased fees for filings, the introduction of

ever more complex reporting requirements the cost of which the Company must meet in order to maintain its exchange listing.

The Company currently does not have adequate cash for planned exploration expenditures and general and administrative expenses in the next fiscal year and will require financing in the future to continue in business. There can be no assurance that such financing will be available or, if available, that it will be on reasonable terms. If financing is obtained by issuing common shares from treasury, control of the Company may change and investors may suffer additional dilution. To the extent financing is not available, lease payments, work commitments, rental payments and option payments, if any, may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company.

A detailed analysis of the difference between International Financial Reporting Standards and the Company's accounting policies as well as an assessment of the impact of various alternatives is underway. Changes in accounting policies are likely and may materially impact the Company's financial statements.

### **Internal Controls over Financial Reporting**

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Lack of optimal segregation of duties has been observed due to the relatively small size of the Company, but management believes that these weaknesses have been adequately mitigated through management and director oversight.

### **Management's Responsibility for Financial Statements**

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgments and have been properly reflected in the financial statements.

### **Further Information**

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).