**RARA TERRA MINERALS CORP.**

**Financial Statements**

**Year Ended March 31, 2012**

**Expressed in Canadian Dollars**

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CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Rara Terra Minerals Corp.

We have audited the accompanying financial statements of Rara Terra Minerals Corp., which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended March 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

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

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Rara Terra Minerals Corp. as at March 31, 2012, March 31, 2011 and April 1, 2010, and its financial performance and its cash flows for the years ended March 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes certain conditions that give rise to substantial doubt about the entity's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not qualified in respect of this matter.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, B.C.
July 18, 2012

Rara Terra Minerals Corp.
Statements of Financial Position
(Expressed in Canadian dollars)

| | Notes | March 31, 2012 | March 31, 2011 (Note 12) | April 1, 2010 (Note 12) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | | $ 1,330,361 | $ 194,087 | $ 217,086 |
| Prepaid expenses | | 7,500 | - | - |
| Receivables | 4 | 116,958 | 23,152 | 1,076 |
| | | 1,454,819 | 217,239 | 218,162 |
| **Non-current assets** | | | | |
| Exploration and evaluation assets | 5 | 457,750 | 83,230 | - |
| **TOTAL ASSETS** | | **$ 1,912,569** | **$ 300,469** | **$ 218,162** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payables and accrued liabilities | 6 | $ 23,459 | $ 43,571 | $ 10,244 |
| Due to related parties | 7 | 3,291 | 6,526 | 5,577 |
| **TOTAL LIABILITIES** | | **26,750** | **50,097** | **15,821** |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 8 | 2,603,099 | 422,333 | 231,488 |
| Share- based payment reserve | 8 | 269,875 | 49,613 | - |
| Deficit | | (987,155) | (221,574) | (29,147) |
| **TOTAL EQUITY** | | **1,885,819** | **250,372** | **202,341** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 1,912,569** | **$ 300,469** | **$ 218,162** |

Contingency (Note 1)
Subsequent events (Note 11)

On behalf of the -board:

*"Fraser Atkinson"*
Director

*"Roger Flowerdew"*
Director

Rara Terra Minerals Corp.
Statements of Comprehensive Loss
(Expressed in Canadian dollars)

| | | Years ended | |
|---|---|---|---|
| | **Notes** | **March 31, 2012** | **March 31, 2011** |
| **Expenses** | | | |
| Consulting and management fees | 7 | $ 273,265 | $ - |
| General and administrative | | 9,302 | 12,184 |
| Investor relations | | 66,069 | - |
| Professional fees | | 78,800 | 51,326 |
| Property investigation costs | | 27,582 | - |
| Rent | 7 | 35,500 | 12,000 |
| Stock based compensation | 8 | 200,833 | 33,767 |
| Transfer agent and filing fees | | 45,656 | 54,892 |
| Travel and promotion | | 68,621 | 28,258 |
| | | 805,628 | 192,427 |
| **Other item** | | | |
| Other income | 8 | (40,047) | - |
| **Comprehensive loss** | | **$ 765,581** | **$ 192,427** |
| **Loss per share – basic and diluted** | 8 | **$ (0.05)** | **$ (0.05)** |

Rara Terra Minerals Corp.
Statement of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

| | Notes | Share capital: Number of shares | Share capital: Amount | Share-based payment reserve | Deficit | Total |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2010** | 12 | **3,600,000** | **$ 231,488** | **$ -** | **$ (29,147)** | **$ 202,341** |
| Comprehensive loss | | - | - | - | (192,427) | (192,427) |
| Shares issued for cash – private placement | | 3,000,000 | 300,000 | - | - | 300,000 |
| Share issue costs | | - | (109,155) | 15,846 | - | (93,309) |
| Stock-based compensation | | - | - | 33,767 | - | 33,767 |
| **Balance at March 31, 2011** | 12 | **6,600,000** | **422,333** | **49,613** | **(221,574)** | **250,372** |
| Comprehensive loss | | - | - | - | (765,581) | (765,581) |
| Shares issued for cash – private placement | | 9,092,401 | 2,313,170 | - | - | 2,313,170 |
| Flow-through liability | 8 | - | (40,047) | - | - | (40,047) |
| Share issue costs | | - | (198,390) | 35,275 | - | (163,115) |
| Shares issued for cash – warrant exercise | | 300,000 | 45,846 | (15,846) | - | 30,000 |
| Shares issued to acquire exploration and evaluation assets | | 232,500 | 60,187 | - | - | 60,187 |
| Stock-based compensation | 8 | - | - | 200,833 | - | 200,833 |
| **Balance at March 31, 2012** | | **16,224,901** | **$ 2,603,099** | **$ 269,875** | **$ (987,155)** | **$ 1,885,819** |

Rara Terra Minerals Corp.
Statements of Cash Flows
(Expressed in Canadian dollars)

| | Year ended | |
|---|---|---|
| | **March 31, 2012** | **March 31, 2011** |
| **Operating activities** | | |
| Net loss | $ (765,581) | $ (192,427) |
| Adjustments for non-cash items: | | |
| Stock-based compensation | 200,833 | 33,767 |
| Other income | (40,047) | - |
| Changes in non-cash working capital items: | | |
| Receivables | (93,806) | (22,076) |
| Prepaid expenses | (7,500) | - |
| Accounts payables and accrued liabilities | (20,112) | 33,327 |
| Due to related parties | (3,235) | 949 |
| **Net cash flows used in operating activities** | (729,448) | (146,460) |
| **Investing activities** | | |
| Acquisition of exploration and evaluation assets | (314,333) | (83,230) |
| **Net cash flows used in investing activities** | (314,333) | (83,230) |
| **Financing activities** | | |
| Proceeds received for shares issued, net of issuance costs | 2,180,055 | 206,691 |
| **Net cash flows from financing activities** | 2,180,055 | 206,691 |
| Increase (decrease) in cash | 1,136,274 | (22,999) |
| Cash, beginning | 194,087 | 217,086 |
| **Cash, ending** | **$ 1,330,361** | **$ 194,087** |
| **Non-cash transaction:** | | |
| Fair value of shares issued for acquisition of exploration and evaluation assets | $ 60,187 | $ - |

**1. Nature and continuance of operations**

Rara Terra Minerals Corp. (the "Company") was incorporated in the name of Rara Terra Capital Corp. under the British Columbia Business Corporations Act on December 17, 2009. The Company was formed for the primary purpose of completing an Initial Public Offering ("IPO") on the TSX Venture Exchange ("Exchange") as a Capital Pool Company ("CPC") as defined in Policy 2.4 of the Exchange and completed its Qualifying Transaction in May 2011 and changed its name to Rara Terra Minerals Corp. The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether these assets contain mineral reserves that are economically recoverable.

The head office and principal address is located at 1100 Melville Street, Suite 830, Vancouver, British Columbia, Canada, V6E 4A6. The records and registered office is located at 885 West Georgia Street Suite 800, Vancouver, British Columbia, V6C 3H1.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at March 31, 2012 the Company had not advanced its assets to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. Management intends to finance operating costs over the next twelve months from existing working capital and or the private placement of common shares.

**2. Significant accounting policies and basis of preparation**

The financial statements were authorized for issue on July 18, 2012 by the directors of the Company.

***Statement of compliance and conversion to International Financial Reporting Standards***

The financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These are the Company's first set of annual financial statements prepared in accordance with IFRS. The disclosures concerning the transition from pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 12.

***Basis of preparation***

The financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

***Significant accounting judgments, estimates and assumptions***

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

**2. Significant accounting policies and basis of preparation** (cont'd)

***Significant accounting judgments, estimates and assumptions*** (cont'd)

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and stock-based compensation and other equity-based payments, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

***Exploration and evaluation expenditures***

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

***Share-based payments***

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

***Loss per share***

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

**2. Significant accounting policies and basis of preparation** (cont'd)

***Financial instruments***

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Company of financial assets is managed by key management personnel on a fair value basis in accordance with a risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

**2. Significant accounting policies and basis of preparation** (cont'd)

***Income taxes***

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:

Any premium received by the Company on the issuance of flow-through shares is initially recorded as a liability ("flow-through tax liability") and included in trade payables and accrued liabilities. Upon renouncement by the Company of the tax benefits associated with the related expenditures, a deferred tax liability is recognized and the flow-through tax liability will be reversed. To the extent that suitable deferred tax assets are available, the Company will reduce the deferred tax liability and record a deferred tax recovery.

***Restoration and environmental obligations***

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

**2. Significant accounting policies and basis of preparation** (cont'd)

***Restoration and environmental obligations*** (cont'd)

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

***Foreign currency translation***

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive income in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

**3. Accounting standards issued but not yet effective**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning on or after April 1, 2012 or later periods.

The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a material effect on the Company's future results and financial position:

a) IFRS 9 Financial Instruments (New; to replace IAS 39 and IFRIC 9);
b) IFRS 10 Consolidated Financial Statements (New; to replace consolidation requirements in IAS 27 (as amended in 2008) and SIC-12);
c) IFRS 11 Joint Arrangements (New; to replace IAS 31 and SIC-13);
d) IFRS 12 Disclosure of Interests in Other Entities (New; to replace disclosure requirements in IAS 27 as amended in 2008), IAS 28 (as revised in 2003) and IAS 31);

(Expressed in Canadian dollars)

**3. Accounting standards issued but not yet effective** (cont'd)

e) IFRS 13 Fair Value Measurement (New; to replace fair value measurement guidance in other IFRSs);
f) IAS 1 Presentation of Financial Statements, (Amendments regarding Presentation of Items of Other Comprehensive Income);
g) IAS 19 Employee Benefits (Amended in 2011);
h) IAS 27 Separate Financial Statements (Amended in 2011);
i) IAS 28 Investments in Associates and Joint Ventures (Amended in 2011); and
j) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (New).

**4. Receivables**

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Value-added tax receivable | $ 116,958 | $ 22,985 | $ 1,076 |
| Other receivables | - | 167 | - |
| | $ 116,958 | $ 23,152 | $ 1,076 |

**5. Exploration and evaluation assets**

| | March 31, 2011 | Additions | March 31, 2012 |
|---|---|---|---|
| Acquisition costs: | | | |
| Lonnie Property | $20,000 | $ 24,687 | $ 44,687 |
| Xeno Property | - | 120,500 | 120,500 |
| Total acquisition costs | 20,000 | 145,187 | 165,187 |
| | | | |
| Exploration and evaluation costs: | | | |
| Lonnie Property: | | | |
| Consulting | 40,830 | 9,208 | 50,038 |
| Geological survey | 22,400 | 103,776 | 126,176 |
| Staking | - | 350 | 350 |
| Xeno Property: | | | |
| Consulting | - | 4,168 | 4,168 |
| Geological survey | - | 97,745 | 97,745 |
| Staking | - | 14,086 | 14,086 |
| Total deferred exploration costs | 63,230 | 229,333 | 292,563 |
| | $ 83,230 | $ 374,520 | $ 457,750 |

**5. Exploration and evaluation assets (cont'd)**

***Lonnie Property, British Columbia***

On January 31, 2011, the Company entered into an option agreement to acquire a 60% interest in certain mining claims referred to as the Lonnie Property in British Columbia, Canada for the following considerations**:**

a) $60,000 to be paid as:
- $10,000 refundable deposit paid Nov 29, 2010 (paid);
- $10,000 refundable deposit on agreement execution (paid);
- $20,000 on May 5, 2012 (note 11); and
- $20,000 before May 5, 2013.

b) $500,000 exploration expenditures to be incurred as:
- $100,000 on or before May 5, 2012 (incurred);
- $100,000 on or before May 5, 2013; and
- $300,000 on or before May 5, 2014.

c) Shares to be issued as:
- 75,000 on or before May 5, 2012 (issued with a fair value of $20,625);
- 75,000 on or before May 5, 2012 (note 11);
- 75,000 on or before May 5, 2013; and
- 60,000 on or before May 5, 2014.

Upon the closing of the Qualifying Transaction, the Company will pay two unrelated individuals cash payments of $6,000 and share issuance of 30,000 shares in total as finders' fees:

- Cash payments of $2,000 (paid) and issuance of 7,500 (issued with a fair value of ($2,062) shares on the Acceptance Date;
- Cash payments of $2,000 and issuance of 7,500 shares on May 5, 2012 (note 11);
- Cash payments of $2,000 and issuance of 7,500 shares on May 5, 2013; and
- Issuance of 7,500 shares on May 5, 2014.

***Xeno Property, British Columbia***

On June 9, 2011, the Company entered into an option agreement to acquire a 100% interest in certain claims referred to as the Xeno property in British Columbia, Canada for the following consideration:

- $14,500 upon signing of the agreement (paid);
- $12,500 (paid) and 75,000 common shares upon approval of the Exchange (issued with a fair value of $18,750);
- $10,000 and 50,000 common shares on the 1st anniversary of the Exchange approval date (note 11); and
- $10,000 and 50,000 common shares on the 2nd anniversary of the Exchange approval date.

On June 15, 2011, the Company entered into an option agreement to acquire a 100% interest in certain claims referred to as the Xeno property in British Columbia, Canada for the following consideration:

- $28,000 upon signing of the agreement (paid);
- $28,000 (paid) and 75,000 common shares upon approval of the Exchange (issued with a fair value of $18,750); and
- $50,000 and 115,000 common shares on the 1st anniversary of the Exchange approval date (note 11).

(Expressed in Canadian dollars)

## 6. Accounts payables and accrued liabilities

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Accounts payables | $ 8,459 | $ 40,391 | $ - |
| Accrued liabilities | 15,000 | 3,180 | 10,244 |
| | $ 23,459 | $ 43,571 | $ 10,244 |

## 7. Related party transactions

***Related party balances:***

The following amounts are due to related parties:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Directors of the Company | $ 3,291 | $ 6,526 | $ 5,577 |

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

The Company incurred the following transactions with the directors of the Company and companies that are controlled by directors of the Company.

| | Years ended | |
|---|---|---|
| | March 31, 2012 | March 31, 2011 |
| Consulting fees | $ 265,530 | $ - |
| Rent | 35,500 | 12,000 |
| | $ 301,030 | $ 12,000 |

***Key management personnel compensation***

| | Years ended | |
|---|---|---|
| | March 31, 2012 | March 31, 2011 |
| Stock-based compensation | $ 135,405 | $ 33,767 |
| Consulting fees | 231,000 | - |
| | $ 366,405 | $ 33,767 |

## 8. Share capital

***Authorized share capital***

Unlimited number of common shares without par value.

***Issued share capital***

At March 31, 2012 there were 16,224,901 issued and fully paid common shares (March 31, 2011 – 6,600,000).

**8. Share Capital** (cont'd)

***Share issuance for private placements***

During the year ended March 31, 2012, the Company completed a concurrent brokered and non-brokered private placement to issue 8,291,000 non-flow-through units at $0.25 per unit and 801,401 flow-through units at $0.30 per unit for total proceeds of $2,313,170. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant is exercisable at $0.39 per share for a period of 18 months. The Company incurred the required expenditures related to the issuance of the 801,401 flow-through units and renounced the full amount during the year. Therefore the premium paid for flow-through shares in excess of the market value of the shares without the flow-through feature was recognized as other income of $40,047. The Company incurred $193,115 share issuance costs in cash in relation to the private placement of which $30,000 was recorded during the year end March 31, 2011. The Company also issued the broker 300,160 warrants as finders' fees. The finder's warrants can be exercised at $0.25 per share for a period of 18 months. The fair value of the finder's warrants was estimated at $35,275 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected stock price volatility – 100%; risk-free interest rate – 2.55%; expected life of the warrants – 18 months.

During the year ended March 31, 2011, the Company completed an IPO and issued 3,000,000 shares at $0.10 per share for total proceeds of $300,000. The Company incurred share issuance costs of $63,309 in cash and issued 300,000 agent's warrant exercisable at $0.10 per share for a period of two years. The fair value of the agent's warrants was estimated at $15,846 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield – 0%; expected stock price volatility – 100%; risk-free interest rate – 1.61%; expected life of warrants – 2 years. The Company also incurred $30,000 share issuance costs in relation to a private placement that was completed subsequent to March 31, 2011.

***Share issuances for exploration and evaluation assets***

During the year ended March 31, 2012, the Company issued 225,000 common shares at a fair value of $58,125 as part of the purchase price of the Lonnie and Xeno Properties (Note 5). Further, the Company issued 7,500 common shares with a fair value of $2,062 as finders' fees for the Lonnie Property (Note 5).

***Share issuances for exercise of warrants***

During the year ended March 31, 2012, the Company issued 300,000 shares for exercise of agent's warrants at $0.10 per share for total proceeds of $30,000. A reversal of share-based payment reserves of $15,846 was recorded in relation to the exercise of the 300,000 warrants.

***Basic and diluted loss per share***

The calculation of basic and diluted loss per share for the year ended March 31, 2012 was based on the loss attributable to common shareholders of $765,581 (2011 - $192,427) and the weighted average number of common shares outstanding of 15,352,307 (2011 – 4,033,836).

Diluted loss per share did not include the effect of 1,224,100 stock options or 4,846,361 warrants as the effect would be anti-dilutive.

***Escrow Shares***

At March 31, 2012, there are 1,687,500 shares in escrow which will be released over the next 30 months.

(Expressed in Canadian dollars)

**8. Share Capital** (cont'd)

***Stock options***

On March 3, 2010, the directors of the Company consented to adopt a Company Share Option Plan (the "Plan"). The Plan provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the common shares outstanding at the time of the granting of options. Such options may be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any individual director or officer will not exceed five 5% of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed 2% of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company, provided that if the cessation of office, directorship, or consulting arrangement was by reason of death, the option may be exercised within a maximum period of one year after such death, subject to the expiry date of such option.

The changes in options during the year ended March 31, 2012 and the year ended March 31, 2011 are as follows:

| | Year ended March 31, 2012 | | Year ended March 31, 2011 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning | 450,000 | $ 0.10 | - | $ - |
| Options granted | 1,074,100 | 0.26 | 450,000 | 0.10 |
| Options forfeited | (300,000) | (0.26) | - | - |
| Options outstanding, ending | 1,224,100 | $ 0.20 | 450,000 | $ 0.10 |

Details of options outstanding as at March 31, 2012 are as follows:

| Exercise price | Remaining contractual life | Number of options outstanding |
|---|---|---|
| $0.10 | 3.41 years | 450,000 |
| $0.26 | 4.09 years | 724,100 |
| $0.26 | 4.27 years | 50,000 |
| | | 1,224,100 |

At March 31, 2012, the weighted average remaining contractual life of options outstanding was 3.85 years.

(Expressed in Canadian dollars)

**8. Share Capital** (cont'd)

***Stock options*** (cont'd)

During the year ended March 31, 2011, the Company granted 450,000 stock options to its directors and officers exercisable at $0.10 for a period of five years. The fair value of the options was estimated at $33,767 using the Black-Scholes option pricing model.

On May 3, 2011, the Company granted 1,074,100 stock options to its directors and officers exercisable at $0.26 for a period of five years. The fair value of the options was estimated at $191,504 using the Black-Scholes option pricing model. On July 5, 2011, the Company granted 50,000 stock options to an advisor exercisable at $0.26 for a period of five years. The fair value of the options was estimated at $9,329 using the Black-Scholes option pricing model. The total fair value of options charged to stock based compensation expense during the year ended March 31, 2012 was $200,833.

The fair values were determined using the Black-Scholes option pricing model using the following weighted average assumptions:

| | Year ended March 31, 2012 | Year ended March 31, 2011 |
|---|---|---|
| Expected life of options | 5 years | 5 years |
| Annualized volatility | 100% | 100% |
| Risk-free interest rate | 2.55% | 2.16% |
| Dividend rate | 0% | 0% |

***Warrants***

The changes in warrants during the year ended March 31, 2012 and the year ended March 31, 2011 are as follows:

| | Year ended March 31, 2012 | | Year ended March 31, 2011 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Warrants outstanding, beginning of the year | 300,000 | $ 0.10 | - | $ - |
| Warrants granted | 4,546,201 | 0.39 | - | - |
| Finder's warrants | 300,160 | 0.25 | 300,000 | 0.10 |
| Warrants exercised | (300,000) | - | - | - |
| Warrants outstanding, ending of the year | 4,846,361 | $ 0.38 | 300,000 | $ 0.10 |

Details of warrants outstanding as at March 31, 2012 are as follows:

| Weighted average exercise price | Remaining contractual life | Number of warrants outstanding |
|---|---|---|
| $ 0.39 | 0.59 years | 4,546,201 |
| $ 0.25 | 0.59 years | 300,160 |
| | | 4,846,361 |

**8. Share Capital** (cont'd)

***Share-Based Payment Reserve***

The share-based payment reserve records items recognized as stock-based compensation expense and finders' fees until such time that the stock options and finders' warrants are exercised, at which time the corresponding amount will be transferred to share capital.

**9. Financial risk and capital management**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in a bank account. The cash is deposited in a bank account held with a major bank in Canada. As the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk is on its receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

***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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

The following is an analysis of the contractual maturities of the Company's non-derivative financial liabilities as at March 31, 2012:

| | Within one year | Between one and five years | More than five years |
|---|---|---|---|
| Accounts payable | $ 8,459 | $ - | $ - |
| Due to related parties | 3,291 | - | - |
| | $ 11,750 | $ - | $ - |

***Foreign exchange risk***

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company operates in Canada; therefore, it is not exposed to foreign exchange risks.

(Expressed in Canadian dollars)

**9. Financial risk and capital management** (cont'd)

***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's cash on hand is subject to minimal interest rate risk.

***Capital Management***

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and working capital.

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to any externally imposed capital requirements.

***Classification of financial instruments***

Financial assets included in the statement of financial position are as follows:

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Cash | $ 1,330,361 | $ 194,087 |
| Loans and receivables: | | |
| Receivables | 116,958 | 23,152 |
| | $ 1,447,319 | $ 217,239 |

Financial liabilities included in the statement of financial position are as follows:

| | March 31, 2012 | March 31, 2011 |
|---|---|---|
| Non-derivative financial liabilities: | | |
| Accounts payable | $ 8,459 | $ 40,391 |
| Due to related parties | 3,291 | 6,526 |
| | $ 11,750 | $ 46,917 |

***Fair value***

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

Financial instruments classified as level 1 – quoted prices in active markets include cash.

(Expressed in Canadian dollars)

## 10. Income tax expense and deferred tax assets and liabilities

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

| | Year ended March 31, 2012 | Year ended March 31, 2011 |
|---|---|---|
| Net loss | $ (765,581) | $ (192,427) |
| Statutory tax rate | 26.1% | 28% |
| Expected income tax recovery at the statutory tax rate | $ (199,817) | $ (53,880) |
| Non-deductible items and other | 42,344 | 9,455 |
| Effect of reduction in tax rates | 6,116 | 8,627 |
| Renunciation of exploration costs | 62,750 | - |
| Share issuance costs not recognized | (50,404) | (36,094) |
| Temporary differences not recognized | 139,011 | 71,892 |
| Income tax recovery | $ - | $ - |

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

| | March 31, 2012 | March 31, 2011 | April 1, 2010 |
|---|---|---|---|
| Non-capital loss carry-forwards | $ 843,868 | $ 169,351 | $ 9,914 |
| Exploration and evaluation assets | (240,421) | | - |
| Share issuance costs | 250,187 | 128,240 | 31,881 |
| | $ 853,634 | $ 297,591 | $ 41,795 |

The tax pools relating to these deductible temporary differences expire as follows:

| | Canadian non-capital losses | Canadian resource pools | Share issue costs |
|---|---|---|---|
| 2030 | $ 9,914 | $ - | $ - |
| 2031 | 157,989 | - | - |
| 2032 | 675,965 | - | - |
| No expiry | - | 217,329 | 250,187 |
| | $ 843,868 | $ 217,329 | $ 250,187 |

## 11. Subsequent events

Subsequent to March 31, 2012 and to the date of the Independent Auditor's Report, the Company staked an additional 7,853 hectares adjacent to the Xeno property.

On May 1, 2012 the Company made the following payments pursuant to the Lonnie Property:

- $4,607 (renegotiated from $20,000) and issued 75,000 shares; and
- $2,000 and issued 7,500 shares

On May 3, 2012, a 15% distribution of 330,000 shares was released from escrow.

On May 4, 2012 the Company received the refund of the sales tax receivable in the amount of $113,905.

The Company made the following payment pursuant to the two Xeno Property option agreements:

- $10,000 on July 3, 2012;
- 165,000 shares on July 9, 2012; and
- $50,000 on July 9, 2012.

## 12. Transition to IFRS

As a result of the Accounting Standards Board of Canada's decision to adopt IFRS for publicly accountable entities for financial reporting periods beginning on or after January 1, 2011, the Company has adopted IFRS in these financial statements, making these the first annual financial statements of the Company under IFRS. The Company previously applied the available standards under previous Canadian GAAP that were issued by the Accounting Standards Board of Canada.

As required by IFRS 1 "First-time Adoption of International Financial Reporting Standards", January 1, 2010 has been considered to be the date of transition to IFRS by the Company. Therefore, the comparative figures that were previously reported under previous Canadian GAAP have been restated in accordance with IFRS.

***Exemptions applied***

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- The Company has elected not to apply IFRS 2, "Share-based Payments", to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.

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

**Notes to Reconciliation**

(a) Deferred share issuance costs

Under Canadian GAAP, deferred share issuance costs were recorded as an asset. Under IFRS, amounts related to issuance of new equity have been reclassified as share issuance costs in equity and the amounts related to listing of existing equity has been reallocated to deficit.

(Expressed in Canadian dollars)

**12. Transition to IFRS** (cont'd)

(b) Reserves

Under Canadian GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified as share-based payment reserve.

**Reconciliation of Statement of Comprehensive Loss for the Year Ended March 31, 2011**

The adoption of IFRS had no impact on the comprehensive loss for the year ended March 31, 2011 that was previously reported in accordance with Canadian GAAP.

**Reconciliation of Statement of Cash Flow for the Year Ended March 31, 2011**

The adoption of IFRS has had no impact on the net cash flows of the Company for the year ended March 31, 2011 that was previously reported in accordance with Canadian GAAP.

**Reconciliation of Statement of Financial Position as at April 1, 2010**

| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | | $ 217,086 | $ - | $ 217,086 |
| Receivables | | 1,076 | - | 1,076 |
| | | 218,162 | - | 218,162 |
| **Non-current assets** | | | | |
| Deferred share issue costs | 12(a) | 33,827 | (33,827) | - |
| **TOTAL ASSETS** | | **$ 251,989** | **(33,827)** | **$ 218,162** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payables and accrued liabilities | | $ 10,244 | $ - | $ 10,244 |
| Due to related parties | | 5,577 | - | 5,577 |
| **TOTAL LIABILITIES** | | **15,821** | **-** | **15,821** |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 12(a) | 244,136 | (12,648) | 231,488 |
| Deficit | 12(a) | (7,968) | (21,179) | (29,147) |
| **TOTAL EQUITY** | | **236,168** | **(33,827)** | **202,341** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 251,989** | **$ (33,827)** | **$ 218,162** |

(Expressed in Canadian dollars)

**12. Transition to IFRS** (cont'd)

**Reconciliation of Statement of Financial Position as at March 31, 2011**

| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current assets** | | | | |
| Cash | | $ 194,087 | $ - | $ 194,087 |
| Receivables | | 23,152 | - | 23,152 |
| | | 217,239 | - | 217,239 |
| **Non-current assets** | | | | |
| Deferred share issuance costs | 12(a) | 30,000 | (30,000) | |
| Exploration and evaluation assets | | 83,230 | - | 83,230 |
| | | 113,230 | (30,000) | 83,230 |
| **TOTAL ASSETS** | | **$ 330,469** | **(30,000)** | **$ 300,469** |
| **LIABILITIES** | | | | |
| **Current liabilities** | | | | |
| Accounts payables and accrued liabilities | | $ 43,571 | $ - | $ 43,571 |
| Due to related parties | | 6,526 | - | 6,526 |
| **TOTAL LIABILITIES** | | **50,097** | **-** | **50,097** |
| **SHAREHOLDERS' EQUITY** | | | | |
| Share capital | 12(a) | 399,384 | 22,949 | 422,333 |
| Contributed Surplus | 12(b) | 49,613 | (49,613) | - |
| Share-based payment reserve | 12(b) | - | 49,613 | 49,613 |
| Deficit | 12(a) | (168,625) | (52,949) | (221,574) |
| **TOTAL EQUITY** | | **280,372** | **(30,000)** | **250,372** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **$ 330,469** | **$ (30,000)** | **$ 300,469** |

**Reconciliation of Statement of Comprehensive Loss for the year ended March 31, 2011**

| | Notes | Canadian GAAP | Effect of Transition to IFRS | IFRS |
|---|---|---|---|---|
| Expenses | 12(a) | $ 160,657 | $ 31,770 | $ 192,427 |
| Comprehensive loss | 12(a) | 160,657 | 31,770 | 192,427 |