

**KARIANA RESOURCES INC.**

(An Exploration Stage Enterprise)

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**Three Months Ended March 31, 2012**

**(Expressed in Canadian Dollars)**

**(Unaudited – Prepared by Management)**

**KARIANA RESOURCES INC.**

Condensed Interim Financial Statements  
Three Months Ended March 31, 2012

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**NOTICE OF NO AUDITOR REVIEW OF  
CONDENSED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed interim financial statements of Kariana Resources Inc. (the “Company”) for the three months ended March 31, 2012 have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indication that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim financial statements by an entity’s auditor.

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**KARIANA RESOURCES INC.****(Expressed in Canadian Dollars, unless stated otherwise)****(An Exploration Stage Enterprise)****CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

	Notes	Three Months Ended March 31, 2012 \$	Year Ended December 31, 2011 \$
<b>ASSETS</b>			
Current assets			
Cash		641,240	686,498
Short term investment		11,500	11,500
Prepaid Expenses		221	-
Receivable		9,243	22,231
<b>Total Current Assets</b>		<b>662,204</b>	<b>720,229</b>
Non-Current assets			
Exploration and evaluation assets	3	103,145	103,145
<b>Total Non-Current Assets</b>		<b>103,145</b>	<b>103,145</b>
<b>TOTAL ASSETS</b>		<b>765,349</b>	<b>823,374</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable and accrued liabilities		21,806	2,418
<b>Total Current Liabilities</b>		<b>21,806</b>	<b>2,418</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	4	1,022,039	925,291
Reserves	4	214,485	163,596
Accumulated deficit		(492,981)	(267,931)
<b>Total Shareholders' Equity</b>		<b>743,543</b>	<b>820,956</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>765,349</b>	<b>823,374</b>

These condensed interim financial statements are authorized for issue by the Board of Directors on June 12, 2012. They are signed on the Company's behalf by:

"Herrick Lau" Director  
Herrick Lau

"David Velisek" Director  
David Velisek

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

**KARIANA RESOURCES INC.**  
**(Expressed in Canadian Dollars, unless stated otherwise)**  
**(An Exploration Stage Enterprise)**

**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

	Note	Three Months Ended March 31, 2012 \$	Three Months Ended March 31, 2011 \$
<b>EXPENSES</b>			
Accounting fees		14,280	-
Consulting fees	6	46,047	-
Filing & transfer agent fees		3,289	12,165
Legal fees		2,927	22,500
Management fees	6	7,500	-
Meals and travel expenses		971	-
Office and general		1,674	1,205
Share-based payments	4	148,389	-
Loss before undernoted income (expenses)		(225,077)	(35,870)
<b>Other Income</b>			
Interest Income		27	-
Loss and comprehensive loss for the period		(225,050)	(35,870)
Loss per share, basic and diluted		(\$0.019)	(\$0.006)
Weighted average common shares outstanding		11,700,824	6,425,000

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

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**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Number of Shares	Common Shares \$	Reserves \$	Deficit \$	Shareholders' Equity \$
Balance – December 31, 2010	8,075,000	422,500	-	(7,716)	414,784
Loss for the period	-	-	-	(35,870)	(35,870)
Balance – March 31, 2011	8,075,000	422,500	-	(43,586)	378,914
Balance – December 31, 2011	11,525,000	925,291	163,596	(267,931)	820,956
Share issuance costs	-	(752)	-	-	(752)
Share-based payments	500,000	97,500	50,889	-	148,389
Loss for the period	-	-	-	(225,050)	(225,050)
Balance – March 31, 2012	12,025,000	1,022,039	214,485	(492,981)	743,543

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

**KARIANA RESOURCES INC.**  
**(Expressed in Canadian Dollars, unless stated otherwise)**  
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**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended March 31, 2012 \$</b>	<b>Three Months Ended March 31, 2011 \$</b>
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Loss for the period	(225,050)	(35,870)
Adjustment for items not involving cash:		
Share-based payments	148,389	-
Changes in non-cash operating working capital:		
Prepaid expenses	(221)	-
Receivable	12,988	(572)
Accounts payable and accrued liabilities	19,388	23,844
<b>Net change in operating activities</b>	<b>(44,506)</b>	<b>(12,598)</b>
<b>Financing activities</b>		
Share issuance costs	(752)	-
<b>Net change in financing activities</b>	<b>(752)</b>	<b>-</b>
Net change in cash	(45,258)	(12,598)
	-	
Cash, beginning of the period	686,498	360,732
Cash, end of the period	641,240	348,134

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

**KARIANA RESOURCES INC.**

(Expressed in Canadian Dollars, unless stated otherwise)

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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**1. NATURE AND CONTINUANCE OF OPERATIONS**

Kariana Resources Inc. (the “Company”) was incorporated on September 14, 2010 pursuant to the provision of the *Business Corporations Act* (British Columbia). The Company is engaged primarily in the business of evaluating, acquiring and exploring natural resource properties. The Company’s head office is located at 1980 – 1075 West Georgia Street, Vancouver, British Columbia, V6E 3C9, Canada. The Company’s shares commenced trading on the Canadian National Stock Exchange under the trading symbol “KAA” on August 17, 2011.

The financial information is presented in Canadian Dollars, which is the functional currency of the Company.

The amounts shown as exploration and evaluation assets represent net costs to date, less any amounts amortized and/or written off, and do not necessarily represent present or future values. The recoverability of these amounts and any additional amounts required to place these assets into commercial production are dependent upon certain factors. These factors include the existence of ore deposits sufficient for commercial production and the Company's ability to obtain the required additional financing necessary to develop these assets.

The Company has working capital as at March 31, 2012 of \$640,398 and an accumulated deficit of \$492,981. These financial statements have been prepared under the assumptions of a going-concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Management believes that there is sufficient working capital to cover the Company’s operational expenses for the next 12 months.

Failure to arrange adequate financing on acceptable terms and/or achieve profitability may have an adverse effect on the financial position, results of operations, cash flows and prospects of the Company. These financial statements do not give effect to adjustments to assets or liabilities that would be necessary should the Company be unable to continue as a going-concern.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Statement of compliance**

These condensed interim financial statements, including comparatives are presented in accordance with IFRS.

**Basis of presentation**

These 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 that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting and in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with IFRS as issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

The preparation of interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These condensed interim financial statements do not include all of the information required for full annual financial statements.

**Foreign currencies**

The Company’s reporting and functional currency is the Canadian dollar as this is the principal currency of the economic environment in which the Company operates.

**KARIANA RESOURCES INC.**

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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)**

Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange in effect at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

**Financing costs**

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of comprehensive loss.

**Short-term investment**

Short term investment, which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. As at March 31, 2012, the Company has one short term investment totalling to \$11,500 of principal and \$78 of interest due on July 13, 2012 with an annual yield of prime minus 2.05%.

**Exploration and evaluation assets**

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are at the exploration/pre-development stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized as intangible assets and are recorded at cost less impairment.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

All capitalized exploration and evaluation expenditure is assessed for impairment for each reporting period and is impaired if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.



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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)**

**Decommissioning and rehabilitation liabilities**

The Company recognizes the fair value of a decommissioning and restoration liability the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the decommissioning and restoration liability due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any significant decommissioning and restoration obligations.

**Share-based payments**

The share option plan allows Company employees (including directors and senior executives) and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve. No expense is recognized for awards that do not ultimately vest.

At the time when the share options are exercised, the amount previously recognized in reserves is transferred to share capital. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in reserves is transferred to accumulated losses.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payments arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payments. Otherwise, share-based payments are measured at the fair value of goods or services received.

**Comprehensive loss**

Comprehensive loss is defined as the change in equity (net assets) from transactions and other events from non-owner sources. Other comprehensive income is defined as revenues, expenses, gains and losses are recognized in comprehensive income, but excluded from net income. This would include holding gains and losses from financial instruments classified as available-for-sale. The Company does not have any items representing comprehensive income or loss.

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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)**

**Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are anti-dilutive. Diluted loss per share is equal to the basic loss per share as net losses were reported during the periods presented.

**Financial instruments – recognition and measurement**

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following 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 and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value through profit and loss are measured at amortized cost using the effective interest rate method.

The Company has implemented the following classifications for its financial instruments:

- a) Cash has been classified as FVTPL.
- b) Short-term investments have been classified as FVTPL
- c) Receivables have been classified as loans and receivables.
- d) Payables and accruals have been classified as financial liabilities not at fair value through profit and loss.

**Impairment of financial assets**

The Company assesses at the end of each reporting period whether a financial asset is impaired.

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade and other receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)**

**Derecognition of financial assets and financial liabilities**

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

For financial liabilities, they are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

**Impairment of non-financial assets**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of operations.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, however the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the financial statements and are disclosed in the notes to the financial statements unless their occurrence is remote. Contingent assets are not recognized in the financial statements, but are disclosed in the notes to the financial statements if their recovery is deemed probable.

**KARIANA RESOURCES INC.**

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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)****Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

**Significant accounting judgements and 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 at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both the current and future periods.

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

- a) The provision for income taxes which is included in the statements of comprehensive loss and composition and quantification of deferred income tax assets and liabilities included in the statement of financial position.
- b) The recoverability of exploration and evaluation assets in the statements of financial position.
- c) The inputs used in accounting for share purchase option expense in the statements of comprehensive loss.

**New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the March 31, 2012 reporting period:

(a) IFRS 9, Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard

(b) IFRS 10, Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

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For the Three Months Ended March 31, 2012

**2. SIGNIFICANT ACCOUNTING POLICIES (CONT'D...)**

## (c) IFRS 11, Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities — Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

## (d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

## (e) IFRS 13, Fair Value Measurements

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

## (f) IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not in the production phase, the Company is currently assessing the future impact of this interpretation.

**3. EXPLORATION AND EVALUATION ASSETS****South Baird Property, Ontario, Canada**

	\$
Acquisition Costs	12,000
Finder's Fee	32,500
Mineral Property Interest	44,500
Exploration Costs	
Geological consulting	1,857
Balance December 31, 2010	46,357
Acquisition Costs	35,000
Exploration Costs	
Drilling	5,585
Field expenses and others	4,698
Geological consulting	7,350
Report and assays	4,155
Balance December 31, 2011, March 31, 2012	103,145

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**3. EXPLORATION AND EVALUATION ASSETS (CONT'D...)**

On September 21, 2010, the Company signed an option agreement (the "Option Agreement") with Perry Vern English, for and on behalf of Rubicon Minerals Corporation (the "Optionor") to acquire an undivided 100% interest in the South Baird Property (the "South Baird Property"), subject to a 2% net smelter return ("NSR") to the Optionor, with an option buyout of 50% of the NSR for \$1,000,000 upon or prior to the commencement of commercial production. The South Baird Property is located in the District of Red Lake Mining in the province of Ontario.

As at March 31, 2012, the Company has the following future requirements to fulfill its obligation under the Option Agreement:

<b>Date</b>	<b>Shares</b>	<b>Cash Payments</b>
Paid on September 21, 2010	-	\$12,000 (Paid)
Issue within 30 days of completion of IPO	100,000 (Issued)	-
September 21, 2011	-	\$15,000 (Paid)
September 21, 2012	-	\$20,000
September 21, 2013	-	\$30,000
September 21, 2014	-	\$35,000
<b>Total</b>	<b>100,000</b>	<b>\$112,000</b>

The Company entered into a finder's fee agreement dated November 25, 2010 in connection with the acquisition of the South Baird Property. The Company paid finder's fee in cash of \$25,000 and issued 75,000 common shares on December 23, 2010.

Pursuant to the Option Agreement, the Company issued 100,000 common shares at \$0.20 per share to the Optionor on August 17, 2011 after the Company's IPO.

**4. CAPITAL AND RESERVES****A. Common Shares**

Authorized: Unlimited number of common voting shares without nominal or par value

**B. Issued share capital:**

At March 31, 2012, there were 12,025,000 common shares issued and outstanding (December 31, 2011 – 11,525,000).

- i. Upon incorporation on September 14, 2010, the Company issued one common share at \$1.00 per share which was subsequently repurchased and cancelled on September 30, 2010.
- ii. On September 30, 2010, the Company issued 1,500,000 common shares at \$0.01 per share for gross cash proceeds of \$15,000.
- iii. On November 8, 2010, the Company issued 5,000,000 common shares at \$0.05 per share for gross cash proceeds of \$250,000.
- iv. On December 3, 2010, the Company issued 1,500,000 common shares at \$0.10 per share for gross cash proceeds of \$150,000.

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**Notes to Condensed Interim Financial Statements**For the Three Months Ended March 31, 2012

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**4. CAPITAL AND RESERVES (CONT'D...)**

- v. On December 23, 2010, the Company issued 75,000 common shares at a value of \$0.10 per share, for a total value of \$7,500, pursuant to a finder's fee agreement (Note 3).
- vi. On August 15, 2011, the Company completed its IPO raising gross proceeds of \$600,000. A total of 3,000,000 common shares of the Company were issued at a price of \$0.20 per share pursuant to the final prospectus of the Company dated May 13, 2011.

As part of the IPO, the Company incurred share issuance costs of \$187,209, which included 300,000 Shares ("Agent's Shares") at a value of \$0.20 per Agent's Share, agent's warrants ("Agent's Warrants") to purchase up to 300,000 shares at a price of \$0.20 per share for a period of 24 months after closing of the IPO, and a corporate finance fee comprised of \$45,000 and 50,000 shares at a value of \$0.20 per share.

- vii. On August 17, 2011, the Company issued 100,000 common shares of the Company at a value of \$0.20 per share, for a total value of \$20,000, pursuant to the provisions of the South Baird Option Agreement (Note 3).
- viii. On February 28, 2012, the Company issued 500,000 common shares of the Company at a value of \$0.195 per share, for a total value of \$97,500, to an officer of the Company as a signing bonus.

**C. Share purchase option compensation plan**

The Company has adopted a Stock Option Plan (the "Plan") pursuant to which options may be granted to directors, officers, employees and consultants of the Company. Under the terms of the Plan, the Company can issue a maximum of 10% of the issued and outstanding common shares at the time of the grant, and the exercise price of each option is equal to or above the market price of the common shares on the grant date. Options granted under the Plan including vesting and the term, are determined by, and at the discretion of, the Board of Directors.

The continuity of stock options for the period ended March 31, 2012 is as follows:

	March 31, 2012		December 31, 2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of the period	830,000	\$0.21	-	-
Granted	350,000	\$0.195	830,000	\$0.21
Options outstanding, end of the period	1,180,000	\$0.21	830,000	\$0.21
Options exercisable, end of the period	1,180,000	\$0.21	830,000	\$0.21

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For the Three Months Ended March 31, 2012

**4. CAPITAL AND RESERVES (CONT'D...)**

The options outstanding and exercisable at March 31, 2012 are as follows:

Outstanding Options		
Number Outstanding and Exercisable	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life (Years)
600,000	0.20	9.38
230,000	0.25	4.42
350,000	0.195	4.92
1,180,000	0.21	7.09

On August 15, 2011, the Company granted 600,000 stock options whereby the option holders can purchase up to 600,000 shares at a price of \$0.20 per share. The options are vested immediately and are exercisable until August 15, 2021.

On September 1, 2011, the Company granted 230,000 stock options whereby the option holder can purchase up to 230,000 shares at a price of \$0.25 per share. The options are vested immediately and are exercisable until September 1, 2016.

On February 28, 2012, the Company granted 350,000 stock options whereby the option holder can purchase up to 350,000 shares at a price of \$0.195 per share. The options are vested immediately and are exercisable until February 28, 2017.

The weighted average fair value of the share options awarded on February 28, 2012, estimated using the Black-Scholes option pricing model, was \$0.145 per option, with a total fair value of \$50,889. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at the grant date using the following weighted average assumptions:

	2012	2011
Risk-free interest rate	1.41%	1.17%
Dividend yield	-	-
Expected volatility	100.00%	100.00%
Expected option life	5 years	5 years

The Black-Scholes option pricing model was developed for use in estimating the fair value of share options that have no vesting provisions and are fully transferable. Also, option-pricing models require the use of estimates and assumptions including the expected volatility. The Company uses expected volatility rates which are based upon the average volatility rates of other companies in the same industry, due to the Company's limited history. Changes in the underlying assumptions can materially affect the fair value estimates.



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For the Three Months Ended March 31, 2012

**4. CAPITAL AND RESERVES (CONT'D...)****D. Share Purchase Warrants**

The following table summarizes the continuity of share purchase warrants:

	March 31, 2012		December 31, 2011	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Warrants outstanding, beginning of the period	300,000	\$0.20	-	-
Issued	-	-	300,000	\$0.20
Warrants outstanding, end of the period	300,000	\$0.20	300,000	\$0.20

On August 15, 2011, the Company completed its IPO and issued 300,000 Agent Warrants to purchase up to 300,000 Shares at a price of \$0.20 per share for a period of 24 months. The Agent Warrants were valued at \$31,520 or \$0.10 per warrant, using the Black-Scholes option pricing model assuming a risk-free interest of 1.01%, expected volatility of 100%, expected dividend yield of Nil, and expected life of two years.

**E. Escrow shares**

As at March 31, 2012, the Company had 2,187,375 common shares held in escrow (December 31, 2011 – 2,624,850).

**5. CAPITAL MANAGEMENT**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues and cash flows since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of common shares. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. Management reviews its capital management approach on a regular basis. The Company is not subject to externally imposed capital requirements.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

**6. RELATED PARTY TRANSACTIONS**

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

Services provided by:	Notes	Three Months Ended, March 31	
		2012	2011
Baron Global Financial Canada Ltd.	(a)	\$45,000	-
Pashleth Investment Ltd.	(b)	\$7,500	-

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For the Three Months Ended March 31, 2012

**6. RELATED PARTY TRANSACTIONS (CONT'D...)**

- (a) On September 1, 2011, the Company entered into an advisory agreement with Baron Global Financial Canada Ltd. ("Baron") to provide accounting and administrative services. The term of agreement is 12 months. A director of the Company is also the managing director of Baron. For the three months ended March 31, 2012, the Company has paid consulting fees of \$45,000 (March 31, 2011 – Nil) to Baron.
- (b) On February 28, 2012, the Company entered into a consulting agreement with Pashleth Investment Ltd., a company owned by Joel Dumaresq ("Dumaresq"), the CEO and director of the Company, for providing strategic planning and executive management services. The term of the agreement is one year beginning February 28, 2012 and the Company pays \$7,500 per month plus HST. On February 28, 2012, the Company granted 350,000 stock options and issued 500,000 common shares to Dumaresq as a bonus (Note 4).

**Related Party Payable**

	March 31, 2012	December 31, 2011
Baron Global Financial Canada Ltd.	\$543	-

**7. FINANCIAL INSTRUMENTS**

Classification of Financial Instruments:

- (a) Fair Values

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's balance sheet as at March 31, 2012 as follows:

	Fair Value Measurements Using			Balance, March 31, 2012 \$	Balance, December 31, 2011 \$
	Quoted prices in active markets for identical instruments (Level 1) \$	Significant other observable inputs (Level 2) \$	Significant unobservable inputs (Level 3) \$		
Cash	641,240	-	-	641,240	686,498
Short term investment	11,500	-	-	11,500	11,500

The fair values of other financial instruments, which include amounts receivable, and accounts payable and accrued liabilities, approximate their carrying values due to the relatively short-term maturity of these instruments and loan payable.

- (b) Credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash. The Company limits its exposure to credit loss by placing its cash and short term investment with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

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**Notes to Condensed Interim Financial Statements**

For the Three Months Ended March 31, 2012

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**7. FINANCIAL INSTRUMENTS (CONT'D...)**

(c) Liquidity risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest-bearing assets in relation to cash at banks and GIC carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered minimal. The Company has no interest bearing borrowings.

The policies to manage interest rate risk have been followed by the Company during the prior year and are considered to be effective.

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.