# GEONOVUS MINERALS CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
## FOR THE THREE AND NINE MONTH PERIODS ENDED MAY 31, 2012 AND 2011
## (EXPRESSED IN CANADIAN DOLLARS)

**(UNAUDITED - PREPARED BY MANAGEMENT)**
**These financial statements have not been reviewed by the Company's auditor.**

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of GeoNovus Minerals Corp. for the three and nine month periods ended May 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 interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed consolidated 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 consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of the interim financial statements by an entity's auditor.

**GEONOVUS MINERALS CORP.**
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)
AS AT

| | | May 31, 2012 | | August 31, 2011 ( Note 3 & 19) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Current | | | | |
| Cash and cash equivalents (Note 7) | $ | 537,403 | $ | - |
| Receivables (Notes 8 and 13) | | 41,655 | | - |
| Prepaid expenses (Note 9) | | 33,732 | | - |
| Total current assets | | 612,790 | | - |
| Investments (Note 10) | | 8,000 | | 18,000 |
| Reclamation bonds (Note 11) | | 64,660 | | 61,836 |
| Exploration and evaluation expenditures (Notes 12) | | 2,357,433 | | 2,290,807 |
| Total assets | $ | 3,042,883 | $ | 2,370,643 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| Current | | | | |
| Accounts payable and accrued liabilities | $ | 34,880 | $ | 17,702 |
| | $ | 34,880 | $ | 17,702 |
| Shareholders' equity | | | | |
| Capital stock (Note 14) | | 5,256,204 | | - |
| Reserves (Note 14) | | 213,063 | | 4,053,198 |
| Deficit | | (2,461,264) | | (1,700,257) |
| Total shareholders' equity | | 3,008,003 | | 2,352,941 |
| Total liabilities and shareholders' equity | $ | 3,042,883 | $ | 2,370,643 |

**Nature and continuance of operations** (Note 1)
**Commitments and contingencies** (Notes 12 and 17)
**Subsequent events** ( Note 18)

**On behalf of the Board:**

"Mike England", Director  "Marvin Mitchell", Director

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

**GEONOVUS MINERALS CORP.**
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE

| | Three months ended May 31, 2012 | Three months ended May 31, 2011 (Note 3 & 19) | Nine months ended May 31, 2012 | Nine months ended May 31, 2011 (Note 3 & 19) |
|---|---|---|---|---|
| **EXPENSES** | | | | |
| Management fees (Note 13) | $ 28,500 | $ 9,086 | $ 74,357 | $ 23,764 |
| Office, rent, and miscellaneous (Note 13) | 69,002 | 24,640 | 201,320 | 73,150 |
| Professional fees (Note 13) | 46,754 | 2,943 | 109,649 | 20,746 |
| Consulting fees | 11,361 | 23,240 | 27,208 | 46,765 |
| Property investigation costs | 112,264 | - | 122,601 | - |
| Share-based compensation (Note 14) | - | 7,103 | 137,594 | 78,838 |
| Shareholder communications and promotion | 10,863 | 4,672 | 39,852 | 15,327 |
| Transfer agent and filing fees | 3,380 | 3,103 | 41,718 | 6,368 |
| Travel and accommodation | 9,795 | 987 | 13,096 | 11,045 |
| **Loss before other items** | 291,919 | 75,774 | 767,395 | 276,003 |
| **OTHER ITEMS** | | | | |
| Foreign exchange (gain) loss | (5,190) | 38 | (3,480) | (1,146) |
| Interest (income) | (1,593) | - | (2,908) | - |
| | (6,783) | 38 | ( 6,388) | (1,146) |
| **Net loss for the period** | $ 285,136 | $ 75,812 | $ 771,007 | $ 274,857 |
| **Other comprehensive loss** | | | | |
| Unrealized loss on available for sale investments | 10,000 | 9,000 | 10,000 | 11,000 |
| **Total comprehensive loss** | $ 295,136 | $ 84,812 | $ 781,007 | $ 263,857 |
| **Basic and diluted net loss per common share** | $ 0.02 | $ 0.01 | $ 0.06 | $ 0.03 |
| **Weighted average number of common shares outstanding – basic and diluted** (Note 4) | 15,562,652 | 9,067,719 | 12,780,273 | 9,067,719 |

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

**GEONOVUS MINERALS CORP.**
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE NINE MONTH PERIODS ENDED

| | May 31, 2012 | May 31, 2011 (Note 3 & 19) |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | $ (761,007) | $ (274,857) |
| Items not affecting cash: | | |
| Share-based compensation | 137,594 | 78,838 |
| Unrealized foreign exchange | (5,629) | 4,446 |
| | (629,042) | (191,573) |
| Change in non-cash working capital items: | | |
| (Increase) in receivables | (33,732) | - |
| (Increase) in prepaid expenses | (41,655) | - |
| Increase(Decrease) in accounts payable and accrued liabilities | 22,744 | (29,599) |
| Net cash flows from operating activities | (681,685) | (221,172) |
| Cash flows from discontinued operations | - | (9,276) |
| | (681,685) | (230,448) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from private placements | 1,020,250 | - |
| Share issue costs | (41,640) | - |
| Proceeds for option exercises | 2,000 | |
| Amounts contributed by Geo Minerals Ltd. (Note 3) | 252,865 | 374,001 |
| Net cash flows from financing activities | 1,233,475 | 374,001 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Exploration and evaluation expenditures | (17,192) | (143,553) |
| Net cash flows from investing activities | (17,192) | (143,553) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 2,805 | |
| **Increase in cash and cash equivalents** | 537,403 | - |
| **Cash and cash equivalents, beginning of period** | - | - |
| **Cash and cash equivalents, end of period** | $ 537,403 | $ - |
| Cash paid for taxes during the period | - | $ 9,276 |

**Supplemental disclosure with respect to cash flows** (Note 15)

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

**GEONOVUS MINERALS CORP.**
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

| | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Capital Stock | Equity settled share-based payments reserve | Warrant reserve | Available for sale revaluation reserve | Other reserves | Deficit | Total |
| Balance, September 1, 2010 | - | $ - | $ - | $ - | $ - | $ 3,272,174 | $ (1,363,182) | $ 1,908,992 |
| Expenditures funded by Geo Minerals (Note 3) | - | - | - | - | - | 573,839 | - | 573,839 |
| Net loss and comprehensive loss for the nine month period | - | - | - | - | (11,000) | - | (274,857) | (285,857) |
| Balance, May 31, 2011 | - | - | - | - | (11,000) | 3,846,013 | (1,638,039) | 2,196,974 |
| Expenditures funded by Geo Minerals | - | - | - | - | - | 226,185 | - | 226,185 |
| Net loss and comprehensive loss for the three month period | - | - | - | - | (8,000) | - | (62,218) | (70,218) |
| Balance, August 31, 2011 | - | - | - | - | (19,000) | 4,072,198 | (1,700,257) | 2,352,941 |
| Expenditures funded by Geo Minerals (Note 3) | - | - | - | - | - | 307,865 | - | 307,865 |
| Issued pursuant to incorporation of GeoNovus | 10 | 1 | - | - | - | - | - | - |
| Cancelled pursuant to Plan of Arrangement | (10) | (1) | - | - | - | - | - | - |
| Issued pursuant to Plan of Arrangement | 9,067,719 | 4,380,063 | - | - | - | (4,380,063) | - | - |
| Issued pursuant to private placements | 6,489,933 | 907,484 | | 112,766 | - | - | - | 1,020,250 |
| Exercise of options | 20,000 | 2,000 | | | | | | 2,000 |
| Fair value of options exercised | | 2,201 | (2,201) | | | | | - |
| Share-based compensation | - | - | 137,594 | - | - | - | - | 137,594 |
| Share issue costs-cash | - | (35,544) | - | (6,096) | - | - | - | (41,640) |
| Net loss and comprehensive loss for the nine month period | - | - | - | - | (10,000) | - | (761,007) | (771,007) |
| Balance, May 31, 2012 | 15,557,652 | $ 5,256,204 | $ 135,393 | $ 106,670 | $ (29,000) | $ - | $ (2,461,264) | $ 3,008,003 |

**See accompanying notes to the unaudited condensed consolidated interim financial statements.**

## 1. NATURE AND CONTINUANCE OF OPERATIONS

GeoNovus Minerals Corp. (hereafter the "Company" or "GeoNovus") was incorporated on October 11, 2011 under the laws of the Business Corporation Act (BC) as a wholly owned subsidiary of Geo Minerals Ltd. ("Geo"). The Company's principal business is the acquisition and exploration of mineral properties.

The Company's head office is located at 789 West Pender Street, Suite 1220, Vancouver, BC, V6C 1H2.

The financial statements were approved by the Board of Directors on July 23, 2012.

These financial statements have been prepared with the assumption that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, obtain public equity financing, or generate profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations; however, there is no assurance that these funds will be available on terms acceptable to the Company or at all.

On October 17, 2011, New Gold Inc. ("New Gold") and Geo announced an agreement whereby New Gold would acquire, through a Plan of Arrangement ("Arrangement"), all the outstanding common shares of Geo. Under the terms of the Arrangement, each Geo shareholder would receive $0.16 for each Geo share held. Upon completion of the Arrangement, New Gold would retain Geo's interest in the West Blackwater properties and cash and the remainder of Geo's portfolio of exploration properties would be transferred to GeoNovus. The transfer of properties to GeoNovus would occur at book value and would be made in consideration for the issuance of shares which would be distributed to Geo shareholders on the basis of one share of GeoNovus for every 15 Geo common shares held.

As GeoNovus acquired assets from its wholly owned parent at the time, and the shareholders of Geo ultimately continued to hold their respective interests in the transferred net assets, there was no change in control. Accordingly, these financial statements have been prepared on a continuity-of- interest basis.

Also as part of the Arrangement, New Gold completed a $250,000 private placement in GeoNovus that resulted in New Gold holding a 13% interest in GeoNovus upon closing.

The Arrangement was approved by the boards of New Gold and Geo and Geo's security holders.

On December 21, 2011, the Arrangement was completed and GeoNovus became a reporting issuer. The Company completed a non brokered private placement on December 28, 2011 and began trading on the TSX Venture Exchange under the symbol "GNM" on January 5, 2012.

## 2. STATEMENT OF COMPLIANCE

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"), and its interpretations. Accordingly, these condensed consolidated interim financial statements do not include all of the information and footnotes required by International Financial Reporting Standards ("IFRS") for complete financial statements for year-end reporting purposes.

IFRS replaced current Canadian generally accepted accounting principles ("Canadian GAAP") for publically accountable enterprises, effective for the fiscal years beginning on or after January 1, 2011. The Company has applied IFRS since inception however since the financial statements are prepared on the basis of continuity-of-interest, the Company has provided reconciliations of the effect of the transition from Canadian GAAP to IFRS on the statements of financial position, equity, comprehensive loss and cash flows in Note 19.

## 3. BASIS OF PRESENTATION

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for investments classified as available for sale or held-for-trading which are stated at fair value. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is the Canadian dollar.

Pursuant to a Plan of Arrangement between New Gold and Geo, Geo transferred its business, except for cash and West Blackwater assets, to its wholly owned subsidiary GeoNovus in exchange for shares which were distributed to existing Geo shareholders. Since the shareholders of Geo ultimately continued to hold their respective interests in the transferred net assets, there was no change in control. Accordingly, these financial statements have been prepared on a continuity-of-interest basis.

There is currently no guidance in IFRS on the accounting treatment for combinations among entities under common control. IAS 8 - Accounting policies, changes in accounting estimates and errors ("IAS 8") requires management, if there is no specifically applicable standard of interpretation, to develop a reliable policy that is relevant to the decision making needs of users.

The Company has determined to apply the concept of continuity-of-interest basis of accounting for transactions under common control as detailed under United States generally accepted accounting principles ("US GAAP"). US GAAP requires an acquirer in a combination between entities or businesses under common control to recognize the assets acquired and liabilities assumed in the transaction at their carrying amounts in the accounts of the transferring entity at the date of the transfer.

These condensed consolidated interim financial statements reflect the financial position, statements of loss and comprehensive loss, and cash flows of the business and the properties prior to the transfer to GeoNovus on December 21, 2011. The consolidated statements of loss and comprehensive loss for the period prior to December 21, 2011 include direct expenses relating to the properties which were transferred and an allocation of Geo's general and administrative expenses incurred. The allocation of general and administrative expenses has been calculated on the basis of the ratio of costs incurred on the properties transferred as compared to the costs incurred on all mineral properties of Geo in each of the years prior to the transfer. The financial statements have been presented under the continuity-of-interest basis of accounting with statement of financial position amounts as at August 31, 2011 based on the amounts recorded by Geo. Management cautions the readers that the financial results prior to the transfer to GeoNouvs have been prepared solely to demonstrate the historical results of operations, financial position, and cash flows for the indicated periods and, accordingly, the allocation of expenses are not necessarily indicative of the costs that would have been incurred if the transferred assets had operated on a stand-alone basis or as an entity independent of Geo.

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied to the periods presented in these financial statements.

**Principles of consolidation**
These condensed consolidated interim financial statements include the accounts of the Company, and its wholly-owned subsidiaries, Juturna Geothermal Inc. incorporated under the laws of B.C., Geo Minerals (Arizona) Ltd. and Juturna Geothermal (Arizona) Inc. incorporated under the laws of Arizona, and 2009812 Delaware, Inc. incorporated in the state of Delaware. Significant inter-company balances and inter-company transactions have been eliminated upon consolidation. All references to the Company should be treated as references to GeoNovus Minerals Corp. and its subsidiaries.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Subsidiaries**

Subsidiaries are entities over which the Company has control, where control is defined as the power to govern financial and operating policies of an entity so as to obtain benefit from its activities. Generally, the Company has a shareholding of more than one half of the voting rights in its subsidiaries. The effects of potential voting rights that are currently exercisable are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date control is transferred to the Company, and are de-consolidated from the date control ceases.

**Cash and cash equivalents**

Cash and cash equivalents include balances with banks and short-term investments with original maturities of 90 days or less which are readily convertible into a known amount of cash. The Company's cash and cash equivalents are invested with major financial institutions in business accounts and are available on demand by the Company.

**Financial instruments**

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. These instruments are measured at fair value with subsequent changes in fair value recognized in the statement of loss and comprehensive loss. Currently, the Company's cash equivalents are classified as held-for-trading.

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held to maturity financial assets are recognized in the statement of loss and comprehensive loss. Currently, the Company has no held-to-maturity financial assets.

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are recognized in the statement of loss and comprehensive loss. The Company’s cash balance and accounts receivable are classified as loans and receivables. The estimated fair values of these financial instruments approximate their carrying values because of the limited terms of these instruments.

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale investments are written down to fair value through operations whenever it is necessary to reflect other than temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in operations. Regular way purchases and sales of financial assets are accounted for at the trade date. The Company's investments are classified as available-for-sale assets.

Financial liabilities that are not classified as held-to-maturity are classified as other financial liabilities, and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are recognized in the statement of loss and comprehensive loss. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3). As at May 31, 2012, the Company's financial instruments that were carried at fair value consisted of investments which have been classified as Level 1 and cash equivalents which are classified as Level 2 within the fair value hierarchy.

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that the estimated future cash flows of the assets have been negatively impacted. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of the impairment and the loss is recognized in the statement of loss and comprehensive loss.

If in a subsequent period, the amount of 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 the statement of loss and comprehensive loss.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the statement of loss and comprehensive loss.

**Impairment of non-financial assets**

At each date of the statement of financial position, the Company reviews the carrying amounts of its non-financial assets to determine whether there is an indication that those assets have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the recoverable amount is less than the carrying amount of the asset, the carrying amount is reduced to the recoverable amount and the impairment loss is recognized in the statement of loss and comprehensive loss.

**Foreign currency translation**

The Canadian dollar is the functional and reporting currency of the Company. Under this method, all monetary assets and liabilities are translated at the rate of exchange at the statement of financial position date and non-monetary assets and liabilities are translated at historical exchange rates, unless such items are carried at market, in which case they are translated at the exchange rates in effect on the statement of financial position date. Income and expenses are translated at the rates approximating those at the transaction dates. Gains and losses arising from translation of foreign currency monetary assets and liabilities are recognized in the statement of loss and comprehensive loss.

**Exploration and evaluation expenditures**

All of the Company's property interests are in the exploration and evaluation phase. The Company records its interests in properties and areas of geological interest at cost. Expenditures incurred prior to obtaining the legal right to explore are expensed. All direct and indirect costs relating to the acquisition and exploration of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the reserves available on the related property following commencement of production. The Company classifies the costs between intangibles and property and equipment based on the nature of the costs incurred.

The cost of property interests includes any cash consideration paid and the fair market value of shares issued, if any, on the acquisition of property interests. Acquisition costs of properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property claim acquisition costs and their related exploration and evaluation costs represent actual expenditures incurred and are not intended to reflect present or future values.

The Company reviews capitalized costs on its mineral exploration properties on a periodic basis and when events or changes in circumstances indicate that its carrying amount may not be recoverable. The Company will recognize an impairment in value based upon current exploration results and upon management's assessment of the future probability of revenues from the property or from the sale of the property.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Restoration, rehabilitation and environmental obligations**
A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using the unit-of-production method. Changes to the current market based discount rate, amount or timing of the underlying cash flows needed to settle the obligation impact the carrying value of the asset and liability. The related liability is adjusted each period for the unwinding of the discount rate with a corresponding charge to the statement of loss and comprehensive loss. As at May 31, 2012 and August 31, 2011 the Company had no material restoration, rehabilitation or environmental obligations.

**Provisions**
Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

A provision for onerous contacts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions at May 31, 2012 and August 31, 2011.

**Share-based payment transactions**
In situations where equity instruments are issued to non-employees 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 payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

The fair value of stock options granted to employees is recognized as an expense over the vesting period with a corresponding increase in the equity settled share-based payments reserve account. 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, including directors of the Company.

The fair value is measured at the grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of stock options that are expected to vest.

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 payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Unexercised expired stock options and warrants are transferred to deficit.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income taxes**

Income tax on the profit or loss for the period presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and to the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it is not recognized.

**Loss per share**

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the period. During the nine month periods ended May 31, 2012 and 2011, the outstanding stock options and warrants were anti-dilutive.

Loss per share information in these condensed consolidated interim financial statements has been presented as if the common shares issued in connection with the closing of the Arrangement had been issued and outstanding from the start of all periods presented.

**Comprehensive loss**

Other comprehensive loss represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive loss are shown net of tax. Cumulative changes in other comprehensive loss are presented separately in the condensed statement of changes in Equity.

**Use of estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates and these differences could be material.

The areas which require management to make significant judgments, estimates and assumptions in determining carrying values include, but are not limited to:

Carrying values for assets and impairment charges

In the determination of carrying values and impairment charges, management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Use of estimates (Continued)

Capitalization of exploration and evaluation costs
Management has determined that exploration and evaluation costs incurred during the period have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geologic and metallurgic information, proximity of operating facilities, operating management expertise and existing permits.

Impairment of exploration and evaluation assets
While assessing whether any indications of impairment exist for exploration and evaluation assets, consideration is given to both external and internal sources of information. Information the Company considers includes changes in the market, economic and legal environment in which the Company operates that are not within its control that could affect the recoverable amount of exploration and evaluation assets. Internal sources of information include the manner in which exploration and evaluation assets are being used or are expected to be used and indications of expected economic performance of the assets. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the properties and the appropriate discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's exploration and evaluation assets.

Estimation of decommissioning and restoration costs and the timing of expenditure
The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

Income taxes and recoverability of potential deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

Share-based Payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviors and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Future accounting changes**
Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for accounting periods beginning after September 1, 2012 or later periods.

IFRS 9 Financial Instruments: Classification and Measurement ("IFRS 9"), effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning September 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10 Consolidated Financial Statements (“IFRS 10”) provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on September 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11 Joint Arrangements (“IFRS 11”) replaces the guidance in IAS 31 *Interests in Joint Ventures*. Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment’s opening balance is tested for impairment in accordance with IAS 28 *Investments in Associates* and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening deficit at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its financial statements for the annual period beginning on September 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”) sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and effective for years beginning on or after September 1, 2013, replaces the disclosure requirements currently found in IAS 28 Investments in Associates (“IAS 28”). The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. The Company is currently evaluating the impact the introduction of IFRS 12 will have on its consolidated financial statements.

IFRS 13 Fair Value Measurement ("IFRS 13") converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.

In December 2010, the IASB issued an amendment to IAS 12 Income Taxes (“IAS 12") that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after January 1, 2012, with earlier adoption permitted. The Company has chosen not to early adopt and does not anticipate this amendment to have a significant impact on its financial statements.

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Future accounting changes

IAS 1 Presentation of Financial Statements ("IAS 1") was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that will be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income as one statement or two separate statements of profit and loss and other comprehensive income remains unchanged. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The Company has not yet determined the impact of the amendments on its financial statements.

## 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 the acquisition, exploration and development of mineral properties. 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. Management considers the Company's capital structure to primarily consist of the components of shareholder's equity.

The Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

There were no changes in the Company's approach to capital management during the period ended May 31, 2012. The Company and its subsidiaries are not subject to externally imposed capital requirements.

## 6. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk
The Company's credit risk is primarily attributable to receivables. The receivables primarily relate to sales tax due from the Federal Government of Canada and amounts due from related parties. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to its receivables is remote.

Liquidity risk
The Company's approach to managing liquidity risk is to ensure it has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. The Company ensures that sufficient funds are raised from private placements to meet its operating requirements, after taking into account existing cash and expected exercise of share purchase warrants and options. The Company has sufficient funds to meet its medium term requirements.

Interest risk
The Company has cash and cash equivalent balances and no interest-bearing debt therefore, interest rate risk is minimal.

(EXPRESSED IN CANADIAN DOLLARS)

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents of the Company are comprised of the following items:

| | May 31, 2012 | August 31, 2011 |
|---|---|---|
| Cash balances | $ 125,662 | $ - |
| Short term money market instruments | 411,741 | - |
| Total | $ 537,403 | $ - |

The Company's short term money market instruments accrue interest at 1.05% per annum and are redeemable at any time without penalty.

## 8. RECEIVABLES

The receivables balance is comprised of the following items:

| | May 31, 2012 | August 31, 2011 |
|---|---|---|
| Sales tax due from Federal Government | $ 22,042 | $ - |
| Due from related parties (Note 13) | 14,700 | - |
| Other | 4,913 | - |
| Total | $ 41,655 | $ - |

## 9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

| | May 31, 2012 | August 31, 2011 |
|---|---|---|
| Insurance | $ 6,709 | $ - |
| Shareholder communication | 4,900 | - |
| Management and Administrative fees (Note 13) | 12,075 | - |
| Rent (Note 13) | 10,048 | - |
| Total | $ 33,732 | $ - |

## 10. INVESTMENTS

In September 2010, the Company received 200,000 shares of Hawkeye Gold & Diamond Inc. pursuant to the terms of the option agreement for the Scotia Property dated July 2010. The value of the shares on acquisition date, using quoted market prices, was $37,000. The market value of the shares at August 31, 2011 and May 31, 2012 was $18,000 and $8,000 respectively resulting in other comprehensive loss of $19,000 during the year ended August 31, 2011 and $10,000 for the nine months ended May 31, 2012.

## 11. RECLAMATION BONDS

The reclamation bond balance relates to the following mineral exploration properties:

| | May 31, 2012 | August 31, 2011 |
|---|---|---|
| Scotia | $ 5,000 | $ 5,000 |
| Red Hills | 36,050 | 34,344 |
| Middle Mountain | 23,610 | 22,492 |
| Total | $ 64,660 | $ 61,836 |

(EXPRESSED IN CANADIAN DOLLARS)

## 12. EXPLORATION AND EVALUATION EXPENDITURES

During the nine months ended May 31, 2012, expenditures incurred on mineral exploration properties were as follows:

| | Scotia Property, BC $ | Middle Mountain, Arizona $ | Red Hills, Arizona $ | Silver Bell West, Arizona $ | Chilcotin, BC $ | Onstrike, Quebec $ | Nine months Ended May 31, 2012 $ | Year ended August 31, 2011 $ |
|---|---|---|---|---|---|---|---|---|
| Acquisition Costs: | | | | | | | | |
| Balance, beginning of the period | 297,721 | 73,744 | 71,315 | 100,289 | 89,485 | 65,100 | 697,654 | 507,944 |
| Additions during the period | - | 27,500 | 27,500 | - | - | 165 | 55,165 | 274,998 |
| Option proceeds received | - | - | - | - | - | - | - | (62,000) |
| | 297,721 | 101,244 | 98,815 | 100,289 | 89,485 | 65,265 | 752,819 | 720,942 |
| Write-offs during the period | - | - | - | - | - | - | - | (23,288) |
| Balance, end of period | 297,721 | 101,244 | 98,815 | 100,289 | 89,485 | 65,265 | 752,819 | 697,654 |
| Deferred Exploration Costs: | | | | | | | | |
| Balance, beginning of period | 572,769 | 423,226 | 277,808 | 170,118 | 149,232 | - | 1,593,153 | 1,413,597 |
| Reports and surveys | 15,000 | - | - | - | - | - | 15,000 | - |
| Assays and lab tests | - | - | - | 327 | - | - | 327 | 12,812 |
| Geological consulting | - | (1,766) | (3,441) | 33 | - | - | (5,174) | 98,941 |
| Equipment rental | 100 | - | - | - | - | - | 100 | 7,035 |
| Field expenses | - | - | - | - | - | - | - | 2,056 |
| Licences, permits and maintenance fees | - | - | - | - | - | - | - | 34,299 |
| Travel and accommodation | 583 | - | - | - | - | - | 583 | 51,978 |
| Administration and other | 524 | - | - | 101 | - | - | 625 | 11,271 |
| | 588,976 | 421,460 | 274,367 | 170,579 | 149,232 | - | 1,604,614 | 1,631,989 |
| Write-offs during the period | - | - | - | - | - | - | - | (38,836) |
| Balance, end of period | 588,976 | 421,460 | 274,367 | 170,579 | 149,232 | - | 1,604,614 | 1,593,153 |
| Total | 886,697 | 522,704 | 373,182 | 270,868 | 238,717 | 65,265 | 2,357,433 | 2,290,807 |

During the nine months ended February 29, 2012, Geo issued shares worth $55,000 pursuant to the Middle Mountain and Red Hills property option agreements.

The Silver Bell West Property agreement was amended on November 16, 2011 and again on December 15, 2011. As a result of the two amendments, the work commitment of $150,000 by June 15, 2012 has been eliminated and all of the commitments for royalty payment, share issuances and work obligations that were to be made on June 15, 2013 have been deferred to December 15, 2013.

Subsequent to May 31, 2011, the Company paid $102,960 (US$100,000) pursuant to the terms of the Silver Bell property agreement and issued 200,000 shares pursuant to the Middle Mountain property agreement and 200,000 shares pursuant to the Red Hill agreement.

(EXPRESSED IN CANADIAN DOLLARS)

## 13. RELATED PARTY TRANSACTIONS

Related parties include the Board of Directors, Executive Officers and any companies owned or controlled by them.

*Trading Transactions*
The Company entered into the following transactions with related parties:

| | Nature of transactions | Notes | Nine months ended May 31, 2012 | May 31, 2011 |
|---|---|---|---|---|
| England Communications | Wages, rent and office services | a, b | $ 237,315 | $ 84,917 |
| Olga Nikitovic | Professional fees | c | $ 25,000 | $ - |

a) The Company incurred rent and office expenses of $27,917 (2011 - $11,458) to England Communications, a company controlled by a current director and officer of the Company. The charges are included in office, rent and miscellaneous expense. As at May 31, 2012, $10,048 of rent payment is included in prepaids.

b) The Company pays wages, including employer contributions, directly to England Communications, a management company controlled by a director and officer of the Company. During the nine months ended May 31, 2012 , the Company incurred $209,398 (2011-$73,459) in salaries of which $74,357 (2011 - $23,763) represents management fees for the CEO and $19,568 (2011- $7,863) represents administrative salary for the current corporate officer and former CFO of the Company. These charges are recorded as management fees and office, rent and miscellaneous expense, respectively. The remaining balance of $115,473 (2011- $41,833) was included in office, rent and miscellaneous expense. As at May 31, 2012, $12,075 of wages is included in prepaids.

c) The Company incurred $25,000 (2011- $Nil) to the current CFO of the Company. The amount is included in professional fees.

The Company paid for the cost of a media campaign which is to be utilized by four other companies, three of which are related by virtue of two common officers and director. A receivable of $14,700 has been set up to reflect the portion of the cost to be repaid by Alix Resources Corp., Ashburton Ventures Inc., and Caribou King Resources Ltd.

Certain directors and officers of the Company subscribed for 420,000 units of the December 28, 2011 private placement for gross proceeds of $63,000.

*Compensation of key management personnel*

| | Notes | Nine months ended May 31, 2012 | May 31, 2011 |
|---|---|---|---|
| Salaries | a | $ 118,925 | $ 31,626 |
| Share-based payments | b | $ 71,549 | $ 26,236 |

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries include the fees for the CEO, CFO and Corporate Secretary included in trading transactions above.

b) Share-based payments are the grant date fair value of options granted to key management (CEO, CFO, Corporate Secretary) and directors.

(EXPRESSED IN CANADIAN DOLLARS)

## 14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

### Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at May 31, 2012, the Company had 15,557,652 common shares outstanding (May 31, 2011: Nil). The common shares outstanding at August 31, 2011 and September 1, 2010 was Nil.

The weighted average share trading price from the date of listing (January 5, 2012) on the TSXV to May 31, 2012 was $0.12.

In October 2011, the Company issued on incorporation, 10 shares for aggregate consideration of $1 to Geo. The shares were cancelled upon completion of the Arrangement.

On December 21, 2011, New Gold acquired through the Arrangement, all the outstanding common shares of Geo for $0.16 per share. New Gold retained Geo's interest in the West Blackwater properties and cash and the remainder of Geo's portfolio of exploration properties were transferred to GeoNovus at book value in consideration for the issuance of 9,067,719 GeoNovus shares which were distributed to Geo shareholders on the basis of one share of GeoNovus for every 15 Geo common shares held.

On December 23, 2011, as part of the Arrangement, the Company completed a non brokered private placement with New Gold in which the Company issued 1,354,933 shares for gross proceeds of $250,000.

On December 28, 2011, the Company completed a non brokered private placement in which it issued 5,135,000 units at a price of $0.15 per unit for gross proceeds of $770,250 of which $112,766 is allocated to warrants. Each unit consisted of one common share and one half share purchase warrant. Each whole warrant is exercisable at $0.20 for a period of two years. Finders' fees of $30,600 were paid. Total issue costs were $41,640 of which $6,096 was allocated to warrants. Certain Officers and Directors of the Company subscribed for 420,000 units of the private placement for gross proceeds of $63,000.

### Share purchase warrants

At May 31, 2012, warrants were outstanding enabling holders to acquire shares as follows:

| Expiry Date | Exercise Price $ | Number of warrants | Remaining contractual life (years) | Currently exercisable | Remaining contractual life (years) |
|---|---|---|---|---|---|
| December 28, 2013 | 0.20 | 2,567,500 | 1.58 | 2,567,500 | 1.58 |

(EXPRESSED IN CANADIAN DOLLARS)

## 14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

### Share purchase warrants (Continued)

The following is a summary of the warrant transactions for the nine months ended May 31, 2012. There were no warrants outstanding in fiscal 2011.

| | Nine months ended May 31, 2012 | |
|---|---|---|
| | Number of Warrants | Weighted Average Exercise Price $ |
| Balance, beginning of the period | - | - |
| Warrants issued pursuant to private placements | 2,567,500 | 0.20 |
| Balance, end of period | 2,567,500 | 0.20 |

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued in the nine month period ended May 31, 2012:

| | Nine months ended May 31, 2012 |
|---|---|
| Risk-free interest rate | 0.93% |
| Expected life of warrants | 2.0 years |
| Expected annualized volatility | 86% |
| Expected dividend rate | 0% |

### Stock options

The Company may grant stock options pursuant to a stock option plan which was established in accordance with the policies of the TSX Venture Exchange. The Board of Directors administers the Plan, pursuant to which the Board of Directors may grant from time to time incentive stock options up to an aggregate maximum of 10% of the issued and outstanding shares of the Company to directors, officers, employees, consultants and advisors. The options can be granted for a maximum of five years.

(EXPRESSED IN CANADIAN DOLLARS)

## 14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

**Stock options (Continued)**

As at May 31, 2012, the following incentive stock options were outstanding:

| | | Options Outstanding | | Options Exercisable | |
|---|---|---|---|---|---|
| Expiry Date | Exercise Price $ | Number of Options Outstanding | Weighted average remaining contractual life (years) | Number of Options Vested | Weighted average remaining contractual life (years) |
| January 10, 2017 | 0.10 | 1,230,000 | 4.61 | 1,230,000 | 4.61 |

The following is a summary of the stock option transactions for the nine months ended May 31, 2012. There were no options outstanding in fiscal 2011.

| | Nine months ended May 31, 2012 | |
|---|---|---|
| | Number of Options | Weighted Average Exercise Price $ |
| Balance, beginning of the period | - | - |
| Options granted | 1,250,000 | 0.10 |
| Options exercised | (20,000) | 0.10 |
| Balance end of period | 1,230,000 | 0.10 |

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted for the nine month period ended May 31, 2012:

| | Nine month period ended May 31, 2012 |
|---|---|
| Risk-free interest rate | 1.29% |
| Expected life of options | 5.0 years |
| Expected annualized volatility | 124% |
| Expected dividend rate | 0% |

(EXPRESSED IN CANADIAN DOLLARS)

## 14. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

### Share based compensation

The Company granted 1,250,000 options for the nine month period ending May 31, 2012. The options were exercisable at $0.10 for a period of 5 years. The options vested immediately. Accordingly, share-based compensation expense for the nine months ended May 31, 2012 was $137,594. Share-based compensation expense of $78,838 for the nine month period ended May 31, 2011 relates to stock options granted by Geo.

## 15. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the nine months ended May 31, 2012 consisted of:

a) A decrease in accrued exploration and evaluation expenditures of $5,566
b) Parent (Geo) issued shares valued at $55,000 pursuant to property option agreements.

Significant non-cash investing and financing transactions for the nine months ended May 31, 2011 consisted of:

a) An increase in accrued exploration and evaluation expenditures of $90,847.
b) Parent (Geo) issued shares valued at $121,000 pursuant to property option agreements.
c) Parent (Geo) received shares valued at $37,000 pursuant to a property option agreement.

## 16. SEGMENTED INFORMATION

The Company primarily operates in one reportable segment, being the acquisition and exploration of resource properties in Canada and the United States. Segmented information on a geographic basis is as follows:

| | May 31, 2012 $ | August 31, 2011 $ |
|---|---|---|
| Canadian exploration expenditures and reclamation bonds | 1,195,679 | 1,179,307 |
| US exploration and evaluation expenditures and reclamation bonds | 1,226,414 | 1,173,336 |
| | 2,422,093 | 2,352,643 |

Substantially all of the other assets and operating expenditures are in Canada.

## 17. COMMITMENTS AND CONTINGENCIES

The Company's exploration and evaluation activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

(EXPRESSED IN CANADIAN DOLLARS)

## 18. SUBSEQUENT EVENTS

In June 2012, the Company paid $102,960 (US$100,000) pursuant to the terms of the Silver Bell property agreement and issued 200,000 shares pursuant to the Middle Mountain property agreement and 200,000 shares pursuant to the Red Hill agreement.

On June 19, 2012, the Company granted 250,000 options to a director and a consultant exercisable at $0.10 for a period of five years.

On July 19, 2012, the Company became aware of a claim against it for $105,551.35 in alleged consulting fees, disbursements and applicable taxes. The Company disputes that any of such amounts are owing,and intends to defend against such claim.

## 19. TRANSITION TO IFRS

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that first-time adopters retrospectively apply all effective standards and interpretations in effect as at the reporting date. IFRS 1 also provides certain optional exemptions and certain mandatory exceptions to this retrospective treatment. The Company has not made any IFRS 1 elections.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

GeoNovus was incorporated in October 2011 and adopted IFRS from inception. Given that these consolidated financial statements are prepared on the basis on continuity-of- interest and the results of operations prior to the Arrangement are from the records of Geo which were prepared on the basis of GAAP, the Company is providing a reconciliation.

Adjustments on transition to IFRS

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption of IFRS has not resulted in changes to the reported statement of financial position, statement of loss and comprehensive loss, statement of changes in equity or statement of cash flows. Presented below are reconciliations prepared by the Company to reconcile the impact of the conversion from GAAP to IFRS**.**

**Total Assets**

| | May 31, 2011 |
|---|---|
| Total assets under Canadian GAAP | $2,327,701 |
| Adjustments for differing accounting treatments | - |
| Total assets under IFRS | $2,327,701 |

**Total Liabilities**

| | May 31, 2011 |
|---|---|
| Total liabilities under Canadian GAAP | $130,727 |
| Adjustments for differing accounting treatments | - |
| Total liabilities under IFRS | $130,727 |

(EXPRESSED IN CANADIAN DOLLARS)

## 19. TRANSITION TO IFRS (Continued)

**Total Equity**

| | May 31, 2011, |
|---|---|
| Total equity under Canadian GAAP | $2,196,974 |
| Adjustments for differing accounting treatments | - |
| Total equity under IFRS | $2,196,974 |

**Comprehensive Loss**

| | Three month period ended May 31, 2011 | Nine month period ended May 31, 2011 |
|---|---|---|
| Comprehensive loss for the period under Canadian GAAP | $84,812 | $285,857 |
| Adjustments for differing accounting treatments | - | - |
| Comprehensive loss for the period under IFRS | $84,812 | $285,857 |

**Cash flows**

The adoption of IFRS has had no impact on the cash flows of the Company.