MINERAL HILL INDUSTRIES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2011 and 2010

(Expressed in Canadian Dollars)

MINERAL HILL INDUSTRIES LTD.

Contents

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Mineral Hill Industries Ltd.

We have audited the accompanying consolidated financial statements of Mineral Hill Industries Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Mineral Hill Industries Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the ability of Mineral Hill Industries Ltd. to continue as a going concern.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Accountants

April 20, 2012

Mineral Hill Industries Ltd.
Consolidated statements of financial position
(Expressed in Canadian Dollars)

As at	**December 31 2011**	December 31 2010 (Note 16)	January 1 2010 (Note 16)
	$	$	$
ASSETS			
Current assets			
Cash and equivalents	**17,482**	19,208	200,955
Marketable securities (Note 4)	**-**	3,068	4,725
Receivables	**4,917**	1,473	63,821
Due from related parties (Note 8)	**4,305**	32,115	74,448
Prepaid expenses	**7,828**	13,273	2,979
	34,532	69,137	346,928
Investments in associate (Note 5)	**-**	31,350	31,350
Equipment (Note 6)	**16,966**	40,810	59,761
Exploration and evaluation assets (Note 7)	**598,191**	402,380	1,867,838
	649,689	543,677	2,305,877
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	**113,480**	130,793	110,859
Due to related parties (Note 8)	**37,067**	56,897	13,748
	150,547	187,690	124,607
Shareholders' equity			
Share capital (Note 9)	**15,018,711**	14,479,661	14,196,161
Contributed surplus (Note 9)	**1,208,360**	1,134,570	917,441
Deficit	**(15,727,929)**	(15,258,244)	(12,932,332)
	499,142	355,987	2,181,270
	649,689	543,677	2,305,877

Nature and continuance of operations (Note 1)

Commitment (Note 15)

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 20, 2012 and were signed on its behalf:

"Dieter Peter"
Dieter Peter, Director

"Andrew von Kursell"
Andrew von Kursell, Director

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of loss and comprehensive loss
(Expressed in Canadian Dollars)

For the years ended December 31		2011		2010
Expenses				
Amortization	$	24,428	$	23,139
Bank charges and interest		7,808		1,076
Consulting		100,920		100,920
Insurance		13,579		13,642
Investor relations		31,852		99,770
Information technology services		19,938		18,377
Office and miscellaneous		4,401		13,816
Property investigation costs		-		15,014
Professional fees		41,146		44,677
Rent		56,906		81,032
Salaries and wages		229,401		220,289
Recovery of expenses (Note 8)		(186,504)		(259,357)
Stock-based compensation (Note 9)		73,790		217,129
Telephone		9,561		13,158
Transfer agent and filing fees		27,746		27,565
Travel and promotion		6,295		7,700
Loss before other items		(461,267)		(637,947)
Other items				
Impairment of exploration and evaluation assets (Note 7)		-		(1,686,308)
Unrealized loss on marketable securities (Note 4)		(3,068)		(1,657)
Equity loss prior to disposal of investment (Note 5)		(7,350)		-
Recovery of debt from related party (Note 8)		2,000		-
		(8,418)		(1,687,965)
Loss and comprehensive loss for the year	$	(469,685)	$	(2,325,912)
Loss per common share, basic and diluted	$	(0.13)	$	(0.67)
Weighted average number of common shares outstanding:				
Basic and diluted		3,639,742		3,447,038

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of cash flows
(Expressed in Canadian Dollars)

Years ended December 31		2011		2010 (Note 16)
Cash flows from operating activities				
Loss for the year	$	(469,685)	$	(2,325,912)
Items not affecting cash:				
Amortization		24,428		23,139
Stock-based compensation		73,790		217,219
Equity loss prior to disposal of investments		7,350		-
Impairment loss on marketable securities		3,068		1,657
Impairment of exploration and evaluation assets		-		1,686,308
Interest on related party loan		6,877		-
Changes in non-cash working capital items:				
(Increase) decrease in receivables		(3,444)		62,348
Decrease in due from related parties		27,810		42,333
Decrease (increase) in prepaid expenses		5,445		(10,294)
Increase (decrease) in accounts payable and accrued liabilities		26,328		(8,279)
Increase in accounts payable to related parties		49,459		43,149
Net cash used in operating activities		(248,574)		(268,422)
Cash flows from financing activities				
Proceeds from the issuance of common shares		457,800		249,000
Advance on subscription (Note 9)		-		30,000
Proceeds of loans from related party		230,758		-
Repayment of loans from related party		(297,000)		-
Interest paid on loans from related party		(6,877)		-
Net cash provided by financing activities		384,681		279,000
Cash flows from investing activities				
Proceeds from the disposal of investment		24,000		-
Purchase of equipment		(4,772)		-
Exploration and evaluation assets		(157,061)		(246,308)
Mineral tax credit		-		53,983
Net cash used in investing activities		(137,833)		(192,325)
Decrease in cash and equivalents		(1,726)		(181,747)
Cash and equivalents, beginning of the year		19,208		200,955
Cash and equivalents, end of the year	$	17,482	$	19,208

Supplemental disclosures with respect to cash flows (Note 11)

(The accompanying notes are an integral part of these consolidated financial statements)

Mineral Hill Industries Ltd.
Consolidated statements of changes in equity
For the years ended December 31, 2011 and 2010
(Expressed in Canadian Dollars)

	Share Capital				
	Number of shares	Amount	Contributed Surplus	Deficit	Total
		$	$	$	$
Balance, January 1, 2010 (Note 16)	**2,973,708**	**14,196,161**	**917,441**	**(12,932,332)**	**2,181,270**
Property option	58,332	34,500	-	-	34,500
Private placement	308,333	185,000	-	-	185,000
Exercise of warrants	106,666	64,000			64,000
Share based payment	-	-	217,129	-	217,129
Loss for the year	-	-	-	(2,325,912)	(2,325,912)
Balance, December 31, 2010 (Note 16)	**3,447,039**	**14,479,661**	**1,134,570**	**(15,258,244)**	**355,987**
Property option	62,498	51,250	-	-	51,250
Private placement	3,048,750	487,800	-	-	487,800
Share based payment	-	-	73,790	-	73,790
Loss for the year	-	-	-	(469,685)	(469,685)
Balance, December 31, 2011	**6,558,287**	**15,018,711**	**1,208,360**	**(15,727,929)**	**499,142**

(The accompanying notes are an integral part of these consolidated financial statements)

1. NATURE AND CONTINUANCE OF OPERATIONS

The Company is incorporated under the laws of British Columbia, Canada and its principal business activities include the acquisition and exploration of mineral properties in Québec and British Columbia, Canada and the United States. The Company's shares are listed on the Toronto Stock Venture Exchange ("TSXV") trading under the symbol "MHI". The registered office of the Company is 10th Floor, 595 Howe Street, Vancouver,V6C 2T5, British Columbia.

On September 30, 2011, the Company consolidated the outstanding shares on a basis of 1 new share for 12 old shares held. The resulting outstanding shares amounted to 3,509,537 common shares. All references to common shares and per share amounts in these financial statements are on the basis of the resulting new common shares and corresponding securities.

The consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), applicable for the reporting period, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Ongoing operations of the Company are dependent upon its ability to receive continued financial support, complete public equity financings, or generate profitable operations in the future.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether those properties contain reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependant upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development and upon future profitable production.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure the continuation of the Company's operations and exploration programs. To the extent financing is not available, lease payments, rental payments, and other payments may not be satisfied and could result in a loss of property ownership or earning opportunities for the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

Basis of measurement and preparation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments classified as fair value through profit or loss which have been measured at fair value.

Since these financial statements represent the Company's first presentation of its annual results and financial position under IFRS, they were prepared in accordance and compliance with IFRS 1 – *First time Adoption of International Financial Reporting Standards*.

The Company's consolidated financial statements were previously prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these consolidated financial statements, Management has amended some accounting and measurement methods previously applied in Canadian GAAP in order to comply with IFRS. A description of the effects of the differences on equity, loss and comprehensive loss are discussed in Note 16 of the consolidated financial statements along with a line by line reconciliation of the statements of financial positions as at December 31, 2010 and January 1, 2010 and the statement of loss and comprehensive loss for the year ended December 31, 2010.

The policies set out in the ensuing paragraphs have been consistently applied to all periods presented unless otherwise noted.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

Functional currency

The presentation and functional currency of the Company and each of its subsidiaries is the Canadian dollar.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cerro Minerales S.A. de C.V., (incorporated in Mexico) and Veritas Resource Corp, (incorporated in USA). All significant inter-company balances and transactions have been eliminated upon full consolidation.

b) Significant accounting judgements and estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting periods. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Actual results could differ materially from those reported.

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

- Stock based compensation are based upon expected volatility and option life estimates;
- The provision of income taxes is based on judgements in applying income tax law and estimates on timing, likelihood and reversal of temporary differences between accounting and tax basis of the assets and liabilities;
- The estimated value of exploration and evaluation costs which is included in the consolidated statement of financial position;
- The assessment of indications of impairment of each of the exploration and evaluation asset and related determination of the net realizable value and write-down of those properties where applicable.

c) Cash and equivalents

Cash is comprised of cash on hand and demand deposits. Cash equivalents include short term highly liquid investments with an original maturity of 3 months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

d) Refundable tax credits and mining duties

The Company is entitled to apply for government grants in the form of refundable tax credits and mining duties in respect of qualifying mining exploration expenses incurred. These recoveries are accounted for using the cost reduction approach whereby amounts received are applied against the cost of related assets or expenditures.

e) Marketable securities

Marketable securities are traded on a recognized securities exchange and are recorded at fair values based on quoted closing bid prices at the statement of financial position dates or the closing bid prices on the last day the security traded if there was no trade at the statement of financial position dates with both realized and unrealized gains and losses recorded in the statement of loss and comprehensive loss.

f) Foreign currency

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency are not retranslated.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Investments in associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed when the Company holds between 20 to 50 percent of the voting power of another entity. Investment in associates is accounted for using the equity method and is recognized initially at cost. The consolidated financial statements include the Company's share of attributable net income or loss with a corresponding entry in the carrying value of the investment.

h) Equipment

These assets are recorded at cost less accumulated amortization and impairment. Amortization is calculated using the declining balance method to allocate their costs to their residual values over their estimated useful lives as follows:

Furniture and equipment	20%
Vehicles	20%
Mining equipment	20%
Computer software	20%
Leasehold Improvements	5 years straight-line

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than the estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of loss.

i) Exploration and evaluation assets

All costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property.

Exploration and evaluation expenditures comprise costs that are directly attributable to:

- researching and analysing existing data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Exploration and evaluation expenditures for each area of interest are carried forward as an asset provided that such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its disposal or through farm-out arrangements.

Once commercial production commences, these costs will be reclassified to mineral properties within Property, plant and equipment and are charged to operations on a unit-of-production method based on proven and probable reserves.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income, costs recovered on exploration and evaluation assets when amounts received or receivable are in excess of the carrying amount.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Decommissioning liabilities

The fair value of the statutory, contractual, constructive or legal liabilities associated with the retirement and reclamation of mining assets are recorded when incurred, with a corresponding increase to the carrying amount of the related production assets. The amount recognized is the estimated cost of decommissioning, discounted to its present value using the Company's risk free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates and changes to the risk free rates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property and equipment. The unwinding of the discount on the decommissioning provision is charged to net earnings or loss as office and administration expense.

The Company recognizes a decommissioning liability in the period in which it is incurred when a reasonable estimate of the fair value can be made. On a periodic basis, management will review these estimates and changes and if there are any, will be applied prospectively. The fair value of the estimated provision is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The capitalized amount is depleted on a unit-of-production basis over the life of the proved developed reserves. The liability amount is increased each reporting period due to the passage of time and this amount is charged to earnings in the period. Actual costs incurred upon settlement of the obligations are charged against the provision to the extent of the liability recorded and the remaining balance of the actual costs is recorded in the consolidated statement of comprehensive income.

k) Impairment of long-lived assets

At each reporting date, all capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration expenditure is not expected to be recovered, it is charged to operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment. An impairment charge relating to a mineral property is subsequently reversed when new exploration results or actual or potential proceeds on sale or farm-out of the property result in a revised estimate of the recoverable amount but only to the extent that this does not exceed the original carrying value of the property that would have resulted if no impairment had been recognized.

For purposes of recognition and measurement of an impairment loss, a long-lived asset is grouped with other assets and liabilities to form an asset group, at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Estimates of future cash flows used to test recoverability of a long-lived asset include only the future cash flows that are directly associated with, and that are expected to arise as a direct result of, its use and eventual disposition.

l) Stock-based compensation

The fair value of stock options granted is measured at grant date using the Black-Scholes option pricing model. Where options are granted to consultants for good or services rendered, the options are measured at the fair value of the goods or services received by the Company If the fair value of the goods and services received cannot be reliably measured, the fair value of the stock option granted is used instead. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that expected to ultimately vest is computed. The movement in cumulative expense is recognized in the statement of loss with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When options are exercised, the proceeds received together with any related amount in contributed surplus are credited to share capital.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Income taxes

Income tax on the profit or loss for the periods 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 recorded using the statement of financial position 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 following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. 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 statement of financial position 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 utilised. To the extent that the Company does not consider it more likely than not that a deferred tax asset will be recovered, it does not recognize the asset.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

n) Loss per share

Basic loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. To compute diluted loss per share, adjustments are made to common shares outstanding. The weighted average number of common shares outstanding is adjusted to include the number of additional common shares that would be outstanding if, at the beginning of the period or at time of issuance, if later, all options and warrants were exercised. The proceeds from exercise would be used to purchase the Company's common shares at their average market price during the period, a reduction to the weighted average number of common shares outstanding. If this computation is anti-dilutive, diluted loss per share is the same as basic loss per share. For the periods presented, this calculation proved to be anti-dilutive.

o) Flow-through common shares

Resource expenditure deductions for income tax purposes related to exploration activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian income tax legislation. The premium, if any, paid for flow-through shares in excess of the market value of the shares without the flow-through features at the time of issue is credited to other liabilities and recognized in income at the time the qualifying expenditures are made. The recognition of the deferred tax liability upon renunciation of the flow through expenditures is recorded as income tax expense in the period of renunciation.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loan and receivables, available for sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition. It is management's opinion that the Company is not exposed to significant interest or credit risk arising from these financial instruments.

- *Financial assets at fair value through profit or loss*
  A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets and include cash and equivalents and marketable securities, which are initially recognized at fair value.

- *Loans and receivables*
  Loans and receivables are non derivative financial assets which fixed or determinable payments that are not quoted in an active market. They are classified as current or non current assets based on their maturity date. Assets in this category include due from related parties and receivables and are measured at amortized cost less impairment.

- *Available-for-sale financial assets*
  Available-for-sale financial assets are either designated as available for sale or not classified in any other categories. They are initially recognized at fair value plus transaction costs and are subsequently carried at fair value, with unrealized gains and losses recorded in other comprehensive income until disposition or other-than-temporary impairment at which time the gain or loss is recorded in earnings. The Company does not have any available-for-sale financial assets.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss – this category comprises of derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of loss.

Other financial liabilities – this category includes accounts payable and accrued liabilities and due to related parties, are initially recognized at fair value and subsequently stated at amortized cost. Financial liabilities are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the date of the statement of financial position.

Impairment of financial assets

The Company assesses at each reporting date, whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- Financial assets carried at amortization: the loss is the difference between the amortized cost and its value of estimated future cash flows, discounted using the instrument's original effective interest rate;

- Available-for-sale financial asset: The loss is the amount comprising the difference between its original cost and its current fair value, less any impairment previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net loss.

  Reversals of impairment losses on financial assets carried at amortized cost are recorded through the statement of loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss had been recognized. Impairment on available-for-sale instruments is not reversed.

(Expressed in Canadian Dollars)

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET IMPLEMENTED

As of January 1, 2013, the Company will be required to adopt amendments to IAS 1 "Presentation of Financial Statements" which will require companies to group together items within Other Comprehensive Income that may be reclassified to the net earnings section of the statement of loss and comprehensive loss. The Company does not expect a material impact as a result of the amendment.

Each of the additional new standards outlined below is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9 "Financial Instruments" which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet assessed the impact, if any, that the new amended standards will have on its financial statements or whether to early adopt any of the new requirements.

IFRS 9 "Financial Instruments"
The result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

IFRS 10 "Consolidated Financial Statements"
Replaces Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" and the consolidation requirements of IAS 27 "Consolidated and Separate Financial Statements". The new standard replaces the existing risk and a reward based approaches and establishes control as the determining factor when determining whether an interest in another entity should be included in the consolidated financial statements.

IFRS 11 "Joint Arrangements"
Replaces IAS 31 "Interests in Joint Ventures". The new standard focuses on the rights and obligations of an arrangement, rather than its legal form. The standard redefines joint operations and joint ventures and requires joint operations to be proportionately consolidated and joint ventures to be equity accounted.

IFRS 12 "Disclosure of Interests in Other Entities"
Provides comprehensive disclosure requirements on interests in other entities, including joint arrangements, associates, and special purpose vehicles. The new disclosures require information that will assist financial statement users in evaluating the nature, risks and financial effects of an entity's interest in subsidiaries and joint arrangements.

4. MARKETABLE SECURITIES

Marketable securities consisted of 750,000 shares in Pan Pacific Aggregates Plc, a publicly traded company and are carried at fair value, based on the trading price of the shares at close of business at the reporting date. During the year ended December 31, 2011, the Company recorded an impairment of $3,068 and wrote off the carrying value of the shares.

Marketable securities		**December 31 2011**	December 31 2010	January 1 2010
At fair value through profit or loss	$	**-**	3,068	4,725

(Expressed in Canadian Dollars)

5. INVESTMENT IN ASSOCIATE

The Company held 50% of the equity in Gixat'in Mhind World Link Inc (GMWL) and 473,799 class "A" preference redeemable shares and accounted for using the equity method. During the year ended December 31, 2011, the Company incurred an equity loss of $7,350 (2010: $Nil) on the investment and on June 30, 2011, disposed of its investment in GMWL to Merfin Management Ltd.(a related party) for proceeds of $24,000.

Balance at January 1, 2010 and December 31, 2010	$	31,350
Share of loss		(7,350)
Carrying value, June 30, 2011		24,000
Disposal proceeds		(24,000)
Net of disposal proceeds	$	-

Summary financial information at the date of disposal, for Gixat'in Mhind World Link Inc (GMWL), not adjusted for the percentage ownership held by the Company:

		June 30 2011	December 31 2010	January 1 2010
Ownership		**50%**	50%	50%
Current assets	**$**	**1,500**	7,787	7,787
Non-current assets		**56,500**	86,616	86,616
Total assets		**58,000**	94,403	94,403
Current liabilities		**10,000**	31,703	31,703
Net assets	**$**	**48,000**	62,700	62,700

For the six months ended

		June 30 2011	June 30 2010
Revenues		-	-
Expenses		(14,700)	-
Loss	**$**	(14,700)	-

(Expressed in Canadian Dollars)

6. EQUIPMENT

	Furniture and Equipment	Vehicles	Mining Equipment	Leasehold Improvements	Computer Software	TOTAL
	$	$	$	$	$	$
At 1 January 2010						
Cost	85,900	6,655	39,130	66,780	587	199,052
Accumulated Amortization	(62,394)	(3,589)	(19,484)	(53,425)	(399)	(139,291)
	23,506	3,066	19,646	13,355	188	59,761
Movements - year ended December 31, 2010						
Acquisitions	1,674	-	-	-	2,514	4,188
Amortization	(4,701)	(613)	(3,929)	(13,355)	(541)	(23,139)
	(3,027)	(613)	(3,929)	(13,355)	1,973	(18,951)
Balance – December 31, 2010						
Cost	87,574	6,655	39,130	66,780	3,101	203,240
Accumulated Amortization	(67,095)	(4,202)	(23,413)	(66,780)	(940)	(162,430)
	20,479	2,453	15,717	-	2,161	40,810
Movements – year ended December 31, 2011						
Acquisitions	584	-	-	-	-	584
Amortization	(4,097)	(2,453)	(15,717)	-	(2,161)	(24,428)
	(3,513)	(2,453)	(15,717)	-	(2,161)	(23,844)
Balance – December 31, 2011						
Cost	88,158	6,655	39,130	66,780	3,101	203,824
Accumulated Amortization	(71,192)	(6,655)	(39,130)	(66,780)	(3,101)	(186,858)
	16,966	-	-	-	-	16,966

7. EXPLORATION AND EVALUATION ASSETS

The carrying values of exploration and revaluation assets were as follows:

		December 31 2011	December 31 2010	January 1 2010
Mineral property acquisition costs	$	**412,915**	223,566	1,340,402
Deferred exploration costs		**185,276**	178,814	527,436
		598,191	402,380	1,867,838

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

(a) Mineral property acquisition costs

	Balance January 1 2010	Additions	Impairment	Balance December 31 2010	Additions	Balance December 31 2011
Chubb Property, Québec	$ 46,000	$ -	$ -	$ 46,000	**$** 35,000	**$ 81,000**
International Property, Québec	5,000	28,108	-	33,108	35,000	**68,108**
Athona Property, Québec	3,500	20,500	-	24,000	26,250	**50,250**
Canadian and McNeely Lithium Property, Québec	-	28,000	-	28,000	30,000	**58,000**
Skeena Property, BC	1,280,902	-	(1,280,902)	-	**-**	**-**
Chikadee Creek Property, Alberta	5,000	-	(5,000)	-	-	**-**
RR Lithium Property, US	-	33,144	(33,144)	-	-	**-**
Liberty Hill Mine, US	-	92,458	-	92,458	63,099	**155,557**
	$ 1,340,402	$ 202,210	$ (1,319,046)	$ 223,566	$ 189,349	**$ 412,915**

Title to mineral properties

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

Lithium Properties, Val d'Or, Quebec

(i) Chubb Property, Québec

On May 11, 2009, the Company signed an option agreement to acquire 100% interest in the Chubb Lithium Property, which is located in the Archean Abitibi Greenstone belt in the La Corne Township. Under the agreement, in order for the Company to earn-in 100% undivided interest in the property, the following payments will have to be made:

	Cash payment	Shares
Upon execution of the option agreement	$ 5,000	Nil
Upon approval of the Exchange (February 8, 2010)	$ 15,000	16,666
On or before February 8, 2011	$ 20,000	16,666
On or before February 8, 2012	$ 20,000	16,666
On or before February 8, 2013	$ 20,000	16,666
Total	**$ 80,000**	**66,664**

The agreement provides for a 2% net smelter return ("NSR"). The Company has an exclusive option to buy back 50% for $1,000,000 within one year and the remaining 50% for $1,000,000 within two years of the date the Chubb Property is put into commercial production.

During the year ended December 31, 2010, the Company had issued 16,666 shares valued at $26,000 and paid $20,000 to the Optionors, pursuant to the agreement.

During year ended December 31, 2011, the Company issued 16,666 common shares, valued at $15,000, and paid $20,000 cash, pursuant to the option agreement.

Subsequent to December 31, 2011, the Company issued 16,666 shares and paid $20,000 to the Optionors.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

(a) Mineral property acquisition costs (continued)

Lithium Properties, Val d'Or, Quebec (continued)

(ii) International Property, Québec

On August 7, 2009, the Company signed an option agreement to acquire 100% interest in the International Property. Under the agreement, the following payments will have to be made before the Company acquires a 100% undivided interest in the property:

	Cash Payment	Shares
Upon execution of the option agreement	$5,000	Nil
On or before February 8, 2010	$18,108	16,666
On or before February 8, 2011	$20,000	16,666
On or before February 8, 2012	$20,000	8,333
On or before February 8, 2013	$20,000	8,333
Total	**$83,108**	**49,998**

The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for $500,000 within one year and the remaining 50% for $500,000 within two years of the date the International Property is put into commercial production.

During the year ended December 31, 2010, the Company had issued 16,666 shares valued at $10,000 and paid $23,108 pursuant to the agreement.

During the year ended December 31, 2011, the Company issued 16,666 common shares valued at $15,000 and paid $20,000 pursuant to the option agreement.

Subsequent to December 31, 2011, the Company issued 8,333 shares and paid $20,000 to the Optionor.

(iii) Athona Property

On September 16, 2009, the Company signed an option agreement to acquire 100% interest in the Athona Property. Under the agreement, in order for the Company to earn-in 100% undivided interest in the property, the following payments will have to be made, in addition to a work commitment of $25,000 to be incurred on the property in 2009 (commitment met):

DATE	**Cash Payment**	**Shares**
Upon execution of the option agreement	$3,500	Nil
On or before March 20, 2010	$11,500	12,500
On or before March 20, 2011	$15,000	12,500
On or before March 20, 2012	$15,000	6,250
On or before March 20, 2013	$15,000	6,250
Total	**$60,000**	**37,500**

During the year ended December 31, 2010, the Company issued 12,500 shares valued at $9,000 and paid $15,000 to the Optionors, pursuant to the agreement.

During the year ended December 31, 2011, the Company issued 12,500 common shares, valued at $11,250 and paid $15,000 cash, pursuant to the option agreement.

Subsequent to December 31, 2011, the Company issued 6,250 shares and paid $15,000 to the Optionor.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

(a) Mineral property acquisition costs (continued)

Lithium Properties, Val d'Or, Quebec (continued)

(iv) Canadian and McNeely Lithium Property, Québec

On May 20, 2010, the Company signed an option agreement to acquire 100% interest in the Canadian and McNeely Property. Under the agreement, the following payments will have to be made before the Company acquires 100% undivided interest in the property:

	Cash Payment	Shares
Upon execution of the option agreement	$5,000	Nil
On May 27, 2010	$15,000	16,666
On or before May 27, 2011	$20,000	16,666
On or before May 27, 2012	$20,000	8,333
On or before May 27, 2013	$20,000	8,333
Total	**$80,000**	**49,998**

The agreement provides for a 1% NSR. The Company has an exclusive option to buy back 50% for $500,000 within one year and the remaining 50% for $500,000 within two years of the date the Canadian and McNeely Property is put into commercial production.

During the year ended December 31, 2010, the Company had issued 16,666 shares valued at $8,000 and paid $20,000 to the Optionors, pursuant to the agreement.

During the year ended December 31, 2011, the Company issued 16,666 shares, value at $10,000 and paid $20,000 cash, pursuant to the agreement.

(v) Other Lithium Properties, Québec

Subsequent to December 31, 2011, the Company acquired 100% interest in some mineral claims located in Val d'Or, Quebec, in the vicinity of Athona and International properties. On March 23, 2012, the Company issued a total of 550,000 commons shares, 250,000 of which had a hold period of 4 months and one day from the date of issue and the balance had a hold period of one year from the date of issue.

Skeena Property, BC

At December 31, 2010, the Company has incurred an amount of $1,280,902 in acquisition costs and has capitalized $367,262 in exploration expenditures (see Note 7 (b)) incurred on the property. The Company considered the property impaired and wrote-off $1,648,164 to operations during fiscal year 2010.

Chikadee Creek Lithium Brine Property, Alberta

On September 15, 2009, the Company signed a letter of intent to acquire 100% interest in the Chikadee Creek Lithium Brine Property and paid a non refundable deposit of $5,000 towards the acquisition price of the property. During fiscal year 2010, the Company decided not to proceed with the acquisition of the property and wrote-off $5,000 to operations.

7. EXPLORATION AND EVALUATION ASSETS (continued)

(a) Mineral property acquisition costs (continued)

RR Lithium Property, Nye County, USA

On April 1, 2010, the Company signed an option agreement to acquire 100% interest in the RR Property. Under the agreement, before the Company acquires 100% undivided interest in the property, the Company is required to pay US$ 130,000 in cash and issue 675,000 common shares.

During the fiscal year 2010, the Company issued 150,000 shares valued at $7,500 and paid $25,644 (US$25,000) pursuant to the agreement.

During the year ended December 31, 2010, the Company decided that it would not proceed with the payments on the property and wrote-off $33,144 to operations at December 31, 2010.

Liberty Hill Mine, Nevada County, California, USA

On September 30, 2010, the Company entered into an agreement, to earn in a 50% participation a Joint venture agreement with Mining and Energy International Corp (MEICO) in the Liberty Hill Mine, in the Nevada County, California, USA. Under the agreement, in order for the Company to earn a 50% Joint Venture interest, it was required to pay US$1,000,000 upon the satisfaction of certain conditions and incur US$1,500,000 in expenditure as follows:

(i) US$40,000 on signature of the agreement

(ii) US$45,000 within 21 days after signature of the agreement

(iii) the balance of US$1,415,000 payable in increasing tranches within 180 days from a date which is the earlier of the approval from the regulatory authorities and the receipt of the exploration permit from the US Forest Service. Any funds generated from the processing of the existing stockpile will reduce the balance payable.

During the fiscal year 2010, the Company paid a total of $92,458 (US$88,000), including $19,245 (US$18,000) for the renewing of the mineral tenures.

During the year ended December 31, 2011, the Company paid a further $63,099. The Company is awaiting the issuance of the exploration permit from the US Forest Service, which is one of the obligations of MEICO under the agreement.

(Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

(b) Deferred exploration costs (continued)

At December 31, 2011, the Company has capitalized the following exploration expenditures:

	TOTAL	Skeena Property	Lithium Properties
Balance – January 1, 2010	$ **527,436**	$ **358,112**	$ **169,324**
Expenditure	72,623	9,150	63,473
Mineral tax credit	(53,983)	-	(53,983)
Impairment (Note 7)	(367,262)	(367,262)	-
Balance - December 31, 2010	**178,814**	-	**178,814**
Expenditure	**6,462**	-	**6,462**
Balance – December 31, 2011	**$ 185,276**	$ -	**$ 185,276**

At December 31, 2011, the carrying amounts of deferred exploration expenditures for the lithium properties were as follows:

	January 1 2010	Changes	December 31 2010	Changes	December 31 2011
Fieldwork	$ 51,002	$ 19,506	$ 70,508	$ -	$ 70,508
Geology and mapping	80,354	16,316	96,670	-	96,670
Consulting	17,260	15,490	32,750	-	32,750
Assays	4,274	1,263	5,537	-	5,537
Project Management	13,824	5,008	18,832	-	18,832
Miscellaneous	2,610	5,890	8,500	6,462	14,962
Tax Credits	-	(53,983)	(53,983)	-	(53,983)
	$ 169,324	**$ 9,490**	**$ 178,814**	**$ 6,462**	**$ 185,276**

8. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2011, the Company entered into the following transactions with related parties.

Key management personnel compensation
The remuneration of key management personnel during the years ended December 31, 2011 and 2010 were as follows:

	Note	2011	2010
Consulting fees and salaries	(i)	$ 197,920	$ 197,920
Stock based compensation	(ii)	$ 21,893	$ 85,372

(Expressed in Canadian Dollars)

8. RELATED PARTY TRANSACTIONS (continued)

(i) The Company paid or accrued consulting services for $100,920 (2010: $72,920) to Merfin Management Limited, a private company controlled by the Chief Executive Officer and $Nil (2010: $28,000) to Panterra Capital, a company controlled by a former director. At December 31, 2011 amounts of $Nil (December 31,2010: $18,864 and January 1, 2010: $13,748) and $30,135 (December 31, 2010: $30,135 and January 1, 2010 $Nil) were due to Merfin Management Limited and to Panterra Capital respectively. During the year ended December 31, 2011, the Company also paid salaries of $97,000 (2010: $97,000) to the Chief Financial Officer. See also note on recovery of expenses below.

(ii) Stock based payments are the fair value of options granted to the Chief Executive Officer and the Chief Financial Officer, which vest partly on grant date and partly on the first and second anniversaries of the grant date.

During the year ended December 31, 2011, an amount of $66,242 due to Merfin Management with respect to accrued consulting fees was converted into a loan, repayable within three years and bears interest at 8.5% per annum (see below advances received from related party). The balance was fully paid during the year ended December 31, 2011.

Other related party transactions

During the year ended December 31, 2011,

(i) the Company charged, as a recovery of expenses, Golden Dawn Minerals Inc., Island Gateway Ltd. and Nass Valley Gateway Ltd. companies related by common directors and officers, a total amount of $186,504 (2010: $259,357) with respect to shared costs relating to salaries, office expenses;

(ii) the Company accrued $1,141 (2010: $Nil) to Golden Dawn Minerals Inc. with respect to printing expenses. At December 31, 2011, the amount of $1,141 (December 31, 2010: $Nil, January 1, 2010: $Nil) was outstanding;

(iii) the Company accrued or paid $13,937 (2010: $7,898) to the Chief executive Officer with respect to expenses incurred on behalf of the Company. At December 31, 2011, an amount of $5,791 (December 31, 2010: $7,898, January 1, 2010: $Nil) was outstanding; and

(iv) the Company recovered $2,000 from Gitxat'in Mhind World Link (a company related by common directors) on a receivable the Company wrote off in the fiscal year 2009.

The following were receivable from companies which are related by common directors:

	December 31 2011	December 31 2010	January 1 2010
Island Gateway Ltd.	$ 405	$ 4,361	$ 4,361
Nass Valley Gateway Ltd.	3,900	27,754	70,087
	$ 4,305	$ 32,115	$ 74,448

Advances received from related party

During the year ended December 31, 2011, in addition to the conversion of amounts payable into loans as mentioned above, the Company received advances of $230,758 from Merfin Management Limited pursuant to promissory notes bearing interest at 8.5%per annum. A total amount of $303,877 (2010: $Nil) was refunded to Merfin Management Ltd, which included $6,877 in interest.

9. SHARE CAPITAL AND RESERVES

a) Authorized share capital

At December 31, 2011, the authorized share capital comprised of an unlimited number of common shares at no par value. All issued and outstanding shares are fully paid.

b) Issues of common shares

On September 30, 2011, the Company consolidated the outstanding shares on a basis of 1 new share for 12 old shares held. The resulting outstanding shares amounted to 3,509,537 common shares. All references to common shares and per share amounts in these financial statements are on the basis of the resulting new common shares and corresponding securities.

During the year ended December 31, 2011, the Company issued common shares with respect to the Lithium properties in Quebec as described in Note 7.

On December 14, 2011, the Company closed a private placement of $487,800, through the placement of 3,048,750 shares at $0.16 each and 3,048,750 share purchase warrants exercisable at $0.22 each within one year and $0.30 within the second year, of which an amount of $30,000 had been advanced in fiscal year 2010.

Subsequent to December 31, 2011, the Company closed a private placement of $466,000, through the placement of 2,912,500 shares at $0.16 each and 2,912,500 share purchase warrants exercisable at $0.22 each within one year of issue and $0.35 within the second year

During the year ended December 31, 2010

On April 13, 2010, the Company completed a private placement of 95,000 flow-through common shares and 30,000 non flow-through common shares at a price of $0.60 per unit for total proceeds of $75,000. Each common share was issued with a warrant to purchase an additional common share at a price of $1.20 within 5 years of the date of the issue.

On November 23, 2010, the Company completed a private placement of 183,333 common shares at a price of $0.60 per common share for total proceeds of $110,000.

c) Stock-based compensation

The Company, in accordance with its modified stock option plan, is authorized to grant options to directors, employees and consultants, to acquire up to 625,751 of currently issued and outstanding common stock. The exercise price of each option equals the closing market price of the Company's stock on the last trading day preceding the date of grant, less any discount permitted by the TSX Venture Exchange. The options can be granted for a maximum term of three years and are subject to vesting provisions as determined by the board of directors of the Company.

The weighted average grant fair value of 4,166 options granted on March 1, 2011 was $0.37. The fair value of these options was determined on the date of the grant using the Black -Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 2 years; expected volatility of 159%; and expected dividends of $Nil.

The weighted average grant fair value of 104,375 options granted on March 11, 2010 was $0.47. The fair value of these options was determined on the date of the grant using the Black -Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 3 years; expected volatility of 144%; and expected dividends of $Nil.

The weighted average grant fair value of 25,000 options granted on March 11, 2010 was $0.31. The fair value of these options was determined on the date of the grant using the Black -Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 1 year; expected volatility of 183%; and expected dividends of $Nil.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

c) Stock-based compensation (continued)

The weighted average grant fair value of 18,333 options granted on April 15, 2010 was $0.49. The fair value of these options was determined on the date of the grant using the Black -Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 3 years; expected volatility of 148%; and expected dividends of $Nil.

The weighted average grant fair value of 158,333 options granted on November 4, 2010 was $0.89. The fair value of these options was determined on the date of the grant using the Black -Scholes option pricing model with the following weighted average assumptions: Risk free interest rate of 2.62%; the expected life of 3 years; expected volatility of 159%; and expected dividends of $Nil.

Stock option transactions are summarized as follows:

OPTIONS OUTSTANDING

	Number of Options		Weighted Average Exercise price
Balance, January 1, 2010	215,590	$	1.68
Granted	306,041	$	0.96
Expired	(4,166)	$	1.56
Stock options outstanding at December 31, 2010	517,465	$	1.32
Expired/cancelled	(86,863)	$	1.13
Granted	4,166	$	1.20
Stock options outstanding at December 31, 2011	**434,768**	**$**	**1.31**

Information regarding options outstanding and exercisable as at December 31, 2011

Expiry Date	Exercise Price	Number of Options Outstanding	Number of Exercisable Options	Average Remaining Life (Years)
March 1, 2012	1.20	4,166	2,083	0.17
June 25, 2012	1.68	110,213	110,213	0.48
September 9, 2012	1.56	166	166	0.69
October 8, 2012	1.68	79,654	79,654	0.77
January 28, 2013	0.66	74,746	74,746	1.08
April 15, 2013	1.20	18,332	18,332	1.29
November 4, 2013	1.20	147,491	117,491	1.85
	1.31	434,768	402,685	1.13

Subsequent to December 31, 2011, 4,166 stock options exercisable at a price of $1.20 expired unexercised.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (continued)

d) Warrants

As at December 31, 2011, the Company had the following outstanding warrants to purchase common shares of the Company:

Number of warrants		Exercise price	Expiry date
3,048,750		0.22	December 14, 2013
1,547,463		1.20	July 14, 2014
125,000		1.20	April 13, 2015
4,721,213	$	0.57	

Warrant transactions are summarized as follows

	Warrants outstanding		
	Number of warrants		**Weighted average exercise price**
Balance, January 1, 2010	2,013,743	$	0.96
Issued	125,000		1.20
Exercised	(106,666)		0.60
Expired	(284,614)		2.52
Balance, December 31, 2010	**1,747,463**		**1.20**
Issued	3,048,750		0.22
Expired	(75,000)		2.40
Balance, December 31, 2011	**4,721,213**	**$**	**0.57**

10. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

		2011		2010
Loss for the year	**$**	**(469,685)**	$	(2,325,912)
Expected income tax recovery	**$**	**(124,000)**	$	(663,000)
Non-deductible items		**23,000**		74,000
Difference in tax rates and other		**4,000**		752,000
Change in unrecognized temporary differences		**97,000**		(163,000)
Total income tax expense (recovery)	**$**	**-**	$	-

Details of unrecognized deferred tax assets are as follows:

		2011		2010
Deferred tax assets not recognized:				
Non-capital losses carried forward	**$**	**775,000**	$	679,000
Capital loss carry forward		**650,000**		594,000
Mineral properties and deferred exploration costs		**663,000**		663,000
Equipment		**58,000**		51,000
Share issuance costs		**5,000**		13,000
Marketable securities & investment in associate		**76,000**		130,000
	$	**2,227,000**	$	2,130,000

(Expressed in Canadian Dollars)

10. INCOME TAXES (continued)

Deductible temporary differences, unused tax losses and unused tax credits that are not included in deferred tax assets on the statement of financial position are as follows:

	Expiry date range	**2011**	2010
Share issue costs	2032 to 2033	**$ 22,000**	$ 54,000
Allowable capital losses	Not applicable	**2,600,000**	2,375,000
Non-capital losses	2014 to 2031	**3,101,000**	2,715,000
Capital assets	Not applicable	**230,000**	206,000
Mineral properties	Not applicable	**2,564,000**	2,565,000
Income tax credits	2026 to 2031	**30,000**	29,000
Marketable securities and investment in associate	Not applicable	**605,000**	1,045,000

During 2010 fiscal year the Company issued 1,140,000 common shares on a flow-through basis for gross proceeds of $57,000. The flow-through shares were not issued at a premium. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to the flow-through participants.

11. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Cash and equivalents included in the consolidated statement of cash flows at December 31:

	2011	**2010**
Cash	$ 12,482	$ 14,208
Cash equivalents	5,000	5,000
	$ 17,482	$ 19,208

	2011	**2010**
Cash paid during the year for income taxes	$ -	$ -
Cash paid during the year for interest	$ 6,877	$ -

During the year ended December 31, 2011, the Company issued 62,498 (2010: 58,332) common shares valued at $52,250 (2010: $34,500) with respect to property payments. During the year ended December 31, 2011, the Company accrued mineral property expenditures of $6,940 (2010: $18,693) and equipment acquisitions of $Nil (2010: $4,188) through accounts payable and accrued liabilities at December 31, 2011.

12. SEGMENTED INFORMATION

The Company's one reportable operating segment is the acquisition, exploration and development of resource property interests. The Company's non-current assets by geographical area are as follows:

	December 31 2011	December 31 2010	January 1 2010
Non-current assets:			
Canada	**$ 459,600**	$ 382,082	$ 1,958,949
U.S.A.	**155,557**	92,458	-
	$ 615,157	$ 474,540	$ 1,958,949

13. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and equivalents, marketable securities, receivables, due from related parties, accounts payable and accrued liabilities and due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Credit risk
Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and equivalents, marketable securities, receivables and due from related parties. The Company limits its exposure to credit risk on liquid financial assets through maintaining its cash and equivalents and marketable securities with high-credit quality financial institutions.

Amounts due to and from related parties are discussed in Note 8.

Currency risk
The Company operates primarily in Canadian dollars and as such is not affected by the fluctuations of the Canadian dollar with other currencies.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its obligations associated with its financial liabilities. The Company has historically relied upon equity financings to satisfy its capital requirements and will continue to depend heavily upon equity capital to finance its activities. There can be no assurance the Company will be able to obtain required financing in the future on acceptable terms. The Company anticipated it will need additional capital in the future to finance ongoing exploration of its properties, such capital to be derived from the exercise of outstanding stock options, warrants and/or the completion of other equity financings. The Company has limited financial resources, has no source of operating income and has no assurance that additional funding will be available to it for future exploration and development of its projects, although the Company has been successful in the past in financing its activities through the sale of equity securities. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing capital market conditions and exploration success. In recent years, the securities markets in Canada have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual fluctuations in price will not occur. Any quoted market for the common shares may be subject to market trends generally, notwithstanding any potential success of the Company in creating revenue, cash flows or earnings.

Interest rate risk
The Company normally invests in short-term interest bearing financial instruments. There is a minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificate included in cash and equivalents as they are currently held in large financial institutions.

Fair value measurements of financial assets and liabilities

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices in active markets for identical assets or liabilities;
Level 2 – 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); and
Level 3 –inputs for the asset or liability that are not based on observable market data.

The fair values of cash and cash equivalents and marketable securities are determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of receivables, due to and from related parties and accounts payable and accrued liabilities, approximate their current fair values because of their nature and relatively short maturity dates or durations.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS (continued)

Assets measured at fair value on a recurring basis were presented on the Company's statement of financial position as of December 31, 2011 as follows:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	December 31 2011
Assets:				
Cash and equivalents	$ 17,482	–	–	$ 17,482
	$ 17,482	–	–	$ 17,482

14. CAPITAL MANAGEMENT

The Company's capital structure consists of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future. The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments. There were no changes to the Company's approach to capital management during the year ended December 31, 2011. The Company is not subject to externally imposed capital requirements. The Company does not currently have adequate sources of capital to complete its exploration plan and ultimately the development of its business, and will need to raise adequate capital by obtaining equity financing through private placement or debt financing. The Company may raise additional debt or equity financing in the near future to meet its current obligations.

15. COMMITMENT

The Company entered into a three year rental agreement for office space commencing December 31, 2010 for approximately $5,044 per month until November 30, 2013. The agreement is subject to operating costs changes annually.

2012	$ 60,528
2013	55,484
Total	$ 116,012

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As set out in Note 1, the Company has adopted IFRS for the year ending December 31, 2011. The significant accounting policies adopted are set out in Note 2. In preparing the consolidated financial statements, the Company has converted from Canadian GAAP to IFRS as at Transition Date and prepared an opening statement of financial position under IFRS at that date. Changes in accounting policies and other restatements were required under IFRS 1 – *First Time Adoption of International Financial Reporting Standards* (IFRS 1) and were made effective from that date. Accordingly, the Company restated its financial position as at January 1, 2010 and December 31, 2010 and operations for the year ended December 31, 2010 previously reported under Canadian GAAP. IFRS 1 requires that the same polices are applied for all periods presented in the first IFRS financial statements. The adjusted policies have been consistently applied on a full retrospective basis unless alternative treatment is permitted or required by an IFRS election or exception. These are discussed below.

IFRS 1 allows exemption from the application of certain IFRS requirements to assist companies with the transition process.

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Elections upon first-time adoption of IFRS

The IFRS 1 exemptions applied by the Company in the conversion from Canadian GAAP to IFRS are as follows:

(i) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 *Business Combinations* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

(ii) Share-based payment transactions

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to the Transition Date.

Mandatory Exceptions under IFRS

The IFRS 1 mandatory exception applied by the Company in the conversion from Canadian GAAP to IFRS is as follows:

(iii) Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity and comprehensive income for prior periods presented under Canadian GAAP to IFRS as of the same date. In addition, an explanation is required for any material adjustments to cash flows to the extent that they exist. The analysis which follows represents the reconciliations from Canadian GAAP to IFRS for the respective periods noted:

(Expressed in Canadian Dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Reconciliations of statements of financial position

	December 31, 2010			January 1, 2010		
	GAAP	Adjustment	IFRS	GAAP	Adjustment	IFRS
	$	$	$	$	$	$
ASSETS						
Current assets						
Cash and equivalents	19,208	-	19,208	200,955	-	200,955
Marketable securities	3,068	-	3,068	4,725	-	4,725
Receivables	1,473	-	1,473	63,821	-	63,821
Due from related parties	32,115	-	32,115	74,448	-	74,448
Prepaid expenses	13,273	-	13,273	2,979	-	2,979
	69,137	-	69,137	346,928	-	346,928
		-			-	
Investments and loans	31,350	-	31,350	31,350	-	31,350
Equipment	40,810	-	40,810	59,761	-	59,761
Mineral properties	223,566	-	223,566	1,340,402	-	1,340,402
Deferred exploration costs	178,814	-	178,814	527,436	-	527,436
	543,677	-	543,677	2,305,877	-	2,305,877
Current liabilities						
Accounts payable and accrued liabilities	130,793	-	130,793	110,859	-	110,859
Due to related parties	56,897	-	56,897	13,748	-	13,748
	187,690	-	187,690	124,607	-	124,607
Shareholders' equity						
Share capital	14,479,661	-	14,479,661	14,196,161	-	14,196,161
Share subscriptions	-	-	-	-	-	-
Contributed surplus *	1,093,295	41,275	1,134,570	876,166	41,275	917,441
Deficit	(15,216,969)	(41,275)	(15,258,244)	(12,891,057)	(41,275)	(12,932,332)
	355,987	-	355,987	2,181,270	-	2,181,270
	543,677	-	543,677	2,305,877	-	2,305,877

* ***Stock base compensation***

The Company has elected to apply IFRS 2 *Share-based Payments* to equity instruments granted after November 7, 2002 that has not vested by the transition date. Under Canadian GAAP, the fair value of stock options was calculated using a Black-Scholes option-pricing model for each option grant and the resulting expense was recognized on a straight-line basis over the vesting period. Forfeitures of stock options were recognized as they occurred. Under IFRS, each vesting tranche of an option grant with different vesting dates was considered a separate grant for the calculation of fair value. This resulted in accelerated expense recognition which attributed higher stock-based compensation expense in early years of an option grant and less expense in later years. The Company also applied an estimated forfeiture rate at the initial grant date. The forfeiture rate is taken into account by adjusting the number of stock options expected to vest under each vesting tranche and subsequently revising this estimate throughout the vesting period, as necessary. When determining the fair value of each vesting tranche under IFRS, the Company applied an estimated weighted average option life for each respective tranche which reflects historical experiences.

The application of IFRS 2 resulted in an increase of $41,275 in contributed surplus with a corresponding increase to the Company's deficit at the date of transition. There was no significant increase in stock-based compensation expense in 2010 compared to the amount previously recorded under Canadian GAAP.

(Expressed in Canadian Dollars)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

		GAAP	Adjustment	IFRS
		$	$	$
Expenses				
Amortization		**23,139**	-	**23,139**
Bank charges and interest		**1,076**	-	**1,076**
Consulting		**100,920**	-	**100,920**
Insurance		**13,642**	-	**13,642**
Investor relations		**99,770**	-	**99,770**
Information technology services		**18,377**	-	**18,377**
Office and miscellaneous		**13,816**	-	**13,816**
Property investigation costs		**15,014**	-	**15,014**
Professional fees		**44,677**	-	**44,677**
Rent		**81,032**	-	**81,032**
Salaries and wages		**220,289**	-	**220,289**
Recovery of expenses		**(259,357)**	-	**(259,357)**
Stock-based compensation		**217,129**	-	**217,129**
Telephone		**13,158**	-	**13,158**
Transfer agent and filing fees		**27,565**	-	**27,565**
Travel and promotion		**7,700**	-	**7,700**
Loss before other items		**(637,947)**	**-**	**(637,947)**
Other items				
Impairment of mineral properties		**(1,686,308)**	-	**(1,686,308)**
Unrealized loss on marketable securities		**(1,657)**	-	**(1,657)**
		(1,687,965)	-	**(1,687,965)**
Loss and comprehensive loss for the year		**(2,325,912)**	**-**	**(2,325,912)**
Loss per common share, basic and diluted	**$**	**(0.67)**	-	**(0.67)**

Adjustment to statement of cash flows
The transition from Canadian GAAP to IFRS had no significant impact on the statement of cash flow.