BOLERO RESOURCES CORP.

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(EXPRESSED IN CANADIAN DOLLARS)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bolero Resources Corp.

We have audited the accompanying consolidated financial statements of Bolero Resources Corp. and its subsidiary, 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, consolidated statements of cash flows, and consolidated statements of changes in equity for the years ended December 31, 2011 and 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.

Auditor's 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 auditor's 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 auditor considers 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bolero Resources Corp. and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010, and their financial performance and 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 indicating the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

McGOVERN, HURLEY, CUNNINGHAM, LLP

McGovern, Hurley, Cunningham, LLP

Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 24, 2012

BOLERO RESOURCES CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	December 31, 2011	December 31, 2010 (Note 22)	January 1, 2010 (Note 22)
ASSETS			
Current			
Cash and cash equivalents (Note 7)	$ 856,723	$ 3,417,442	$ 1,508,272
Receivables (Note 8)	270,246	58,492	7,023
Prepaid expenses (Note 9)	11,245	10,592	8,630
Total current assets	1,138,214	3,486,526	1,523,925
Investments (Note 10)	115,000	221,600	-
Equipment (Note 11)	2,133	2,928	13,041
Exploration and evaluation expenditures (Note 12)	4,898,671	2,433,833	2,260,162
Drilling and reclamation deposits (Note 13)	20,546	20,361	127,861
Total assets	$ 6,174,564	$ 6,165,248	$ 3,924,989
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (Note 15)	$ 354,710	$ 125,411	$ 31,395
Restoration, rehabilitation and environmental obligations (Note 14)	29,000	33,000	178,497
Total current liabilities	383,710	158,411	209,892
Restoration, rehabilitation and environmental obligations (Note 14)	5,986	6,001	12,000
Total liabilities	389,696	164,412	221,892
Shareholders' equity			
Shares to be issued (Note 12)	8,000	-	-
Capital stock (Note 16)	21,941,917	21,313,658	17,123,771
Reserves	3,714,565	3,459,821	2,391,631
Deficit	(19,879,614)	(18,772,643)	(15,812,305)
Total shareholders’ equity	5,784,868	6,000,836	3,703,097
Total liabilities and shareholders’ equity	$ 6,174,564	$ 6,165,248	$ 3,924,989

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 12 and 20)
Subsequent events (Note 21)

On behalf of the Board:

“R. B. Duncan”, Director   “ Roger Steininger”, Director

See accompanying notes to the consolidated financial statements.

BOLERO RESOURCES CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

	2011	2010
		(Note 22)
EXPENSES		
Amortization	$ 795	$ 1,566
Consulting fees (Note 15)	51,000	31,285
Management fees (Note 15)	120,000	120,000
Office, rent, and miscellaneous	100,536	79,708
Professional fees (Notes 15)	118,877	156,818
Shareholder communications and promotion (Note 16)	860,719	188,283
Share based compensation (Note 16)	490,058	65,059
Transfer agent and filing fees	23,967	35,442
Travel and accommodation	15,896	7,891
Loss before impairments and other (income) expense	1,781,848	686,052
IMPAIRMENTS AND OTHER (INCOME) EXPENSE		
Foreign exchange (gain) loss	(5,085)	7,065
Investment income	(43,500)	(18,904)
(Gain) loss on disposal of equipment (Note 11)	(2,744)	1,086
Change in restoration, rehabilitation and environmental obligations previously recorded	-	(68,876)
Cost of flow-through expenditure shortfall	202,101	-
Impairment of available for sale investment (Note 10)	71,830	-
Write off of exploration and evaluation expenditures (Note 12)	14,100	2,386,655
Total impairments and other (income) expense	236,702	2,307,026
Loss for the year before income taxes	2,018,550	2,993,078
Income tax (recovery) (Note 18)	(50,000)	-
Net loss for the year	1,968,550	2,993,078
Other comprehensive loss		
Unrealized loss on marketable securities (Note 10)	106,600	51,589
Reclassification of impairment (Note 10)	(71,830)	-
Total comprehensive loss	$ 2,003,320	$ 3,044,667
Basic and diluted loss per common share	$ 0.06	$ 0.12
Weighted average number of common shares outstanding	35,674,353	24,317,958

See accompanying notes to the consolidated financial statements.

BOLERO RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Net (loss) for the year	$ (1,968,550)	$ (2,993,078)
Items not affecting cash:		
Income tax (recovery)	(50,000)	-
Amortization	795	1,566
(Gain) loss on disposal of equipment	(2,744)	1,086
Write off of exploration and evaluation expenditures	14,100	2,386,655
Change in restoration, rehabilitation and environmental obligations previously recorded	-	(68,876)
Cost of warrant expiry extension (Note 16)	710,861	
Share based compensation	490,058	65,059
Impairment of investment	71,830	-
Unrealized foreign exchange loss	1,216	4,263
	(732,434)	(603,325)
Change in non-cash working capital items:		
(Increase) in receivables	(211,754)	(51,469)
(Increase) in prepaid expenses	(653)	(1,962)
Increase in accounts payable and accrued liabilities	222,610	74,911
Net cash flows from operating activities	(722,231)	(581,845)
CASH FLOWS FROM FINANCING ACTIVITIES		
Exercise of options and warrants	253,100	471,350
Proceeds from private placements	320,000	3,731,250
Share issue costs	-	(182,222)
Net cash flows from financing activities	573,100	4,020,378
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditures	(2,398,916)	(1,279,255)
Marketable securities	-	(273,189)
Drilling and reclamation deposits	-	102,988
Restoration, rehabilitation and environmental obligations	(14,130)	(84,879)
Proceeds from sale of equipment	2,744	6,834
Net cash flows from investing activities	(2,410,302)	(1,527,501)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,286)	(1,862)
(Decrease) increase in cash and cash equivalents	(2,560,719)	1,909,170
Cash and cash equivalents, beginning of year	3,417,442	1,508,272
Cash and cash equivalents, end of year	$ 856,723	$ 3,417,442
Comprised of:		
Cash	$ 457,876	$ 3,417,442
Money market instruments	398,847	-
	$ 856,723	$ 3,417,442

Supplemental disclosure with respect to cash flows (Note 17)

See accompanying notes to the consolidated financial statements.

BOLERO RESOURCES CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Number of Shares	Capital Stock	Shares to be issued	*Reserves* Equity settled share-based payments reserve	Warrant reserve	Available-for-sale revaluation reserve	Deficit	Total
Balance, January 1, 2010	19,565,272	$ 17,123,771	$	$ 1,663,005	$ 728,626	$ -	$ (15,812,305)	$ 3,703,097
Issued pursuant to private placement	9,849,286	2,666,294	-	-	1,064,956	-	-	3,731,250
Acquisition of exploration properties	3,690,000	1,106,000	-	-	101,884	-	-	1,207,884
Finder's fee on exploration property acquisitions	150,000	40,500	-	-	-	-	-	40,500
Issued pursuant to services rendered	40,000	15,600	-	-	-	-	-	15,600
Share based compensation	-	-	-	65,059	-	-	-	65,059
Exercise of warrants	1,685,000	465,750	-	-	-	-	-	465,750
Value of warrants exercised	-	84,465	-	-	(84,465)	-	-	-
Expiry of options	-	-	-	(32,740)	-	-	32,740	-
Exercise of options	20,000	5,600	-	-	-	-	-	5,600
Value of options exercised	-	6,570	-	(6,570)	-	-	-	-
Issue costs cash	-	(129,622)	-	-	(44,015)	-	-	(173,637)
Issue costs-non cash	-	(71,270)	-	-	55,670	-	-	(15,600)
Net loss and comprehensive loss for the year	-	-	-	-	-	(51,589)	(2,993,078)	(3,044,667)
Balance, December 31, 2010	34,999,558	21,313,658	-	1,688,754	1,822,656	(51,589)	(18,772,643)	6,000,836
Issued pursuant to private placement	2,560,000	269,632	-	-	50,368	-	-	320,000
Acquisition of exploration properties	150,000	61,500	8,000	-	-	-	-	69,500
Share based compensation	-	-	-	490,058	-	-	-	490,058
Extension of warrant expiry date	-	-	-	-	710,861	-	-	710,861
Exercise of warrants	825,000	247,500	-	-	-	-	-	247,500
Value of warrants exercised	-	42,653	-	-	(42,653)	-	-	-
Expiry of warrants	-	-	-	-	(355,550)	-	355,550	-
Tax effect of warrant expiry	-	-	-	-	-	-	(50,000)	(50,000)
Expiry of options	-	-	-	(556,029)	-	-	556,029	-
Exercise of options	20,000	5,600	-	-	-	-	-	5,600
Value of options exercised	-	6,570	-	(6,570)	-	-	-	-
Issue costs-cash	-	(5,196)	-	-	(971)	-	-	(6,167)
Net loss and comprehensive loss for the year	-	-	-	-	-	(34,770)	(1,968,550)	(2,003,320)
Balance December 31, 2011	38,554,558	$ 21,941,917	$ 8,000	$ 1,616,213	$ 2,184,711	$ (86,359)	$ (19,879,614)	$ 5,784,868

1. NATURE AND CONTINUANCE OF OPERATIONS

Bolero Resources Corp. (hereafter the "Company") was incorporated in British Columbia on August 13, 1985 and is listed on the TSX Venture Exchange ("TSX-V"). The Company's principal business is the acquisition and exploration of mineral exploration properties. The Company is at the early stages of development on its projects and as such, to date, has not generated significant revenues from its operations.

The Company's head office is located at 789 West Pender St. W, Suite 1220, Vancouver, British Columbia, V6C 1H2.

The consolidated financial statements were approved by the Board of Directors on April 24, 2012.

The Company is in the process of exploring its mineral exploration properties and has not yet determined whether the properties contain reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation expenditures are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, the achievement of profitable production, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

These consolidated 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. As at December 31, 2011, the Company had working capital of $754,504 and an accumulated deficit of $19,879,614 compared to working capital of $3,328,115 and an accumulated deficit of $18,772,643 as at December 31, 2010. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future. Management believes it will be successful in raising the necessary funding to continue operations in the normal course of operations. These consolidated financial statements do not include the adjustments that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and its interpretations. The Company's consolidated financial statements for the year ended December 31, 2011 represent the Company's initial presentations of its results and financial position under IFRS. They were prepared in accordance with International Accounting Standard ("IAS") 1, Presentation of Financial Statement and by IFRS 1, First-time Adoption of IFRS.

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. Reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on equity, operations, comprehensive loss, and the statements of financial position and cash flows are provided in Note 22 to facilitate the reader's understanding of the consolidated financial statements.

3. BASIS OF PRESENTATION

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale or held-for-trading, which are stated at their fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

In the preparation of these consolidated 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 consistently to all periods presented in these consolidated financial statements.

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Montana Molybdenum Corporation (“MT Moly”), a company incorporated under the laws of Montana, U.S.A. Significant inter-company balances and transactions have been eliminated upon consolidation. All references to the Company should be treated as references to Bolero Resources Corp. and its subsidiary. The subsidiary is inactive.

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 guaranteed investment certificates that 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 and receivables 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments (Continued)

Available-for-sale assets are those financial assets that are not classified as held-for-trading, held-to-maturity or loans and 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. The Company's investments are classified as available-for-sale assets. Regular way purchases and sales of financial assets are accounted for at the trade date.

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 has classified accounts payable and accrued liabilities as other financial liabilities, which are carried at amortized cost. Due to their short-term natures, the fair values of these financial instruments approximate their carrying values, and are not subject to significant credit or interest rate risk.

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). At December 31, 2011 and December 31, 2010, the Company's financial instruments that were carried at fair value, consisted of investments which have been classified as Level 1 within the fair value hierarchy and cash equivalents which have been classified as Level 2.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equipment

Equipment is stated at cost less accumulated amortization and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization is charged to income based on cost less estimated residual value of the asset using the declining balance method of amortization at the following rates:

Office equipment	20%
Machinery and other equipment	20%
Vehicles	30%
Computer equipment	30%

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of loss and comprehensive loss.

The Company conducts an annual assessment of the residual balances, useful lives and amortization methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

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 mineral exploration property interests are in the exploration and evaluation phase. The Company records its interests in mineral 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, plant and equipment based on the nature of the costs incurred.

The cost of mineral exploration 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. Discounting has not been performed on the obligations as at December 31, 2011and 2010 as the effect of the time value of money was not material.

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 has no material provisions at December 31, 2011 and 2010.

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 share 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 share 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)

Flow-through shares

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which offer a tax incentive to Canadian investors by transferring the tax deductibility of exploration expenditures from the Company to the investor.

The Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors. Upon renunciation of the flow through expenditures for Canadian income tax purposes, the liability component is derecognized and a deferred income tax liability is recognized for the taxable temporary difference created at the Company's applicable tax rate which is expected to apply in the year the deferred income tax liability will be settled. Any difference between the amount of the liability component derecognized and deferred income tax liability recognized is recorded in profit and loss.

Resource expenditure deductions for income tax purposes related to exploration and evaluation activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation.

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 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 deterred tax asset will be recovered, it is not set up.

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. For the diluted loss per share calculation, the assumed proceeds upon the exercise of the options and warrants are used to purchase common shares at the average market price during the period. During the years ended December 31, 2011 and 2010, all the outstanding stock options and warrants were anti-dilutive.

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 consolidated statement of changes in Equity. The Company has classified its investments as financial instruments available for sale, and accordingly, reports other comprehensive gain or loss related to the changes in fair value on the investment at the end of each reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of the assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. The impact of these estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant estimates made by the Company include factors affecting the recoverability of exploration and evaluation expenditures, valuation of restoration, rehabilitation and environmental obligations, inputs used for share based payment transactions, inputs used for valuation of warrants and deferred tax assets and liabilities. Actual results could differ from those estimates.

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

Assets' carrying values 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.

Capitalization of exploration and evaluation costs

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

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.

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 January 1, 2012 or later periods.

IFRS 7 Financial instruments - Disclosures ("IFRS 7") was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments to IFRS 7 are effective for annual periods beginning on or after July 1, 2011. The Company has not yet determined the impact of the amendments to IFRS 7 on its financial statements.

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 January 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 January 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future accounting changes (Continued)

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 January 1, 2013. The Company has not yet determined the impact of the amendments to IFRS 11 on its consolidated 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 January 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 consolidated 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 July 1, 2011, 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 consolidated financial statements.

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 amendment on its consolidated 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 properties in which the Company currently has an interest are in the exploration stage; as such 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 year ended December 31, 2011. Neither the Company nor its subsidiary are subject to externally imposed capital requirements.

6. FINANCIAL RISK FACTORS

There have been no changes in the risks, objectives, policies and procedures from the previous year. 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. 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 that it will have sufficient liquidity to meet liabilities when due. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company has sufficient cash to meet its short term funding requirements; however, it will require additional equity funding for its 2012 work programs.

Market risk
(a) Interest rate risk
The Company has cash balances and no interest-bearing debt therefore, interest rate risk is minimal.

(b) Foreign currency risk
The majority of the Company's administrative expenditures are transacted in Canadian dollars. The Company funds certain expenses in the United States on a cash call basis using US dollar currency converted from its Canadian dollar bank accounts held in Canada. Management does not hedge its foreign exchange risk. As at December 31, 2011, the Company had drilling and reclamation deposits of US$7,360 (Cdn$7,505) (December 31, 2010 - US$7,360 (Cdn$7,361)), a bank balance of US$19,030 (Cdn$19,405) (December 31, 2010 - US$112,594 (Cdn$112,617)), and restoration, rehabilitation and environmental obligations of US$5,870 (Cdn$5,986) (December 31, 2010 -US$6,000 (Cdn$6,001)). A 1% change in foreign exchange rates between the Canadian and US dollar at December 31, 2011 and 2010 would not have a material impact on the Company's financial statements.

(c) Price risk
The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

(EXPRESSED IN CANADIAN DOLLARS)

6. FINANCIAL RISK FACTORS (Continued)

(d) Title risk

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company does not expect material movements in the underlying market risk variables over the next three-month period.

7. CASH AND CASH EQUIVALENTS

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

	December 31, 2011	December 31, 2010	January 1, 2010
Cash balances	$ 157,876	$ 1,291,138	$1,508,222
Private placement proceeds in trust	300,000	2,126,304	50
Short term money market instruments	398,847	-	-
Total	$ 856,723	$ 3,417,442	$1,508,272

The Company's short term money market instruments accrue interest between 1.02% and 1.2% per annum and are redeemable at any time without penalty.

8. RECEIVABLES

The receivables balance is comprised of the following items:

	December 31, 2011	December 31, 2010	January 1, 2010
Sales tax due from Federal Government	$ 270,246	$ 58,492	$ 7,023
Total	$ 270,246	$ 58,492	$ 7,023

9. PREPAID EXPENSES

The prepaid expense balance is comprised of the following items:

	December 31, 2011	December 31, 2010	January 1, 2010
Rent and security deposit	$ 5,024	$ 5,024	$ 7,777
Insurance	4,167	4,500	-
Investor relations and communications	1,710	600	-
Other	344	468	853
Total	$ 11,245	$ 10,592	$ 8,630

10. INVESTMENTS

In May 2010, the Company purchased 20,000 shares of Superior Plus Corp. for $273,189. The Company holds the investment for its investment income potential and as such classifies the investment as available-for-sale. The investment had a market value of $221,600 at December 31, 2010 and $150,400 at September 30, 2011. At September 30, 2011, management believed the drop in the value of the investment reflected a permanent impairment of approximately $71,830 and reflected this decline in the consolidated statement of loss and comprehensive loss. At December 31, 2011, the fair value of the investment is $115,000.

(EXPRESSED IN CANADIAN DOLLARS)

11. EQUIPMENT

	Office Equipment	Machinery and other equipment	Vehicles	Computer equipment	Total
Cost					
Balance, January 1, 2010	$ 5,329	$ 9,887	$ 3,125	$ 31,151	$ 49,492
Disposals	(3,383)	(9,887)	(3,125)	(23,973)	(40,368)
Balance, December 31, 2010 and December 31, 2011	1,946	-	-	7,178	9,124
Accumulated amortization					
Balance, January 1, 2010	3,329	5,977	2,390	24,755	36,451
Amortization	172	389	105	897	1,563
Disposals	(2,390)	(6,366)	(2,495)	(20,567)	(31,818)
Balance, December 31, 2010	1,111	-	-	5,085	6,196
Amortization	167	-	-	628	795
Balance, December 31, 2011	1,278	-	-	5,713	6,991
Carrying Value					
At January 1, 2010	$ 2,000	$ 3,910	$ 735	$ 6,396	$ 13,041
At December 31, 2010	$ 835	$ -	$ -	$ 2,093	$ 2,928
At December 31, 2011	$ 668	$ -	$ -	$ 1,465	$ 2,133

For the year ended December 31, 2011, the Company received proceeds of $2,744 on the sale of equipment. The book value of the equipment had previously been written off; therefore, the Company has recorded a gain on the sale equal to the value of the proceeds.

During fiscal 2010, the Company disposed of office equipment and computer equipment with a net book value of $4,399 for proceeds of $Nil. In addition, the Company disposed of its vehicle, with a net book value of $630, as partial consideration of an asset retirement obligation. During fiscal 2010, the Company also put all of its machinery and other equipment located in Montana USA up for sale. Assets with a book value of $3,531 were sold for proceeds of $6,834 during the year ended December 31, 2010.

12. EXPLORATION AND EVALUATION EXPENDITURES

At December 31, 2011, expenditures incurred on mineral exploration properties were as follows:

	Red Chris South, British Columbia	Rare Earth Claims, British Columbia	Yukon Prospect, Yukon	Charge Property, British Columbia	Year ended December 31, 2011
Acquisition costs:					
Balance, beginning of year	$ 229,160	$ 772,793	$ 211,404	$ -	$ 1,213,357
Additions during the year	-	16,600	111	83,306	100,017
Balance, end of year	229,160	789,393	211,515	83,306	1,313,374
Deferred exploration costs:					
Balance, beginning of year	503,191	689,829	27,456	-	1,220,476
Assays	23,497	13,527	5,441	16,245	58,710
Surveys, reports, maps	-	346,238	-	-	346,238
Rental of equipment and facilities	288	12,084	1,010	1,488	14,870
Field supplies	12,120	15,862	119	387	28,488
Geologists and other labour	107,646	203,146	11,288	28,460	350,540
Excavation/drilling/transportation	459,355	758,218	5,480	57,774	1,280,827
Licences, permits and maintenance fees	100	32,144	15,866	13,424	61,534
Travel, meals and accommodation	52,428	71,703	4,464	30,644	159,239
Admin and other expenses	17,962	30,549	5,172	10,692	64,375
Additions during the year	673,396	1,483,471	48,840	159,114	2,364,821
Balance, end of year	1,176,587	2,173,300	76,296	159,114	3,585,297
Total	$ 1,405,747	$ 2,962,693	$ 287,811	$ 242,420	$ 4,898,671

Write offs for expenditures incurred during the year ended December 31, 2011 for properties written off in prior years are charged directly to the consolidated statement of loss and comprehensive loss.

(EXPRESSED IN CANADIAN DOLLARS)

12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

At December 31, 2010, expenditures incurred on mineral exploration properties were as follows:

	Cannivan Gulch Project, Montana	Barkerville, Property British Columbia	Red Chris South Property, British Columbia	Rare Earth Claims, British Columbia	Yukon Prospect, Yukon	Year ended December 31, 2010
Acquisition costs:						
Balance, beginning of year	$ 559,097	$ 967,650	$ 139,494	$ -	$ -	$ 1,666,241
Claim staking	-	-	-	-	-	-
Additions during the year	-	255,110	89,666	772,793	211,404	1,328,973
Balance before write offs	559,097	1,222,760	229,160	772,793	211,404	2,995,214
Less: write offs	(559,097)	(1,222,760)	-	-	-	(1,781,857)
Balance, end of year	-	-	229,160	772,793	211,404	1,213,357
Deferred exploration costs:						
Balance, beginning of year	593,919	-	-	-	-	593,919
Assays	-	-	23,848	48,547	4,202	76,597
Metallurgical & water sampling	-	-	-	-	-	-
Surveys	-	-	-	179,582	-	179,582
Rental of equipment and facilities	6,173	-	1,320	46,500	249	54,242
Field supplies	-	-	78,003	14,750	453	93,206
Geologists and other labour	438	-	267,612	217,130	8,114	493,294
Excavation/drilling/transportation	-	-	43,255	30,267	-	73,522
Licences, permits and maintenance fees	6,676	-	7,439	19,787	-	33,902
Reports, drafting, maps	-	-	-	52,000	-	52,000
Travel, meals & accommodation	-	-	47,668	50,188	11,846	109,702
Admin and other expenses	158	-	34,046	31,078	2,592	67,874
Additions during the year	13,445	-	503,191	689,829	27,456	1,233,921
Balance before write offs	607,364	-	503,191	689,829	27,456	1,827,840
Less: write offs (i)	(607,364)	-	-	-	-	(607,364)
Balance, end of year	-	-	503,191	689,829	27,456	1,220,476
Total	$ -	$ -	$ 732,351	$ 1,462,622	$ 238,860	$ 2,433,833

(i) this figure represents the write offs related to mineral exploration properties that were held during the year. Additional write offs for expenditures incurred during the year ended December 31, 2010 for properties written off in prior years are charged directly to the consolidated statement of loss and comprehensive loss.

Red Chris South Property, British Columbia, Canada

In December 2009, the Company entered into an agreement to purchase a 100% interest in twelve claims in the Red Chris South area of north-western British Columbia. As consideration for the agreement, the Company made a cash payment of $20,000 and issued 175,000 common shares valued at $105,000. A finder's fee of 15,000 common shares (issued and valued at $9,000) was paid in relation to this agreement.

In addition to the agreement, the Company paid $5,000 for an option for a period of 35 days, to acquire two additional property packages from the same vendor for $15,000 and 150,000 common shares. The option expired during the year ended December 31, 2010 without being exercised.

12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Red Chris South Property (Continued)

In July 2010, the Company entered into an agreement with an arm's length vendor to acquire two additional strategic claims, contiguous to the claims acquired in December 2009. As consideration for the additional claims, the Company paid $3,000 and issued 40,000 common shares valued at $8,000.

In September 2010, the Company acquired a 100% interest in additional claims. As consideration for the additional claims, the Company paid $10,000 and issued 250,000 shares valued at $65,000.

The Company obtained an $8,000 reclamation bond in relation to the drilling permits for the Red Chris South property.

Rare Earth Claims, British Columbia, Canada

In March 2010, the Company entered into an acquisition agreement to acquire a 100% interest in the Carbonatite Syndicate Rare Earth Claim Group. As consideration for the acquisition, the Company issued 1,500,000 common shares valued at $405,000 and 500,000 purchase warrants for common stock of the Company valued at $101,884. The warrants are exercisable for a period of two years at a price of $0.50. The vendors will retain a 1% net smelter return royalty ("NSR") with a 0.5% buyout for $500,000. A finder's fee of 150,000 common shares (issued and valued at $40,500) was paid in relation to this agreement.

In May 2010, the Company entered into an acquisition agreement with an arm's length vendor to acquire a 100% interest in claims adjoining the Carbonatite Syndicate Rare Earth Claim Group which was acquired in March 2010. As consideration for the property, the Company issued 500,000 common shares to the vendors valued at $117,500.

During October and November 2010, the Company acquired 149 additional claims in the area at a cost of $39,131.

In December 2010, the Company entered into an arm's length agreement to acquire an 80% interest in the Cougar property which consists of five mineral claims contiguous to the Company's previously acquired Carbonatite Syndicate Rare Earth Claim Group. As consideration for the acquisition, the Company paid $10,000 and issued 100,000 common shares valued at $47,500, and was to pay an additional $10,000 and issue an additional 100,000 common shares on the first anniversary of the agreement. In addition, the Company reimbursed the vendor $8,622 for the claims renewal costs. On December 3, 2011, the Cougar agreement was amended whereby the final payment of $10,000 cash and 100,000 common shares was reduced to $5,000 cash and 50,000 shares respectively. The cash and shares valued at $8,000 were issued subsequent to year end (Note 21).

The Company obtained a $5,000 reclamation bond in relation to the drilling permits for the Rare Earth property.

Charge Property, British Columbia, Canada

During the year ended December 31, 2011, the Company acquired a 100% interest in the Charge Rare Earth Element prospect, located in Northern British Columbia, for consideration of $2,500 and 150,000 common shares issued for a value of $61,500. The acquisition received TSX Exchange approval.

(EXPRESSED IN CANADIAN DOLLARS)

12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Yukon Prospect, Yukon, Canada

In September 2010, the Company acquired a 100% interest in 128 claims in the White Gold District/Stewart River Area of the Yukon. As consideration for the acquisition of the claims, the Company issued 800,000 common shares to the vendors valued at $208,000.

Arcadia Bay, Nunavut, Canada

In August 2007, the Company entered into an option and joint venture agreement to acquire a 50% interest in the Arcadia Property, an area of Inuit-owned land located in Canada's Nunavut territory from Alix Resources Corp. ("Alix"). Alix and the Company had an officer in common at the time of signing the agreement. Under the terms of the option and joint venture agreement, the Company paid $15,000, issued 7,500 common shares of the Company valued at $34,500, and completed $600,000 worth of exploration work.

On May 26, 2008, the Company met all of its obligations under the option and joint agreement and a joint venture was established. While the Company continues to retain its joint venture ownership of the Arcadia property, it does not anticipate any exploration activity on the property in the foreseeable future and accordingly the acquisition and deferred exploration costs were written off in 2009.

Cannivan Gulch Project, Montana, USA

During the year ended December 31, 2004, the Company entered into an option agreement to acquire a 100% interest in the Cannivan Gulch deposit, which is located in northern Beaverhead County, Montana. The optionors retained a 2% net smelter returns royalty ("NSR"). The Company issued 33,333 common shares valued at $58,916 as finders' fees during the years ended December 31, 2005 and 2006.

Pursuant to the agreement, the Company was required to make cash payments and issue common shares as follows:

Date	Cash payments	Common share issuances
On execution of option agreement	US$50,000 (paid - $64,500)	10,000 (issued, valued at $18,375)
On or before December 31, 2005	US$50,000 (paid - $58,000)	10,000 (issued, valued at $25,000)
On or before December 31, 2006	US$50,000 (paid - $58,500)	10,000 (issued, valued at $28,000)
On or before each anniversary date from December 31, 2007 to December 31, 2008	US$75,000 (paid - $73,647) for 2007	10,000 (issued, valued at $26,000) for 2007
On or before December 31, 2009	US$75,000 (paid - $78,158)	-
On or before each anniversary date from December 31, 2010 to December 31, 2109	US$100,000	-

In December 2008, the Company and the Cannivan Gulch optionors reached an agreement that the 2008 property cash and common share payments would be settled with the issuance of 150,000 common shares of the Company. The shares were issued in January 2009 and valued at $60,000.

In July 2010, the Company decided to terminate the Cannivan Gulch option agreement given the soft molybdenum market and the Company's inability to generate financing to further develop the property. The deferred expenditures were written off accordingly.

(EXPRESSED IN CANADIAN DOLLARS)

12. EXPLORATION AND EVALUATION EXPENDITURES (Continued)

Barkerville Property, British Columbia, Canada

In October 2009, the Company entered into an agreement to acquire 11 mining claims in British Columbia, Canada. The initial terms of the agreement were a cash payment of $35,000 (paid), the issuance of 1,500,000 shares of the Company (issued and valued at $870,000) upon TSX Venture Exchange approval, the issuance of 1,500,000 shares six months after the date of the agreement plus a 1% NSR. The Company was also committed to spend $50,000 on exploration prior to July 1, 2010. A finder’s fee of 100,000 common shares valued at $58,000, was paid in relation to this agreement.

In January 2010, the property agreement was amended to reduce the number of the Company’s shares to be issued to the vendors by an aggregate of 1,000,000 shares. In addition, the vendors of the claims have waived the requirement for the Company to expend $50,000 on exploration on the claims by July 1, 2010. As consideration for the amendment, the Company issued 500,000 common shares valued at $255,000 as the final instalment of shares owing on the 11 mining claims.

As a result of the Company's decision to focus its exploration efforts on its Red Chris South, Rare Earth, and Yukon Prospect claims it has determined that it would not have sufficient resources to conduct exploration work on the Barkerville property. Accordingly, the Company allowed its claims to lapse and wrote off the related deferred expenditure costs in 2010.

13. DRILLING AND RECLAMATION DEPOSITS

The following table details the outstanding drilling and reclamation deposits:

Property	December 31, 2011	December 31, 2010	January 1, 2010
Red Chris South	$ 8,041	$ 8,000	$ -
Rare Earth	5,000	5,000	-
Bald Butte and Cannivan Gulch	7,505	7,361	127,861
Total	$ 20,546	$ 20,361	$ 127,861

14. RESTORATION, REHABILITATION AND ENVIRONMENTAL OBLIGATIONS

The Company performed reclamation work on its former Bald Butte and Cannivan Gulch properties during 2010. The Company continues to be responsible for weed control on those properties for the next two years. A bond of $7,505 (US$7,360) is being held by the Department of Environmental Quality (“DEQ”) until the Company has met that commitment. It is estimated that the weed control obligations at both properties will be approximately $5,986 (US$5,870).

The Company has recorded an obligation of $10,000 for the Rare Earth Property and $5,000 for the Red Chris South Property to reclaim the disturbance caused by the work programs. The Company set up a $28,000 obligation to reclaim the Arcadia Property at December 31, 2010 of which $14,000 was incurred during fiscal 2011. The reclamation work on the Canadian properties is expected to be carried out within the next 12 months.

The following is an analysis of the restoration, rehabilitation and environmental obligations:

Balance, January 1, 2010	$ 190,497
Additions	33,000
Reductions	(172,385)
Foreign exchange	(12,111)
Balance, December 31, 2010	39,001
Additions	10,000
Reductions	(14,130)
Foreign exchange	115
Balance, December 31, 2011	$ 34,986

(EXPRESSED IN CANADIAN DOLLARS)

15. 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	Year ended December 31, 2011	Year ended December 31, 2010
West Oak Capital	Management fees	a	$120,000	$120,000
Olga Nikitovic	Professional fees	b	$ 60,000	$ 60,000
Roger Steininger	Consulting fees	c	$ 24,034	$ 20,346
Aird & Berlis	Professional fees	d	$ 18,137	$ 86,859

a) West Oak Capital is owned by R. B. Duncan, the Company's President and CEO. The fees paid to West Oak Capital relate to management fees.

b) Olga Nikitovic is the CFO for the Company. The fees paid relate to financial management and accounting services which are charged to professional fees.

c) Roger Steininger is a director of the Company. $Nil fees (2010 - $2,285) were paid for general consulting services which was charged to consulting expense and $24,034 (2010 - $18,061) was paid for geological consulting which was charged to exploration and evaluation expenditures.

d) Tom Fenton, Corporate Secretary for the Company is a partner with Aird & Berlis, LLP. Fees relate to legal services of which $11,980 is reflected as professional fees and $6,167 is reflected in issue costs for private placements. As at December 31, 2011, $6,274 (2010 -$13,930) is included in accounts payable.

These transactions were in the normal course of operations and were measured at the transaction amount which is the amount established and agreed to by the related parties. The repayment terms are the same as those for arms length transactions.

During fiscal 2011, pursuant to the December flow through private placement described in Note 16(iii), one officer of the Company subscribed for a total of 160,000 units for gross proceeds of $20,000.

During fiscal 2010, pursuant to the September private placement described in Note 16(xi), a director subscribed for 200,000 units for gross proceeds of $50,000. Pursuant to the December flow through private placement described in Note 16(xiii), two officers of the Company subscribed for a total of 60,000 units for gross proceeds of $30,000.

Compensation of key management personnel

	Notes	Year ended December 31, 2011	Year ended December 31, 2010
Salaries	a	$ 180,000	$ 180,000
Share-based payments	b	$ 61,721	$ 306,923

a) The Company does not pay any directors' fees nor does the Company pay any health or post employment benefits. The salaries represent the fees for the President/CEO and CFO which are included in trading transactions above.
b) Share-based payments are the fair value of options granted to key management and directors.

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock

The Company has authorized an unlimited number of common shares without par value. As at December 31, 2011, the Company had 38,554,558 common shares outstanding (2010 - 34,999,558).

The weighted average share price for the year ended December 31, 2011 was $0.35 (2010 - $0.34).

Common shares issued for mineral exploration property interests are valued based on the quoted price of the shares on the date of issue.

i) During 2011, 825,000 warrants exercisable at $0.30 and 20,000 options exercisable at $0.28 were exercised.

ii) In February 2011, the Company issued 150,000 shares valued at $61,500 pursuant to the Charge Rare Earth Element property acquisition agreement.

iii) On December 22, 2011, the Company closed a non-brokered private placement in which it issued 2,560,000 flow through units at $0.125 per unit for gross proceeds of $320,000 of which $50,368 was allocated to warrants. Each unit consisted of one flow-through common share and one half non-flow through share purchase warrant. Each full warrant entitles the holder to purchase one common share for $0.18 for a period of two years. There was no commission payable on the transaction. Total issue costs were $6,167 of which $971 was allocated to the warrants. An officer of the Company subscribed for 160,000 units for gross proceeds of $20,000.

iv) In January 2010, the Company issued 500,000 shares valued at $255,000 pursuant to the amended Barkerville property agreement.

v) In March 2010, the Company issued 1,500,000 common shares valued at $405,000 and 500,000 warrants valued at $101,884 exercisable at $0.50 for a period of two years pursuant to the Rare Earth Property claims.

vi) In March 2010, the Company issued 150,000 common shares valued at $40,500 as a finder`s fee for the Rare Earth Property claims.

vii) In April 2010, the Company closed two non-brokered private placements in which the Company issued an aggregate of 1,289,286 units for a price of $0.35 per unit for gross proceeds of $451,250 of which $172,645 was allocated to warrants. Each unit consisted of one flow-through common share and one non-flow-through common share purchase warrant exercisable at $0.50 for two years. A finders' fee of $10,050 cash was paid and 28,714 warrants valued at $4,179 were issued related to the second private placement. Each broker warrant is exercisable into one common share at a price of $0.35 for a period of two years from the date of issuance.

viii) In May 2010, the Company issued 500,000 common shares valued at $117,500 as consideration for certain Rare Earth claims.

ix) In July 2010, the Company issued 40,000 common shares valued at $8,000 as consideration for additional Red Chris South mineral claims.

x) In September 2010, the Company issued 800,000 common shares valued at $208,000 as consideration for the Yukon Prospect and 250,000 common shares valued at $65,000 for additional Red Chris South claims.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS

Capital Stock (Continued)

xi) In September 2010, the Company closed a non-brokered private placement in which the Company issued 4,000,000 units for a price of $0.25 per unit for gross proceeds of $1,000,000 of which $393,565 was allocated to warrants. Each unit consisted of one common share and one share purchase warrant exercisable at $0.30 for two years. No finder's fees were payable on the transaction. A director of the Company subscribed for 200,000 units for gross proceeds of $50,000.

xii) In December 2010, the Company issued 100,000 common shares valued at $47,500 as consideration for the acquisition of the additional Rare Earth claims called the Cougar claims.

xiii) In December 2010, the Company completed two tranches of a non-brokered flow-through private placement in which the Company issued 4,560,000 units for gross proceeds of $2,280,000 of which $498,746 was allocated to warrants. Each unit consisted of one common share and one half of one non-flow-through share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase one common share for $0.60 for a period of two years. A finder's fee of $117,000 was paid and 312,000 broker warrants valued at $72,350 were issued. The Company also issued 40,000 common shares valued at $15,600 as payment for a due diligence fee. Each broker warrant entitles the holder to purchase one common share at $0.50 for a period of two years. Total cash issue costs were $138,641 of which $30,447 was allocated to warrants. Two officers subscribed for 60,000 units for gross proceeds of $30,000.

xiv) During fiscal 2010, 1,420,000 warrants were exercised at $0.30, 265,000 broker warrants were exercised at $0.15 and 20,000 options were exercised at $0.28.

Share purchase warrants

At December 31, 2011, warrants were outstanding enabling holders to acquire shares as follows:

Expiry Date	Exercise Price	Number of Shares	Remaining contractual life (years)	Currently exercisable	Remaining contractual life (years)
March 30, 2012	$0.50	500,000	0.25	500,000	0.25
April 7, 2012	0.50	715,000	0.27	715,000	0.27
April 19, 2012	0.50	574,286	0.30	574,286	0.30
April 19, 2012	0.35	28,714	0.30	28,714	0.30
September 27, 2012	0.30	4,000,000	0.76	4,000,000	0.76
December 14, 2012	0.60	280,000	0.95	280,000	0.95
December 23, 2012	0.60	2,000,000	0.98	2,000,000	0.98
December 23, 2012	0.50	312,000	0.98	312,000	0.98
December 22, 2013	0.18	1,280,000	1.98	-	-
October 28, 2014 (i)	0.30	4,755,000	2.83	4,755,000	2.83
		14,445,000	1.53	13,165,000	1.48

(i) On October 26, 2011, the TSX Venture Exchange consented to the extension of the expiry date of the warrants from October 28, 2011 to October 28, 2014. The fair value of the cost of the extension is $710,861 and has been charged to shareholder communications and promotion.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Share purchase warrants (Continued)

The following is a summary of the warrant transactions for the years ended December 31, 2011 and 2010.

	2011		2010	
	Number Of Warrants	Weighted Average Exercise Price	Number Of Warrants	Weighted Average Exercise Price
Balance, beginning of the year	15,505,197	$0.41	8,780,197	$0.37
Warrants issued pursuant to property acquisition	-	-	500,000	0.50
Warrants issued pursuant to private placements	1,280,000	0.18	7,569,286	0.42
Warrants issued to brokers pursuant to private placements	-	-	340,714	0.49
Warrants expired	(1,515,197)	0.78	-	-
Warrants exercised	(825,000)	0.30	(1,420,000)	0.30
Broker warrants exercised	-	-	(265,000)	0.15
Balance, end of year	14,445,000	$0.37	15,505,197	$0.41

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants issued or extended during the years ended December 31, 2011 and 2010:

	2011	2010
Risk-free interest rate	1.16%	1.57%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	134%	150%
Expected warrant life in years	2.8 years	2.0 years

Stock options

The Company is authorized to grant to directors, employees and consultants up to 20% of the issued and outstanding common stock of the Company. Under the plan, the exercise price of each option equals the market price, less any applicable discounts, of the Company's stock as calculated on the date of grant. Options vest over an eighteen-month period or over a longer period if specified by the directors of the Company. The options can be granted for a maximum term of 5 years.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Stock options (Continued)

As at December 31, 2011, 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 24, 2012	$3.50	30,000	0.06	30,000	0.06
March 29, 2012	5.00	70,000	0.25	70,000	0.25
March 7, 2013	3.00	195,000	1.19	195,000	1.19
May 9, 2013	2.00	10,000	1.36	10,000	1.36
July 30, 2014	0.25	347,000	2.58	347,000	2.58
April 1, 2015	0.28	60,000	3.25	60,000	3.25
December 29, 2015	0.50	1,041,667	4.00	733,333	4.00
July 19, 2016	0.35	500,000	4.55	138,889	4.55
		2,253,667	3.37	1,584,222	3.10

The following is a summary of the stock option transactions for the years ended December 31, 2011 and 2010:

	2011		2010	
	Number Of Options	Weighted Average Exercise Price	Number Of Options	Weighted Average Exercise Price
Balance, beginning of the period	2,067,000	1.12	907,000	1.97
Options granted	500,000	0.35	1,200,000	0.48
Options forfeited	(58,333)	0.50	-	-
Options expired	(235,000)	2.57	(20,000)	1.70
Options exercised	(20,000)	0.28	(20,000)	0.28
Balance end of period	2,253,667	0.83	2,067,000	1.12

Share based compensation

For the year ended December 31, 2011, the Company granted 500,000 options (2010 - 1,200,000) exercisable at $0.35 (2010 - $0.48) for a period of five years with a grant date fair value of $154,303 (2010 - $468,484). Total share-based compensation for the year ended December 31, 2011 was $490,058 (2010 - $65,059) and has been expensed with a corresponding amount being recorded in the equity settled share payments reserve.

(EXPRESSED IN CANADIAN DOLLARS)

16. CAPITAL STOCK, STOCK OPTIONS AND WARRANTS (Continued)

Share based compensation (Continued)

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of options granted during the years ended December 31, 2011 and 2010:

	2011	2010
Risk-free interest rate	2.19%	2.49%
Expected dividend yield	0.00%	0.00%
Expected stock volatility	128%	127%
Expected option life in years	5.0 years	5.0 years

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash investing and financing transactions for the year ended December 31, 2011 consisted of:

a) The issuance of 150,000 common shares of the Company valued at $61,500 pursuant to the Charge Rare Earth Element property agreement.

b) The charge for the future issuance of 10,000 shares valued at $8,000 pursuant to the Cougar property agreement.

c) The increase in restoration, rehabilitation and environmental obligations of $115.

d) The increase in drilling and reclamation deposits of $185.

e) An increase in accrued exploration and evaluation expenditures of $522.

f) An increase in accrued share issuance costs of $6,167.

(EXPRESSED IN CANADIAN DOLLARS)

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (Continued)

Significant non-cash investing and financing transactions for the year ended December 31, 2010 consisted of:

a) The issuance of 500,000 common shares of the Company valued at $255,000 pursuant to the amended Barkerville mineral property agreement.

b) The issuance of 2,100,000 common shares of the Company valued at $570,000 and issuance of 500,000 share purchase warrants valued at $101,884 pursuant to the Rare Earth property claims.

c) The issuance of 150,000 common shares of the Company valued at $40,500 as finder`s fee for the Rare Earth property claims.

d) The issuance of 800,000 common shares of the Company valued at $208,000 pursuant to the acquisition of the Yukon Prospect claims.

e) The issuance of 290,000 common shares of the Company valued at $73,000 pursuant to the acquisition of additional Red Chris South property claims.

f) The issuance of 40,000 common shares valued at $15,600 and 340,174 warrants valued at $76,529 for services.

g) The decrease in restoration, rehabilitation and environmental obligations of $66,617.

h) The decrease in drilling and reclamation deposits of $4,512.

i) The decrease in accrued share issuance costs of $8,586.

j) An increase in accrued exploration and evaluation expenditures of $30,489.

18. INCOME TAXES

a) A reconciliation of income taxes at the statutory rate of 28% (2010 – 31%) is as follows:

	2011	2010
(Loss) for the year before income taxes	$ (2,018,550)	$ (2,993,078)
Expected income tax (recovery)	$ (570,000)	$ (928,000)
Share issue costs	(2,000)	(43,000)
Change in expected tax rate	18,000	175,000
Expenses not deductible for income tax purposes	396,000	49,000
Deferred tax assets recognized	575,000	300,000
Non-capital loss expiry	-	66,000
Change in deferred tax assets not recognized	(467,000)	381,000
Total income tax (recovery)	$ (50,000)	$ -

(EXPRESSED IN CANADIAN DOLLARS)

18. INCOME TAXES (Continued)

b) The significant components of the Company's deferred income tax assets are as follows:

	2011	2010
Deferred income tax assets:		
Exploration properties	$ 2,268,000	$ 2,695,000
Non-capital loss carry-forwards	848,000	887,000
Other assets	75,000	76,000
Deferred income tax assets not recognized	$ 3,191,000	$ 3,658,000

The Company has available for deduction against future taxable income, Canadian non-capital losses of approximately $3,288,000 and U.S. non-capital losses of approximately $79,000 (US$78,000). Subject to certain restrictions, the Company also has resource expenditures of approximately $13,970,000 available to reduce taxable income in Canada in future years.

The non-capital losses if not used, will expire as follows:

Year	Canadian losses Amount	U.S. losses Amount
2014	$ 95,000	US$ -
2015	666,000	-
2025	-	24,000
2026	849,000	54,000
2027	669,000	-
2028	605,000	-
2029	234,000	-
2030	170,000	-
	$ 3,288,000	US$ 78,000

19. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of mineral properties in Canada. As the operations comprise in a single reporting segment, amounts disclosed in the consolidated financial statements also represent segment amounts.

20. COMMITMENTS AND CONTINGENCIES

The Company is obligated to spend $319,744 by December 31, 2012 as part of the flow through funding agreement for shares issued in December 2011. The flow-through agreements require the Company to renounce certain tax deductions for Canadian exploration expenditures incurred on the Company's mineral properties to flow through participants. The Company indemnified the subscribers for any related tax amounts that become payable by the subscribers as a result of the Company not meeting its expenditure commitments. In February 2012, the Company renounced exploration expenditures in the amount of $319,744 with an effective date of December 31, 2011.

20. COMMITMENTS AND CONTINGENCIES (Continued)

The Company's exploration activities are subject to various federal, provincial and international 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.

21. SUBSEQUENT EVENTS

a) 70,000 options exercisable at $5.00 per share, 30,000 options exercisable at $3.50 per share, 30,000 options exercisable at $3.00 per share, 91,667 options exercisable at $0.50 per share and 75,000 options exercisable at $0.25 per share, expired unexercised.

b) The Company paid $5,000 and issued 50,000 shares valued at $8,000 pursuant to the Cougar property agreement.

c) 1,789,286 warrants exercisable at $0.50 and 28,714 broker warrants exercisable at $0.35 expired unexercised.

22. IFRS TRANSITION

These consolidated financial statements are the Company's first annual financial statements prepared in accordance with IFRS. The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards and interpretations in effect as at the reporting date, which for the Company is December 31, 2011. However, IFRS 1 also provides certain optional exemptions and certain mandatory exceptions to this retrospective treatment.

IFRS Exemption Options

Business combinations - IFRS 1 provides the option to apply IFRS 3, Business Combinations, retrospectively or prospectively from the Transition Date. The Company elected to apply IFRS 3 prospectively from the Transition Date. The retrospective basis would require restatement of all business combinations that occurred prior to the Transition Date. The Company did not apply IFRS 3 retrospectively to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Share-based payments - IFRS 2, Share-based Payments, encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected to avail itself of the exemption provided under IFRS 1 and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.

Changes in existing decommissioning, restoration and similar liabilities – IFRIC 1. The Company did not apply the recognition and measurement principles of IFRIC 1 prior to January 1, 2010; and instead measured the Company's environmental rehabilitation obligations at fair value on January 1, 2010.

Consolidated and separate financial statements - IAS 27. In accordance with IFRS 1, if a Company elects to apply IFRS 3 *Business Combinations* retrospectively, IAS 27 *Consolidated and Separate Financial Statements* must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

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 consolidated statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

22. IFRS TRANSITION (Continued)

Changes in accounting policies:
In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS policies applied by the Company.

Share-based compensation

IFRS 2 is effective for the Company as of January 1, 2010 and is applicable to stock options and grants that are unvested at that date. The transition rules in IFRS 1 and IFRS 2 as applied by the Company result in the following:

- Stock options and share grants prior to November 7, 2002 are not taken into account for IFRS 2;
- Stock options and share grants subsequent to November 7, 2002 are only taken into account if they have not vested as at January 1, 2010; and,
- From January 1, 2010, all stock options, share grants and other share-based payments will be expensed in accordance with the policy stated in Note 4.

Forfeitures
Canadian GAAP - Forfeitures of awards are recognized as they occur

IFRS – An estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. No material difference was determined and consequently no adjustment was made.

Expiration of share-based compensation
Canadian GAAP – Under Canadian GAAP, the Company's policy was to leave the value recorded for expired, unexercised stock options in contributed surplus, and to record the value of expired, unexercised warrants to contributed surplus.

IFRS – The Company has changed its policy regarding expired share-based compensation whereby amounts recorded for expired, unexercised stock options and warrants are transferred to deficit on expiry.

Flow through shares

Canadian GAAP - Flow through shares are a unique Canadian tax incentive, which is the subject of specific guidance under Canadian GAAP and US GAAP. Under Canadian GAAP, the Company recognized future tax assets when flow-through shares were issued, that were subsequently applied against the future tax liabilities that arose at the time of renunciation of flow-through expenditures to investors.

IFRS – There is no equivalent IFRS guidance. SIC Interpretation 25, Income Taxes – Changes in the Tax Status of an Entity or its Shareholders, provides some additional guidance in that it requires that the current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result in a direct credit to the recognized amount in equity.

(EXPRESSED IN CANADIAN DOLLARS)

22. IFRS TRANSITION (Continued)

Reconciliations of Canadian GAAP to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. While the adoption of IFRS has not changed the actual cash flows of the Company, it has resulted in changes to the reported consolidated statements of financial position, consolidated statement of loss and comprehensive loss and consolidated statement of changes in equity. Presented below are reconciliations prepared by the Company to reconcile the impact of the conversion from Canadian GAAP to IFRS**.**

Total Assets

	Notes	December 31, 2010	January 1, 2010
Total assets under Canadian GAAP		$6,847,248	$4,237,489
Adjustments for differing accounting treatments			
- adjustments to deferred tax asset for flow-through shares	(ii)	(682,000)	(312,500)
Total assets under IFRS		$6,165,248	$3,924,989

Total Liabilities

	Notes	December 31, 2010	January 1, 2010
Total liabilities under Canadian GAAP		$164,412	$221,892
Adjustments for differing accounting treatments	-	-	-
Total liabilities under IFRS		$164,412	$221,892

Total Equity

	Notes	December 31, 2010	January 1, 2010
Total equity under Canadian GAAP		$6,682,836	$4,015,597
Adjustments for differing accounting treatments			
-adjustment to capital stock for flow through shares	(ii)	315,900	15,900
-adjustment to deficit for flow through shares	(ii)	(997,900)	(328,400)
-adjustment to share-based payments reserve for unexercised expired options and warrants	(i)	(1,560,223)	(1,527,483)
-adjustment to deficit for unexercised expired options and warrants	(i)	1,560,223	1,527,483
Total equity under IFRS		$6,000,836	$3,703,097

Comprehensive Loss

	Notes	Year Ended December 31, 2010
Comprehensive loss for the period under Canadian GAAP		$2,375,167
Adjustments for differing accounting treatments		
- adjustment on future income tax recovery for flow-through shares	(ii)	669,500
Comprehensive loss for the period under IFRS		$3,044,667

(EXPRESSED IN CANADIAN DOLLARS)

22. IFRS TRANSITION (Continued)

Cash flows
The adoption of IFRS has had no impact on the cash flows of the Company. The changes made to the consolidated statements of financial position and consolidated statements of loss and comprehensive loss have resulted in reclassification of various amounts on the consolidated statements of cash flows; however, as there have been no changes to net cash flows, no reconciliation for the year ended December 31, 2010 has been presented.

Notes to the IFRS reconciliation items above:

(i) Share based payments
On transition to IFRS the Company elected to change its accounting policy for the treatment of share-based payments whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

Impact on Consolidated Statements of Financial Position

	December 31, 2010	January 1, 2010
(Decrease) to contributed surplus	$ (433,124)	$ (400,384)
Decrease to deficit	$ 433,124	$ 400,384

Warrants
On transition to IFRS the Company elected to change its accounting policy for the treatment of warrants whereby amounts recorded for expired unexercised warrants are transferred to deficit. Previously, the Company's Canadian GAAP policy was to transfer such amounts to contributed surplus.

Impact on Consolidated Statement of Financial Position

	December 31, 2010	January 1, 2010
(Decrease) to contributed surplus	$ (1,127,099)	$ (1,127,099)
Decrease to deficit	$ 1,127,099	$ 1,127,099

(ii) Flow-through shares
On transition to IFRS, the Company elected to follow US GAAP whereby flow-through proceeds should be allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A deferred tax liability is recognized for the premium paid by the investors and is then recognized as a deferred tax recovery in the period of renunciation.

Previously, the Company's Canadian GAAP policy was to adopt the recommendations of EIC 146 with respect to the accounting for flow-through shares. This resulted in the Company reducing the net proceeds of the flow-through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration expenditures in favour of the flow-through share subscribers. This future income tax liability was calculated net of any benefit resulting from unrecorded income tax loss carry forwards and income tax pools in excess of the accounting value available for deduction.

(EXPRESSED IN CANADIAN DOLLARS)

22. IFRS TRANSITION (Continued)

Impact on Consolidated Statements of Financial Position

	December 31, 2010	January 1, 2010
Increase to capital stock	$ 315,900	$ 15,900
Increase to deficit	$ (997,900)	$ (328,400)
Decrease to deferred tax asset	$ (682,000)	$ (312,500)

Impact on Consolidated Statements of Loss and Comprehensive Loss

	Year ended December 31, 2010
Decrease to deferred income tax recovery	$ 669,500
Increase to net loss and comprehensive loss	$ 669,500